European Economic Governance: Fillip or Foil in the shadow of crisis

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Introduction

The '(multilevel) governance turn' in the study of the EU led to a flourishing landscape of European Union studies that conceptualised the transformation of government as a consequence of European integration and supranational policy-making at European level (Kohler-Koch, 1996, Hooghe & Marks, 2003, Pierre & Peters, 2001). The emergence of the concept of Governance without Government appeared ready made for the study of the EU, an entity with extensive and expanding governance without an authoritative Government (Rosenau & Czempiel, 1992). The 'governance turn'– policy-making and co-ordination – began to challenge 'European integration' as the first and foremost focus of scholarly research in EU studies. The conceptual turn towards (multilevel) governance tried to grasp the distinctiveness of European multilevel policy-making and political structures in contrast to that of the nation state or international organisations (Börzel, 2005; Eising &Kohler-Koch, 2003; Rosamond, 2000). This approach contributed to "a more comprehensive understanding of the development of the Euro-polity as compared to other more discrete approaches such as classical integration theory, policy analysis, or the constitutional debate" (Jachtenfuchs & Kohler-Koch, 2003). It shed light on the EU as a living system, especially on processes and patterns of governance, governance modes and the governance tool-kit, and the actor constellations that were built around EU policy making and implementation (Kohler Koch and Rittberger, 2006). The division of competences within the EU's political system and the characteristics of political interaction between the different levels and actors of the EU became central topics of European integration studies (Jachtenfuchs & Kohler-Koch, 2003).

In the spirit of this panel, this paper seeks to explore developments in European or Eurozone economic governance in the light of the Great Recession. The crisis placed economic governance firmly on the agenda and the Union and Eurozone responded with a myriad of new rules and processes that altered economic governance in significant ways. The paper argues that the Eurozone crisis acted as a fillip for a deepening of the 'ties that bind' the member states into the Eurozone but that enhanced governance could neither hide nor disguise the deepening cleavages among the member states. The limits and blind spots of the research tradition associated with governance were exposed as the crisis evolved. Confronted by a crisis that it was ill-equipped to address, the system fell back on its tried and tested mode of 'muddling through' and slowly building a capacity to address the crisis. Governance was central to the response because in order to address the immediate pressures of the crisis, the member states were forced to engage in a dual strategy of crisis management and crisis prevention. An expanded and reinforced governance tool-kit was the central feature of the crisis prevention strategy.

Taken By Surprise

The 2008 global financial crisis posed a series of interrelated challenges to the EU and more particularly the Eurozone. As the crisis unfolded, European institutions and the euro member states struggled to respond in a manner that convinced the markets that the political capacity and financial muscle existed to address Europe's woes. The crisis raised critical questions about the design of the Eurozone and its governance. There was initially a deep reluctance and then numerous ideological, political and institutional barriers to addressing the immediate issues raised by the crisis. In Autumn 2009, EU institutions, notably the ECB, the Commission and the European Council considered that Europe was moving out of the 2007/08 financial crisis and that the priority was to design exit strategies from the extraordinary measures that had been taken in response to the global crisis. The December 2009 European Council Conclusions stated: 'the economic situation is starting to show signs of stabilisation and confidence is increasing' (European Council, Conclusions, 10/11 December 2009).[1] Within a very short time, this confidence was undone and the Euro faced an existential crisis.

What was initially interpreted as a Greek problem to be solved by Greece was rapidly transformed into a Eurozone problem in the first half of 2010. Because Greece had an excess of sovereign debt and was fiscally profligate, this became the dominant frame of the crisis within the euro area. Greece dominated the discussions in the Eurozone up to the first bailout in May 2010 and was back on the agenda in spring 2011 as it became clear that the first rescue package had failed. Within weeks of establishing the new Greek Government, the Greek prime minister announced an up-wards revision of the 2009 Greek budget deficit from 6% to 12.7% of GDP. The scale of the up-wards revision led to a strong signal, in the form of downgrades, from all three rating agencies. In its accompanying statement to the December 2009 downgrade, S&P stated that, 'the fiscal consolidation plans outlined by the new government are unlikely to secure a sustained reduction in fiscal deficits and the public debt burden' (S&P, 16 December 2009)[2]. From mid-November 2009 to April 2010, the spread of Greek bonds over German ones increased from 135 bp to 586bp by April 22 (Arghyrou and Stoukalas, 2011, 174). As spreads began to widen further, the cost of insuring against a Greek default (price of Credit Default Swaps) increased and stocks, particularly banking stocks, on the Athens exchange fell. Investors were rapidly losing faith in Greece (Lynn, 2011, 128). Graphs of bond spreads, CDS swaps and debt burdens became the leitmotiv of the crisis from then on.

The Greek situation was initially addressed according to the standard euro area operating procedures for dealing with excessive debt. Greece submitted its draft budget for 2010 to the European Commission in November 2009. The Commission in turn made a recommendation to the Eco-Fin Council on Greece. The Council, in April 2009, following a Commission recommendation, had initiated an excessive deficit procedure against Greece and at its December 2009 meeting, took a decision to the effect that Greece had not met its obligations under the April recommendations. Greece was treated in the same manner as its partners,

[1] https://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/111877.pdf

[2] Fitch responded by downgrading Greece from A to A-. This was followed by further downgrades in quick succession: from A- to BBB+ (Fitch, December 8th), S&P to BBB+ (December 16th) and Moodys from A1 to A2 (December 22nd).

other than it was further along the excessive deficit track. Moreover, the ECB was slow to pick up on the dangers of the Greek crisis. In December, when asked about Greece at an EP hearings, the ECB President Trichet argued that Greece would have to take 'very difficult and very courageous measures' but that Greece could not be compared to Argentina'. In other words, there was no danger of a Greek default and Greece would address its problems.

Although the Greek problem was beginning to surface on the EU agenda, there was no evidence that EU institutions and the Euro member states truly grasped the dangers nor were they prepared to act at this stage. The Commission issued statements to the effect that it was willing to work with Greece to develop a reform programme. At the December 2009 European Council, the Swedish Prime Minister, who chaired the Summit, said to reporters on the way into the meeting, that the situation was 'basically a domestic problem that has to be addressed by domestic decisions' (quoted in Lynn, 2011, 130). The focus of the Summit was on the implementation of the Lisbon Treaty. Although there is reference in the Conclusions to bringing deficits under control, the situation in Greece was not mentioned. By mid-January, the Greek Government announced another budget designed to stem the crisis, convince markets that the deficit was being brought under control and that its debt was sustainable. This and a number of further austerity measures in Spring 2010 set the pattern for the management of the situation in Greece.

Already by January 21st 2010, Martin Wolf referred to the developing situation as a Greek Tragedy, emphasizing that Greece's problems were extreme (FT, 21 January 2010) There was a looming insolvency in Greece that the euro area was ill-equipped to deal with because of the no-bail rules in the EMU and the deep unpopularity of any such bailouts in the creditor states. The situation in Greece deteriorated to such an extent that a European Council meeting called for the 11th of February, intended by the new President of the European Council, Herman Van Rompuy as an occasion to discuss Europe's long term economic and social agenda, became the first of many statements from the HoSG on the problems in the Eurozone. This signalled the Europeanization of the Greek problem. This was followed by 4 years of crisis politics, emergency meetings, near defaults of a number of countries and unprecedented bail-outs of Greece, Ireland, Portugal, Cyprus and Spain. As the system grappled with the unprecedented pressures of the crisis including contagion from one state to another and the dangers of systemic failure, enhanced economic governance was quickly seen as key to preventing the re-occurrence of the crisis.

Economic Governance

Greece, the weakest link in the Euro and just 2% of Eurozone GNI, exposed the fault-lines in the single currency as the gaps in its institutional and policy design were brought sharply into view. A major focus for Eurozone leaders was not just on addressing the immediate crisis but ensuring that bail-outs of individual states were a one off. Politically, the creditor states needed to persuade their parliaments that the gaps in Eurozone governance were being addressed. Thus, the economic governance of the Euro was firmly placed on the agenda as an issue to be addressed. This in turn has led to institution building, the addition of new financial instruments and numerous legislative packages. At its meeting of March 2010, the European

Council established a *Task Force on Economic Governance* chaired by the new President of the European Council, Herman Van Rompuy. The Task Force operated under the auspices of the European Council which gave it general orientations until it submitted its final report in October 2010. The Commission, a member of the Task Force, was also heavily engaged in bringing legislative proposals on economic governance to the table (EC 2010,a).

Running though the recommendations of the Task Force and the proposals of the Commission was a focus on macro-economic surveillance and competitiveness, greater fiscal discipline and debt monitoring, enhanced enforcement through sanctions, budgetary surveillance via the European Semester and stronger institutions within the Euro Zone. Notwithstanding the development of new rules and measures on economic governance, the measures were still not considered adequate and further work on economic governance evolved. The European Council in October referred to 'improving fiscal discipline and deepening economic union, including exploring the possibility of limited Treaty changes' (European Council Conclusions, 23 October 2011).[3] This was followed by a statement from the Euro Group Summit to the effect that the Euro states intended to make 'further progress in integrating economic and fiscal policies by reinforcing coordination, surveillance and discipline' (Euro Summit, 26 October 2011).[4] The question of a new European treaty dominated the December 2011 European Council and when the UK decided to veto treaty change within the EU framework, the Euro states and others agreed to go outside the formal framework and concluded what has been called the Treaty on Stability, Coordination and Governance of Economic and Monetary Union, usually referred to as a Stability Pact. The language of all documents dealing with economic governance focused on creating a greatly strengthened regulatory framework imbued with the language of discipline, rigorous surveillance, scrutiny, monitoring and sanctions. It all pointed to greatly enhanced intrusion by the euro area into the budgetary and fiscal policies of the member states.

Expansion of Policy Rules[5]

The euro crisis has resulted in a significant reform ('a decisive change') of Europe's fiscal surveillance regime. Among the number of policy initiatives undertaken at the height of the crisis, i.e. over the period 2010-2013, to reform EMU's incomplete economic governance, three key developments are particularly noteworthy: (1) the Stability and Growth Pact (SGP), the fiscal cornerstone of Europe's Economic and Monetary Union (EMU) has been strengthened and expanded by the so-called "Six Pack"; (2) a new international agreement branded 'Fiscal Compact' has been adopted to enshrine the rule of balanced budgets into national law and (3) the so-called 'Two Pack' came into being to institutionalize further the European Semester and to lay down a community framework to the provision of financial assistance. The common thread of these substantial initiatives is that they aimed at strengthening the credibility and enforceability of EMU's rules-based economic coordination

[3] http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ec/125496.pdf

[4] http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/125644.pdf

[5] For an expanded analysis of the negotiations of the new fiscal regime, see Laffan and Schlosser, 2015.

regime through further formal competence transfer and an improvement of the EU's problem solving capacity. Although all three sets of negotiations were designed to enhance economic governance, the legal nature and basis of the policy instruments differed as did the constellation of actors (and hence veto players) involved in the negotiations. See Table 1 which provides an overview of the legal nature and decision rule that governed the adoption of the new instruments. There is an important distinction between the 'Six Pack' and the 'Two Pack' on the one hand which are secondary EU legislation and the Fiscal Compact which is an international treaty.

The 'Six Pack'

The context of the ''6 Pack'' reform was the urgent crisis induced pressure to act to 'restore the credibility of the EU vis-à-vis the markets'. The historic resistance to reform what was for long considered as the central economic policy coordination in EMU (the SGP) abated: 'this new framework had to be created in a rush', as a Commission official puts it . One often forgets, due to the density of the euro crisis, that the SGP reform was the first policy action undertaken by European leaders to counter-act the volatility of the bond markets and to ensure that bail outs would pass muster in the creditor states. Far from anticipating the systemic effects that the large-scale Greek fiscal data falsification would have on Europe's financial stability, the first reaction of European leaders in 2010 was to address the design failures of the SGP and restore its credibility. As an EP official highlighted: 'non compliance with rules was identified as the cause of the crisis, not the good or bad performance of economies'. Consensus to act emerged quickly. Although the 6 Pack was adopted in first reading, it proved to be a lengthy first reading process: fourteen months passed between the issuing of the Commission proposals (September 2010) and the adoption of the legal acts (November 2011.), an average length for a first reading procedure rather than a very fast one. Two crucial elements may explain this lengthy and novel process: (a) a power game between the Commission and the European Council in agenda-setting and (b) a struggle between the European Council, the EP and the Commission in law-making. Notwithstanding the urgency of the crisis, inter-institutional competition and conflict, a feature of EU governance, was evident. Agenda setting on the ''Six Pack'' was novel as consensus-building on the key provisions occurred upstream of the Commission proposal, as part of the so-called Task Force Van Rompuy (TFVR). The presence of the new office-President of the European Council- provided the EU's leadership with an alternative actor to the Commission in agenda setting. The second institutional novelty, which contributed to slowing down the legislative process of the co-decision procedure to revise the SGP was the co-decision power of the EP. This implied both the involvement of the European Parliament (EP) as a co-legislator but also entailed the development of a cooperative relationship between the EP and the incumbent EMU actors (the Council and the Commission) who had previously no need to interact with the Parliament on EMU matters. Although formally not all of the legislative proposals required co-decision (4 out of 6 texts), the EP used the package deal nature of the negotiations to influence all provisions of the Six Pack, and always worked with one team of negotiators.

While the Stability and Growth Pact (SGP), in its first (1997) and second (2005) versions remained broadly in line with the minimal requirements of the Maastricht Treaty, the 2011 reform- the so-called ‘Six Pack’- despite representing a continuation of rules-based coordination, was a critical juncture in competence distribution. It broadened and deepened, through regulatory means, centralised control over domestic economic policies and in particular over fiscal policies and saw the novel involvement of the European Council and of the European Parliament. The Six Pack reform process evolved under the shadow of the Lisbon Treaty which foresaw the creation of two new actors who became a central part of the EMU scene: the permanent President of the European Council (art. 15 TFEU) and the European Parliament (art. 121-6), which had a role in relation to the multilateral surveillance procedure (i.e. most aspects of the SGP) as part of wider the extension of co-decision foreseen by the Lisbon Treaty.

The SGP’s 2011 reform subjected Member States to a higher and more intrusive scrutiny; it strengthened sanctions while specifying and extending the circumstances under which the Commission may request Member States to adjust their fiscal position. Reform of the SGP’s preventive arm focussed on further incentivizing Member States to achieve their Medium Term budgetary Objectives (MTOs). To ensure this, a benchmark was set up that anticipates the matching of new expenditures with adequate resources, ‘placing a cap on the annual growth of public expenditure according to a medium-term rate of growth’ (EC, 2011:1). Moreover, a financial sanction in the form of an interest-bearing deposit of 0.2 % of GDP (and even of a non-interest bearing deposit if no action is taken), can now be applied also under the preventive arm, in case of a ‘continuous non-correction’ (EC, 2011:1). The reform of the corrective arm, traditionally centred on its key instrument, the Excessive Deficit Procedure which can lead up to fines, was also substantial. The key novelty was the adoption of a system of Reverse Qualified Majority Voting in Council upon the proposal of sanctions falling on Member States, thus limiting the decision-making power of the Council on sanctions. Other elements included: the operationalization of the debt criterion (previously, surveillance was solely focussed on deficit developments) and the definition of a new benchmark of debt reduction of 1/20th. Taken as a whole, the Commission can now deploy a stronger enforcement toolkit: it disposes of tougher, more diversified and more progressive financial sanctions, which can be initiated earlier. The pattern of policy change can be summarized as ‘more of the same’: more rules, more sanctions, and more regulatory control. Previous policies and earlier institutional designs (the Maastricht Treaty and the SGP) pre-determined to a large extent the final outcome, which underlines a path-dependence mechanism: ‘the euro-zone is not breaking-free of the Maastricht legacy’ (Featherstone, 2012: 24). This view has been confirmed by a policy maker, who stated: ‘youfoster the system in which you have been operating’; ‘we tried to defend the system and improve it’ .

Other key policy transformations have been agreed which also grew out of the SGP’s traditional scope. The first novelty was the Macroeconomic Imbalance Procedure (MIP) which replicates the concept of the SGP on current account/competitiveness imbalances and where non-compliance can also lead to fines. The second breakthrough was the so-called European Semester, a policy process tool whose aim is to integrate and centralise all surveillance procedures into a single calendar cycle that precedes the development of national fiscal plan for the year t+1. This inversion of the budgetary calendar ensures that the logic of budget-making in EMU becomes more top-down and vertically institutionalized. The third development was to ensure that fines on the manipulation of statistics (an obvious follow-up to the Greek crisis) could be applied to a ‘Member State that intentionally or by serious negligence misrepresents deficit and debt data’ (Regulation (EU) 1173/2011, art. 8). The last key contribution of the 6 Pack was to set up minimum requirements for national budgetary frameworks, with an insistence that Member States move towards ‘multi annual budgetary planning’ (EC, 2010b: 2).

The Two-Pack: strengthening the arsenal

In May 2013, a package of two EU regulations, known as the “Two Pack” entered into force, following a year and a half of negotiation between the European Commission, the European Parliament and the EU Council, as part of the ordinary legislative procedure. The Two-Pack’s primary goal, further to the achievements of the Six Pack, was to strengthen the central control over the fiscal and macro-economic policies, but only for Eurozone members. Overall, the 2 Pack affected both the vertical distribution of powers –creating a clearer budgetary hierarchy between the centre and Member States as enshrined in the budgetary timeline – and the horizontal distribution of powers – the Commission gained autonomy vis a vis the Council. The process was marked by a year-long blockade of the texts by the Parliament.

In a context marked by a the de-escalation of market pressure and less decreasing interest within Council and Parliament compared to the Six Pack, the Two Pack gave additional centralized powers to the European Commission. Such an EMU-focused legislative package was made possible by a new article of the Lisbon Treaty which allowed for those Member States which share the euro and are exposed to higher externalities/interdependence, to ‘strengthen the coordination and surveillance of their budgetary discipline’ (art. 136-1), i.e. pooling further their sovereignty. This new legal basis enabled a relaxation of the consensus requirements among EU28 countries and provided EU leaders with an escape route from the joint decision trap. Proposed in November 2011 and adopted in May 2013, the Two Pack occurred in a policy context made up of escalating and then, after July 2012, de-escalating crisis induced pressure. Perhaps for this reason, the Commission found space to act as a core actor. Interviews conducted point towards the crucial role played by the Commission in conceptualizing and bringing forward the Two Pack: ‘The Two Pack? It was the Commission’. The same EP official recalled ‘a top-down push from the cabinet [Olli Rehn’s cabinet] to do more and to do more Community method and a bottom up attention in DG ECFIN services where the staff became more aware of what happens in the corrective arm of the SGP, after the 6 Pack implementation’ . In a context where there was an ‘outside pressure to do a bit more, the European Commission took the chance’.

The term ‘Two Pack’ gives the misleading impression of a unifying logic in its objectives. At a minimum, some unity resides in its scope (a strict focus on the Eurozone) and in its broad aim to reinforce the EMU surveillance mechanisms to prevent contagion/spill-over in EMU. Its true rationale was however to deal with institutional left-overs and complete the unaccomplished work which had not been performed by the previous reforms of EMU's economic governance (e.g. mainly the Six Pack legislations). Apart from this, the two regulations pursued two different goals: Regulation 472/2013 aimed at clarifying the procedure and competences to address Member States experiencing financial difficulties under the so-called 'enhanced surveillance'. Among others, the Commission may autonomously decide, on the basis of objective criteria, to subject a Member State to an enhanced surveillance and can prolong it if it deems it necessary. From a legal perspective, this regulation also strove to ensure consistency between intergovernmental agreements and EU law, notably on conditionality. As such it largely elaborated on the so-called operational guidelines of both the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM)) and lays down the legal frame of 'macroeconomic adjustment programmes' for euro area countries requesting financial assistance (European Commission, 2013).

Regulation 473/2013, on the other hand, sought to lay down a procedure for the assessment of draft budgetary plans in the euro area. Driven by the need to reinforce further the central control over fiscal policies, it set out both the conditions and procedures for the assessment of draft budgets in the Eurozone and specified the corrective provisions in the case of excessive deficits in euro area member states. Its purpose was to further institutionalize a crucial novelty of the Six Pack: the European Semester. The Two Pack pushed indeed the intrusiveness of the European Commission into domestic politics and policy making to a higher level. The Two Pack foresaw a clear and binding timetable for the elaboration and discussion of national draft budgetary plans. It required Eurozone member states to submit medium-term fiscal plans by 30 April each year followed by the blueprint of national budgets by 15 October. In case of serious non-compliance with the rules of the SGP, the Commission may request a revised draft budgetary plan.

The Fiscal Compact: an intergovernmental subterfuge?

In its initial (German) conception, the adoption of the Fiscal Compact's debt brake rule was meant to be implemented through a Treaty revision, not through an international treaty negotiated outside of the EU framework. The Compact's innovative shape should thus be considered as a second best outcome for the EU and its main proposer, Germany. Its peculiar design resulted from the UK's strong reluctance and ultimate veto of an EU Treaty revision at the European Council in December 2011. The Compact's rationale was part of a conditionality compromise made to Germany for the injection of liquidity, through the ESM and the ECB, in a context marked by continuously rising Italian and Spanish bond spreads. Its adoption did not alter the EU's distribution of powers, neither horizontally nor vertically in the EU, nor did it result in the transfer of significant formal powers to the EU. Its key contribution was rather symbolic: it sent a signal of commitment to sound finances at a time when financial assistance was deployed throughout Europe.

The main purpose of the Fiscal Compact was to enshrine a 'balanced budget' rule into national primary law, thus departing from the Maastricht requirement which focussed only on avoiding 'excessive deficits'. The Compact provided that 'budgetary position of the general government of a contracting party shall be balanced or in surplus' (TSCG, 2012: art. 2), thereby limiting Member States' budgetary discretion further. The structural budgetary position was operationalized as the 'lower limit of a structural deficit (is) of 0.5% of the gross domestic product at market prices' (TSCG, 2012: art. 2). The Compact also foresaw that 'in the event of significant observed deviations from the medium term objective or the adjustment path towards it, a correction mechanism shall be triggered automatically' (TSCG, 2012: art. 3). Lastly, it stipulated that these rules should be transposed into national law 'through provisions of binding force and permanent character, preferably constitutional, or otherwise guaranteed to be fully respected and adhered to throughout the national budgetary processes' (TSCG, 2012: art. 3).

The Fiscal Compact was a highly salient political issue at the time of its adoption. Yet, from the beginning, policy-makers questioned its added-value compared to the previously adopted Six Pack. A diplomat called it 'an important distraction' while Mario Monti, then Italy's Premier, described it as a 'decorative songbird' (The Economist, 2012); despite its entry into force, the Compact was by and large un-enforced (Alcidi & Gros, 2014). Interviewees, both from the EP and from the EU Council confirmed this interpretation: 'you do something on rules but then it is not followed'; 'the Fiscal Compact is dead' ; 'no one cares about it' . In spite of its higher ranking in the hierarchy of norms, the Compact is no different than the ambitious EU declarations, such as Council conclusions, which remain empty agreements. It can be characterised as a largely symbolic and suboptimal political outcome in contrast to the problem solving nature of the Six Pack and of the Two Pack: 'it's about legal symbolism and the Germans are always caught in this' . Analysing similar outcomes, Héritier (1999; 18-19), following on Brunsson (1989), documented how the hypocritical creation of symbolic political outcomes by separating talk from action could be used as an escape route to the EU's tendency towards deadlock. In bargaining theory this is referred to as 'framework solutions' (Héritier, 1999: 19), i.e. political compromises which have been adopted despite a high diversity of interests among actors and which are 'not meant to be implemented because their realisation would bring irreconcilable conflicts to the fore' (Héritier 1999:19). The Fiscal Compact seems to illustrate very well this phenomenon.

Governance: Fillip, Foil and Fail?

It is evident that the Eurozone crisis served as a powerful boost to enhancing the economic governance regime within the single currency area. European institutions and governments proved capable of agreeing far reaching changes in the regulatory regime within a short time frame. All of these new rules were enchased in the European Semester process which established a cycle of engagement between each member state and the EU collective as a whole. The 'common concern' of the member states was brought to the fore as it became clear that the Eurozone was characterized by a high level of interdependence and mutual vulnerability. A governance lens highlights certain features of public policy making-rules, processes, actor constellations- while it obfuscates others. Far too much of the governance literature is blind to core questions of structural power, leadership and hegemony. Responses to the Eurozone crisis involved not just puzzling and policy making but powering and in that process of powering two core centres of hard power emerged. First, the European Central Bank (ECB) emerged as an indispensable institution with the deep resources (printing money) to have a major impact on how the crisis evolved. The central bank became a de facto lender of last resort when its President pledged to do what it takes to protect the Euro. The independence of the central bank and its fire power enabled it to have a decisive impact. The President of the ECB attended all European Councils and Euro Summits and was a decisive voice. ECB representatives attended all relevant meetings in the Council hierarchy. The ECB was a privileged member of the Troika and the backstop to the financial system. Second, on this issue, Germany was the dominant power with an ever present veto power; it emerged as a hegemon, albeit a reluctant one during the crisis (Patterson, 2011, Bulmer and Paterson, 2013). The crisis was crucially framed on its terms-fiscal profligacy- and the policy solutions (Six Pack, Two Pack, and Fiscal Compact) came from the its policy 'tool kit'. The continuous emphasis on debt and deficits stemmed from Germany's historical commitment to sound money and prudent public finances. Moreover, Germany was successful not only in framing the crisis and the solutions but it managed to keep important issues off the agenda. The first Greek bail-out in May 2010 was as much about saving the German and French banks as it was about keeping Greece solvent. The unbalanced manner in which the crisis was framed politically (a public finance crisis rather than an interdependent banking and public finance crisis) served German interests well. The expanding German current account surplus was also kept off the agenda. This allowed Germany to impose the costs of adjustment on the weaker states under the guise of 'solidarity'. The governance literature has in the past not paid sufficient attention to the crucial framing of issues in the process of public policy making (Laffan (a), 2014). When faced with a new and evolving situation, policy makers engage in a process of interpretation and diagnosis (Khong, 1992). Crises are big events creating uncertainty, fear and disruption. Political actors do not just respond to a crisis but crucially identify and define it though framing a crisis narrative and discourse (Hay, 1996, 255, Schmidt 2002, 2008). Framing through language is a crucial part of crisis management because 'those who are able to define what the crisis is all about also hold the key to defining the appropriate strategies for resolution' (d'Hart, 1993, 41). Masking may also play an important role in crisis management as political actors seek to downplay the extent of the problems or keep aspects of the crisis off the public agenda (d'Hart, 1993).

The dynamics and power and framing was not the only blind sport in the governance literature. With a dominant emphasis on institutions, actors and processes, this research tradition tended to neglect the impact of EU governance on democratic politics in the member states. Peter Mair began to highlight a growing tension between representation and responsiveness, between representativeness and governing from 2011 onwards (Mair, 2009, 2010, 2011). Central to his argument was the claim that the two core functions of parties, to represent and to govern have 'begun to grow apart, with many of today's parties downplaying, or being forced to downplay, their representative role, and enhancing, or being forced to enhance their governing role' (Mair 2011, 8). Beyond the immediate political fall-out from the euro crisis, the emerging system of economic governance added significantly to the constraints on governing parties and exacerbated the tension between responsiveness and responsibility already manifest in Europe. All EU states form part of a multilevel compound polity that begins at home but does not end there. Within the EU and increasingly within the euro area, the member states conduct core areas of public policy within a framework of agreed rules that tie their hands but also permits EU level actors and other member states to deliberate on, influence and police their domestic choices. Growing euro area constraints are not the only source of tension between responsiveness and responsibility, between representation and governing faced by states, but that the nature and depth of the external constraints agreed in the Eurozone since 2010 represent a step-change in the possibility of intrusion by external actors in domestic government and politics. Within the Eurozone, the frame of reference of responsible governance shifted. This demands far more scholarly attention to the impact of governance on domestic party systems, electoral politics and public opinion. The 'governance turn' must be complemented by a 'multilevel politics' turn (Laffan, 2016). The Eurozone crisis has altered the dynamics of politicisation on European issues and within the Union's multilevel political system. The detached political competition identified by Kohler-Koch and Rittberger (2004) has run its course. The political fall-out of the crisis may be seen in heightened volatility in electoral politics, fragmenting party systems, the rise of challenger parties of both the left and the right and real difficulties in government formation in a number of member states

The Euro crisis has propelled the European Union beyond its established status as a regulatory state. The politics of regulation are very different to other forms of policies. The Eurozone crisis exposed a deep cleavage between creditors and debtors, between its northern members and the Mediterranean member states. The impact of the crisis on the debtor states was dramatically different to the creditor states. The former were weak and vulnerable with limited bargaining power whereas the creditor states held all of the power. At its core the key question of the Eurozone was 'who pays'; who pays for the immediate adjustment to the economic fall-out of the Great recession and who takes the risks to stabilise the system. Political issues with of this nature are essentially distributive not regulatory and are characterised by much deeper contestation and conflict about policy and instruments. The crisis exposed a deep centre periphery cleavage at the heart of the Eurozone that had been building up in the 2000s. That cleavage remains acute and adds to the vulnerability of the entire edifice.

Given the considerable negotiating effort that went into the strengthening of the economic governance tool-kit in the period 2010-2013, how has it fared in the cold light of implementation as it was transformed into a living system. Pressure on the system mounted very quickly as macro-economics requires more than rules. By January 2015, the Commission published a communication on 'Making The Best Use Of The Flexibility' within the existing rules (EU Commission, 2015). Germany opposed this development but the pressure of facts on the ground and the need to re-invigorate the European economy though investment ensured that 'flexibility' within the rules evolved as a norm. However developments in 2016 are even more telling. Both Portugal and Spain were significantly in breach of the rules [6]and if the Commission were to follow the rules it would have proposed fines on both countries which under the new 'reverse qualified majority' rule would have required two-thirds majority in the Council to over-turn the sanction. The Commission, internally divided, decided not to up-hold the rules in this case. It is too early to assess what the impact of this will be on the edifice of economic governance build-up during the crisis. It could well be that a more 'political' Commission will privilege political dynamics over its responsibility to act as guardian of European law.

Conclusions

Governance is ubiquitous is the European Union. It is the dominant manner by which a system of still 28 states manages to co-operate, coordinate and engage in the allocation of values. It involves complex constellations of actors at different levels engaging in collective governing. The governance 'tool kit' has expanded and become more sophisticated as the collective endeavour of the Union expanded. The Eurozone crisis, however, exposed the faultlines in the governance of the single currency. Faced with systemic risk and contagion, the Eurozone scrambled to strengthen its collective capacity and shared rules. It achieved this though a raft of new rules and processes designed to enhance the credibility of Eurozone governing. The resort to rules, to enhanced economic governance, was a reflex response to marry crisis management with crisis prevention. It played a central role in enabling the creditor states get the agreement of their parliaments to unprecedented bail-outs of a number of Eurozone states. As the new rules moved from design to implementation they came up against the hard realities of the Union as a polycentric polity in which domestic politics acts as a powerful constraint on collective rules. Moreover, the reality of the real economy demanded more flexibility and underlined the fact that economies cannot be governed by rules alone. The new system of economic governance will continue to play an important role in the monitoring of domestic fiscal policy and current account imbalances but it will not be has rigid as some of the creditor states, particularly Germany, would have wanted.

The 'governance turn' in EU studies has provided a powerful lens into the Union's system and modes of governing but it has its blind spots. The most important of these is the neglect of structural power and powering within the Union's policy making system from the framing of issues to decisions on policy instruments. Its focus on institutions, processes and actor constellations also came at the price of neglecting politics. The 'governance turn' must now be complemented by a 'multilevel politics turn' given the politicisation of integration. As part of that re-focusing, more attention should be paid to dynamics of differentiation, divergence and distributive politics. Put simply, attention needs to be paid to some of the older integration questions such as what kind of Union is emerging from the crisis and what does this mean for political and economic order in Europe.

[6] Spain and Portugal's deficits in 2015 hit 5.1 percent and 4.4 percent

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