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From Lisbon Strategy to Europe 2020: The Impact of the Financial Crisis on the Governance and Discourse of Economic Reform

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Abstract

This paper explores the impact of the global financial crisis on the EU's economic reform agenda and the European Commission's response to it. Specifically, it examines the recent transition from the Lisbon Strategy to Europe 2020 by addressing three questions. How has the Commission framed the EU's response to the financial crisis? To what extent has the governance of economic reform been reconfigured? How have policy makers used discourse to shape and legitimise change? The paper employs Kingdon's (1995) multiple streams approach to explore how the three independent streams of problems, policies and politics became 'coupled' together, leading to the creation of a window of opportunity for policy reform in 2010. In particular, we find that the EU has used discursive strategies in order to frame policy change and legitimise political action in three ways. Firstly, EU policy makers have strategically reconstructed the 'exogenous' global financial crisis as an 'endogenous' failure of governance linked to the inadequacy of economic reform and systemic weaknesses in the functioning of the eurozone. Second, the Commission uses the urgency of coordinating exit strategies from the crisis to provide legitimation for a strengthened governance architecture that potentially subordinates long-term economic reform to short-term fiscal discipline. Finally, we suggest that political and functional 'spillback' between different policy arenas has contributed to the further centralisation of responsibility for economic reform around DG Economic and Financial Affairs (ECFIN). We conclude that discourse has therefore been central in shaping the EU's economic governance and driving its economic reform agenda.

Introduction

Launched in March 2000, the EU's Lisbon Strategy was intended to provide an overarching social and economic reform agenda which would make Europe the most 'competitive, knowledge-based economy in the world by 2010' (European Council 2000). Having failed to achieve many of its original objectives (see Begg 2007; Tilford and Whyte 2010), the strategy was re-launched by the European Commission as Europe 2020 and endorsed by the European Council in March 2010.[3] This transition took place against a series of severe economic crises, beginning with problems of liquidity and solvency within the banking system in 2007 and culminating with speculative pressure on the sovereign debts of several eurozone Member States. As such, Europe 2020 represents the Commission's principal response to the financial crisis to date.

The purpose of this paper is to explore the impact of the crisis on the EU's economic reform agenda and to explain the Commission's response to it. In particular, it analyses the recent transition from the Lisbon Strategy to Europe 2020 by addressing three questions:

1. How has the Commission framed the EU's response to the financial crisis?

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[3] Although it should be noted that agreement on the Education and Poverty targets was not reached until June 2010

2. To what extent has the governance of economic reform been reconfigured?
3. How have policy makers used discourse to shape and legitimise change?

In addressing these questions the paper seeks to develop an innovative approach to conceptualising and analysing the EU's economic reform agenda. There is an extensive literature on the historical development of the Lisbon Strategy (Collignon *et al* 2004; Begg 2007; Borras 2009; Rodrigues 2009), the strengths and weaknesses of the open method of coordination (Radaelli 2003; Borras and Jacobsson 2004; Zeitlin 2008) and the implementation of individual policies (Archibugi and Coco 2005; Zeitlin *et al* 2005; Radaelli 2006). Yet surprisingly little scholarly attention has been devoted to analysing the political and ideational dynamics underpinning it: that is, the actors, processes and discourses driving the governance of economic reform. This requires us to conceptualise the agenda as a *political* strategy within which competing interests and ideas on economic reform are contested, negotiated and communicated and then institutionalised in distinctive governance arrangements. Viewed in this way the strategy serves as a site of inter-governmental, inter-institutional and intra-institutional competition through which the EU's economic reform agenda is strategically constructed and re-constructed over time by EU policy makers. By framing economic reform in a particular way, policy makers strive to steer the terms of the debate, manage the development of the policy agenda, and legitimise particular modes and instruments of governance at the EU level.

The paper is therefore concerned above all with exploring the relationship between governance and discourse. In order to operationalise this problem, it employs a modified version of Kingdon's (1995) multiple streams approach. This enables us to explore how the three independent streams of problems, policies and politics became 'coupled' together, leading to the creation of a window of opportunity for policy reform in 2010. The paper therefore aims to shed light on how the prevailing discourse surrounding economic reform has shifted and evolved at the EU level over time. It is also intended to contribute to our understanding of how discourse can be constructed and exploited by policy entrepreneurs in order to legitimise the reform of governance and, ultimately, to shape the likelihood and nature of policy reform.

The paper proceeds as follows.[4] The first section outlines the basic tenets of the multiple streams approach and explaining how it offers a particularly valuable framework for analysing policy dynamics with the EU. The main part of the paper then explores the three streams – problems, policies and politics – and the extent to which they were 'coupled' by EU-level policy entrepreneurs in the run up to the re-launch of the economic reform agenda in March 2010. In particular, it focuses on the definition and construction of the financial 'crisis' after 2007 by EU policy makers (the problem), the Commission's rationale for strengthening the governance of economic reform (the policy), and the internal power dynamics between different Commission DGs in the development of the Europe 2020 strategy (the politics). The paper concludes by reflecting on the implications of these findings for our understanding of the role of discourse in framing policy change in the EU.

Multiple streams framework

In order to operationalise the analysis of how discourse may be employed strategically in order to facilitate governance reform, we propose to employ Kingdon's (1995) multiple streams approach. This is for two principal reasons. Firstly, we argue that this framework is particularly well-suited to exploring the complex dynamics of policy formation and agenda

[4] The empirical findings of this paper are based on twelve anonymous semi-structured interviews conducted with officials from the European Commission and Council of Ministers in November/December 2010.

setting in the fragmented institutional environment of the EU. Second, it provides a ready-made framework for analysing the importance of discourse by hypothesising about the agenda-setting role of policy entrepreneurs that use ‘framing’ devices to facilitate policy change. We elaborate further on these two points below.

The multiple streams approach has become increasingly popular as a means of analysing policy change at the EU level in recent years (Cram 2001; Corbett 2005; Zahariadis 2008). This has been attributed in large part to the ‘de-institutionalised’ environment (Benz 2003) or ‘institutional ambiguity’ (Ackrill and Kay 2011) that characterises much of the EU policy process. In other words the fluidity of actor participation, the complexity of modes of governance and the multiplicity of policy arenas is ideally suited to dynamic models of agenda setting that are capable of capturing the contingent and haphazard nature of policy making in Brussels. The multiple streams approach is well-placed to analyse the nature of this ‘emergent garbage can’ (Richardson 2006: 24-5) by positing that policy change emerges from the interaction of three independent policy streams (problems, policies and politics) to create a window of opportunity for policy change.

We can identify each of these streams at the EU level. First, policy makers are alerted to real or perceived policy problems through indicators and targets, negative policy feedback or ‘focusing events’ – that is, contextual changes that (re-)focus attention on a perceived problem, giving rise to heightened demands and expectations of a policy response. Second, the policy stream constitutes a ‘primeval soup’ of ideas located within the policy networks that surround different issue agendas at the EU level. These ideas generate a range of policy solutions that are articulated by a variety of actors, from Commission officials to national governments and outside lobby groups. The likelihood of these being adopted is of course dependent on network characteristics, such as the extent of agreement amongst participants, the level of network integration and the ease of implementation. Finally, policy change will only occur when the wider political context is conducive. At the EU level three factors are particularly important: the balance of power between different Directorates General (DGs) within the Commission; the balance of national and partisan affiliation within the Council; and the ideological balance of parties in the European Parliament (Zahariadis 2008: 518).

Windows of opportunity emerge when these streams come together as a consequence of either exogenous or endogenous stimuli: in response to shifts in the external environment that create the conditions for policy change and/or as a consequence of deliberate ‘coupling’ by skilled policy actors or ‘entrepreneurs’ (Rhinard 2010). Key to this is the issue of problem definition: policy problems are not a given, but are rather (re-)constructed over time on the basis of perceived strategic interests (Rocheford and Cobb 1994). Policy entrepreneurs can therefore manipulate agendas through the use of discursive strategies, such as policy ‘framing’: the strategic construction and communication of narratives that associate a perceived policy problem with certain concepts, values and symbols in order to mobilise political action and legitimise particular solutions (see Benford and Snow 2000; Princen 2007, 2009).

In this study we are concerned with the development of specific policy proposals under active consideration for adoption (the decision agenda), as opposed to the broad range of policy issues discussed by policy makers (the governmental agenda) (Kingdon 1995: 4). The paper therefore focuses on the development and drafting of the Communication outlining the Commission’s proposals for strengthening the governance of economic reform that was presented to the European Council in March 2010 (European Commission 2010). This emphasis on the Commission’s critical role in the EU agenda-setting process is justified on at least three grounds. Firstly, the Commission plays a key political and administrative role in the design and execution of the Lisbon Strategy at every stage in the policy process. With respect to the first, it is the Commission that initially proposes the strategy’s overarching aims, objectives and governance instruments (which it did on behalf of the European Council in 2000, 2005 and 2010) and seeks to advance the agenda by making it more visible and central to the EU's core activities (Borras 2009). Being located at the intersection of different interests and ideas on economic reform (originating from other EU institutions, the Member States and outside lobby groups) presents a profound political challenge but also significant opportunities for agenda-setting. In addition, the Commission wields powerful administrative responsibilities for drafting the Integrated Guidelines, reviewing the National Action Plans, and monitoring and reporting Member State progress towards implementation (cf. Begg 2006; Zeitlin 2008).

Second, the Commission performs a unique 'hub' role (Zahariadis 2008: 518) which combines responsibilities of both decision making and agenda setting (Ackrill and Kay 2011: 74; Corbett 2005). Hence it enjoys the sole or shared right to initiate EU legislation and the necessary resources and expertise to draft detailed reform strategies for the European Council. This enables the Commission to perform the dual role of both policy entrepreneur (by advocating and lobbying for different policies in response to policy windows) and policy commissioner (by selecting policies from a range of options that are appropriate to particular policy windows) (Ackrill and Kay 2011: 75).

Finally, policy issues frequently overlap between several Commission DGs, but the internal hierarchy of authority between them is unclear (Ackrill and Kay 2011: 73). This generates potential for spillover between multiple policy arenas: either because a decision in one DG establishes a precedent which influences decisions within others (exogenous spillover) (Kingdon 1995); or because a policy decision taken in one DG impacts directly on connected policy arenas, even forcing a decision within other DGs when none would otherwise be made (endogenous spillover) (Ackrill and Kay 2011: 73). These internal dynamics create a wider space for contestation between DGs over the control of different policy agendas as they each compete to frame particular issues and problems. At the same time policy spillover also provides the Commission with greater opportunities for coupling, enabling it to hold windows of opportunity open for longer and so facilitate agreement in the Council (Ackrill and Kay 2011: 74). Understanding the internal political dynamics between different Commission DGs is therefore fundamental to explaining the development of the EU's economic reform discourse over recent years and the design of the governance arrangements proposed in the Europe 2020 strategy. This is the objective of the empirical analysis that follows.

The Window of Opportunity for Europe 2020

In this section we seek to apply the multiple streams approach as a way of exploring the discursive dynamics underpinning the recent re-launch of the EU's economic reform agenda. It analyses the development of the three independent streams – problems, policies and politics – and the extent to which they were 'coupled' by EU-level policy entrepreneurs in the run up to the European Council summit in March 2010. In particular, it focuses on the definition and construction of the financial crisis after 2007 by EU policy makers (the problem), the Commission's rationale for strengthening the governance of economic reform (the policy), and the internal power dynamics between different Commission DGs in the development of the Europe 2020 strategy (the politics).

The Problem Stream: From Exogenous to Endogenous Crisis

Problem definition is central to understanding policy change, yet it is something of a moving target: policy makers redefine and reconstruct policy problems over time in response to external developments and/or to legitimise particular policy proposals. It is argued here that the global financial crisis that developed from late 2007 onwards progressed through a series of distinct stages. Over time this generated new meanings and understandings about the crisis, leading EU policy makers (from the Commission, Council and European Central Bank) to construct and re-construct a legitimating discourse about the policy problems and potential solutions associated with it. Some of these developed sequentially (as policy makers responded to external events), but many occurred concurrently (as different institutions competed to frame the crisis in a particular way). This gave rise to a complex, multi-layered discourse on the crisis that was articulated in different ways by different EU policy makers. Charting the development of this discourse over time is critical to understanding how the gradual endogenisation of the crisis served to legitimise the Commission's proposals for Europe 2020. We can identify at least three early 'crisis' discourses:

> Discourse 1. *The liquidity crisis*: The early discourse surrounding the crisis was framed by the European Central Bank (ECB) which sought to play down the likely impact within Europe (see Copsey and Haughton 2009). It pointed to an 'abrupt loss of confidence' that 'originated primarily' in the US sub-prime mortgage market (De Larosière 2009: 6), leading to a 'systemic shortage of liquidity' (European Central Bank 2009a). The ECB responded by increasing the supply of credit through open market procedures and US dollar auction facilities. As 'tensions spread from the United States to the euro area' after September 2008 (European Central Bank 2009a), it acted 'decisively' by increasing the number and frequency of its refinancing operations, extending the list of assets eligible to be used as collateral, cutting interest rates to 1% by May 2009, and purchasing covered bonds (Trichet 2010). This was deemed adequate because, unlike the US, the eurozone financial system remained 'predominantly bank based' (European Central Bank 2009b; see also Quaglia *et al* 2009).

> Discourse 2. *The solvency crisis*: By late 2008 the crisis had been reframed as a 'global crisis' affecting 'industrialised countries as well as the emerging economies' (European Central Bank 2009a). ECOFIN agreed a set of 'common principles' in October 2007 for managing cross-border financial crises with potential systemic implications, but these were not intended to prevent bank failures (ECOFIN 2007: 4). The discourse changed dramatically after the collapse of Lehman Brothers in the US as the scale of exposure by European banks became clearer, causing several Member States to unilaterally guarantee their bank deposits (Hodson and Quaglia 2009; Quaglia *et al* 2009; Trichet 2010). From this point the priority shifted to coordinating efforts at the EU level to 'avoid the failure of relevant financial institutions through appropriate means, including recapitalization' (Eurogroup 2008), culminating in the adoption of a common banking rescue plan in October 2008.

> Discourse 3. *The regulatory crisis*: During 2009 attention shifted towards finding longer-term solutions such as enhanced financial market regulation, justified on the grounds that financial liberalisation had created a system in which 'speculation and financial gambling had run rife' (European Central Bank 2009b). In June 2009 the De Larosière Report identified the 'fundamental failures in the assessment of risk' by financial regulators and an 'inadequate crisis management infrastructure in the EU' as principal drivers of the crisis, necessitating the establishment of a new European Systematic Risk Board and European System of Financial Supervisors (De Larosière 2009; see also Buckley and Howarth 2010). At the same time the Commission sought to 'extend appropriate regulation and oversight to all actors and activities that embed significant risks' (European Commission 2009a: 2) by proposing new legislative instruments regarding private equity, hedge funds and derivatives trading (European Commission 2008a; see also Barroso 2009).

Common to all of these 'strategic constructions' (Jabko 2006) was the fact that the crisis had been caused by an exogenous shock: transmitted to the European banking system from the US, but which also risked impacting on the 'real' economy through declining credit, investment and consumer confidence. Yet at this stage no explicit connection was made between the turmoil in the financial sector and the wider governance of the European economy, such as the promotion of structural reform by the Lisbon Strategy or the enforcement of fiscal discipline through Economic and Monetary Union. This began to change during the course of 2009 as the scale of the fiscal damage inflicted by the bank bailouts and financial sector-induced recession escalated, giving rise to three further distinct discourses on the crisis:

> Discourse 4. *The fiscal crisis*: As the crisis unfolded during 2009, EU policy makers began to highlight the impact of 'spillovers' and 'negative feedback' between the financial sector and the 'real economy' (European Central Bank 2009b). In an effort to demonstrate that the EU was not 'powerless' and had the capacity to provide 'swift, bold, ambitious and well-targeted action', the Commission constructed a new discourse aimed at harnessing 'Members states' and Community action' as a lever to shape the 'global response to this global crisis' (European Commission 2008b: 2). The outcome in December 2008 was the European Economic Recovery Plan which combined a call for an immediate national budgetary stimulus with EU initiatives for 'smart' investment (European Commission 2008b: 3; Pisani-Ferry and Sapir 2009).

> Discourse 5. *The sovereign debt crisis*: Increasing speculation about the continued ability of several Member States (notably Greece, Portugal, Spain and Ireland) to meet their sovereign debt obligations peaked in early 2010. As the risk that Athens would have to default on its international debts mounted, the eurozone reaffirmed its 'willingness to take determined and coordinated action, if needed, to safeguard the stability of the euro area' by hastily agreeing a €110bn bilateral rescue package with the IMF in April 2010 (Eurogroup 2010). This was followed a month later by the EU's €750bn 'shock and awe' rescue package, the largest component of which was the new European Financial Stability Facility, which was justified by the 'exceptional circumstances beyond Member States' control' quoted in Article 122.2 of the Treaty (ECOFIN 2010). Crucially, at each stage of the sovereign debt crisis EU policy makers have reshaped the crisis discourse in order to reassert the primacy of 'fiscal sustainability and market confidence' and to call for further EU-level action: in particular, stronger 'coordination of economic policies', enhanced 'economic governance', better surveillance of 'economic and budgetary risks', and a more 'robust framework for crisis resolution' (Eurogroup 2010: 2).

> Discourse 6. *The competitiveness crisis*: In an effort to construct an explanation of the eurozone's travails which is compatible with its long-term survival, attention has shifted towards underlying structural imbalances between Member States – particularly related to competitiveness and trade. The EU's response to these deep-rooted problems was to revive and strengthen its long-term strategy for competitiveness in March 2010. The Europe 2020 strategy that emerged recognises the unprecedented nature of the crisis facing Europe which has wiped out years of 'economic and social progress' and exposed some 'fundamental weaknesses' that were insufficiently addressed over the previous decade (European Commission 2010: 5). The Commission's discourse centres on the extent to which the crisis has exposed the level of 'interdependence' between the eurozone economies, rendering 'spill-over effects more likely' and demonstrating that a lack of reform 'affects the performance of all others' (European Commission 2010: 8). For this reason divergent growth patterns have given rise to the accumulation of unsustainable government debts which 'puts strain on the single currency' (European Commission 2010: 26). The crisis has thus 'amplified' many of the challenges that the euro faces: namely 'the sustainability of public finances and potential growth, but also the destabilising role of imbalances and competitiveness divergences' (European Commission 2010: 26).

In constructing and reconstructing the discourse about the causes and consequences of the financial crisis over time, we argue that EU policy makers have gradually reinterpreted and reframed the 'exogenous' global financial crisis as an 'endogenous' failure of governance. In other words, the crisis has shifted from being an external financial shock necessitating EU-level action to contain its impact, to an internal political crisis of confidence surrounding the single currency. The Commission has established this new narrative by linking the financial crisis directly to the inadequacy of economic reform under the Lisbon Strategy and systemic weaknesses in the functioning of the eurozone. This process was triggered by the gradual spread of the economic turmoil from the banking sector to the wider economy, but was accelerated in particular by the onset of the sovereign debt crisis. It has also had a direct bearing on the nature of the proposals that EU policy makers have devised in response.

The Policy Stream: Simultaneous but 'Subordinate' Surveillance?

Through its strategic construction of the financial crisis as a failure of economic governance, the EU seeks to legitimise a range of new policy solutions aimed at strengthening the surveillance of fiscal, macroeconomic and microeconomic developments. This is to be achieved through the simultaneous but separate evaluation and reporting of Europe 2020 and the Stability and Growth Pact in an annual European Semester. In doing so we argue that the microeconomic objectives of economic reform have been potentially subordinated to the more immediate demands of fiscal discipline and macroeconomic stability. This is justified on the grounds that more effective economic governance is needed to coordinate national exit strategies from the financial crisis and to minimise the impact of spillover within the eurozone.

In addressing the economic challenges identified above, the Commission frames the EU's response in terms of a holistic strategy designed to support economic growth and job creation. It suggests that the longer term objectives of Europe 2020 must be based in the short term upon a credible exit strategy from national fiscal stimulus packages. This is justified on the grounds that 'smart' budgetary consolidation and 'sound' public finances underpin long-term growth and employment and ensure the sustainability of our 'social models' (European Commission 2010: 26). The strategy therefore puts forward a broader and more comprehensive notion of economic reform based on mutually-supportive macroeconomic, fiscal and structural policies. This is used to legitimise the strengthening of economic governance in two ways. First, it Its proposed solution in the short term is a 'reinforced coordination of economic policies' to manage the 'possible negative spill-over effects arising from the withdrawal of crisis-related fiscal measures' (European Commission 2010: 24-5). Over the longer-term however the strategy should prioritise supply-side policies (such as improving education, skills and innovation) that are linked to important structural reforms (of pensions, health, education and social protection). But the Commission is critical of the slow pace of reform under the Lisbon Strategy, warning that any return to 'business as usual' would consign the EU to the 'second rank' of the new global order (European Commission 2010: 2). It therefore argues that the achievement of these short and long-term goals necessitates a stronger governance framework to provide 'deeper and broader surveillance' of fiscal discipline, macroeconomic imbalances and competitiveness, particularly within eurozone countries (European Commission 2010: 27).

The logic for strengthening the governance of Europe 2020 becomes clear when viewed in the context of the governance reforms instigated by the re-launched Lisbon Strategy in 2005 (see European Commission 2005). Five years earlier the creation of the Integrated Guidelines for Growth and Jobs (24 in total) sought to combine the Broad Economic Policy Guidelines – i.e. macro-economic policy coordination (sustainable public finances) and micro-economic reforms (innovation and R&D, industrial policy, better regulation, reforms in product services and financial markets) – with the European Employment Strategy (EES)

(Tholoniat 2010: 106). Member States would then report their progress in their National Reform Programmes (NRP). The rationale for the new governance mechanism was to ensure that policy developments were related to each other: that is, that policy reform within micro-economic policy and/or the EES specifically related to the current macro-economic situation within a Member State (interviews DG EMPL 1, 2010; DG ENTR 1, 2010; DG ECFIN 1, 2010).

Although the 2005 reforms established a firmer relationship between the various aspects of the EU's economic governance, the economic and financial problems afflicting several southern Member States during the financial crisis 'demonstrated its weaknesses which, in the eyes of the Commission, necessitated a stronger governance mechanism for Europe 2020' (interview DG ECFIN 1, 2010). The Commission's proposed solution to this perceived structural deficiency was threefold: first, to reduce the number of Integrated Guidelines from 24 to 10, thereby simplifying the overall aims of 2020 and making it easier for the Member States to understand and implement; second, an enhanced role in the issuance of Country Specific Recommendations (CSRs) for areas of weakness within the Member States; and third, the creation of a new six-month European Semester through which the simultaneous reporting and evaluation of Europe 2020 and the Stability and Growth Pact now takes place. These innovations are intended to enhance the 'synergies' and 'linkages' of economic coordination by bringing together the 'aims' and the 'means' of economic reform, while keeping the 'instruments' and 'procedures' separate in order to maintain the integrity of EU's fiscal rules (European Commission 2010: 27). Europe 2020 is organised around a new framework that combines a thematic approach (focused on the delivery of the 5 headline targets and flagship initiatives) and strengthened country reporting (which has been expanded from fiscal policy to include macro-imbalances arising from growth and competitiveness). As part of the annual European Semester from January to June, Member States submit draft Stability/Convergence Programmes and National Reform Programmes in parallel, including the necessary 'cross-references' between macroeconomic, microeconomic and fiscal policies. On the basis of a new Annual Growth Survey which the Commission presents to the European Council summit each spring (European Commission 2011), the national programmes are amended and agreed.

The new governance architecture will in theory permit policy CSR's to be directed at Member States that provide detailed advice on macroeconomic and public finance issues, as well as microeconomic and employment challenges (European Commission 2010: 28). Country surveillance will take the form of Opinions on Stability/Convergence Programmes under Council Regulation (EC) No 1466/97 accompanied by CSR's under the Broad Economic Policy Guidelines (BEPGs, Article 121.2). The thematic component includes the Employment recommendations (Article 148) and country recommendations on other selected thematic issues (microeconomic) (European Commission 2010: 28). Importantly, the Commission also proposed that employment and selected thematic issues 'could also be addressed to the extent that they have macroeconomic implications through the recommendations under the BEPGs' (European Commission 2010: 28) to further strengthen the relationship between the various components. In other words, CSR's regarding the thematic issues can potentially be issued under Article 121.2 as they are considered to have macroeconomic implications. For example, the Employment, Social Policy, Health and Consumer Affairs Council (EPSCO) is traditionally responsible for issuing the Employment recommendations: but under Europe 2020 the Economic and Financial Affairs Council (ECOFIN) may also issue employment recommendations where they are justified by wider macroeconomic conditions. In this respect fiscal sustainability and the prevention of macroeconomic imbalances are now to be the central policy logics guiding Europe 2020. Consequently the thematic issues, namely employment policy and microeconomic reform, are now made explicitly conditional upon, and potentially subordinate to, the achievement of these broader macro-level priorities.

The discourse that the Commission uses to frame Europe 2020 and legitimise the strengthening of economic governance is significant for two reasons. First, the EU frames its policy proposal around the urgency of developing exit strategies from the extraordinary measures that national governments took in response to the financial crisis. In addition, it explicitly acknowledges the likely spillover effect of this process within the eurozone in order to legitimise a strengthening of EU-level action. Second, the Commission refers to synergies and linkages as justification for the integration of Europe 2020 and the Stability and Growth Pact through the 'simultaneous' but 'separate' surveillance procedures of the annual European Semester. In doing so however the new governance architecture potentially subordinates the EU's longer-term thematic priorities (on employment and microeconomic reform) to the short-term demands of country reporting (concerned with fiscal discipline and macroeconomic stability). We refer to this as a system of simultaneous but subordinate surveillance.

The Politics Stream: Political and Functional 'Spillback'

Having considered the way in which the Commission defined the nature of the economic reform problem and sought to legitimate an appropriate solution, the politics stream helps to explain the final development of the re-launched economic reform agenda by exploring the internal power dynamics that characterised the drafting of the Europe 2020 strategy. In this respect the politics of the financial crisis contributed to a reconfiguration of the balance of power within the Commission. In particular, responsibility for driving and shaping the Commission's response has been increasingly centralised around DG Economic and Financial Affairs (ECFIN) through a process we refer to as political and functional 'spillback'. Central to this process has been the way in which DG ECFIN has sought to exploit the linkage between economic reform and the functioning of EMU to reframe the concept of competitiveness: away from a narrow concern with microeconomic reforms towards broader macroeconomic developments.

During its initial drafting of Europe 2020, the Commission had been under increasing pressure from the Member States to produce a successor to the Lisbon Strategy which contained 'something new' (interviews Sec Gen 2, 2010; Sec Gen 3, 2010; DG ECFIN 1, 2010). Position papers by the Member States reveal a broad consensus for a successor that was simplified both in terms of its aims and objectives, as well as a more effective governance structure.[5] Expectations were further raised by the fact that Europe 2020 was to be penned under a new Commission which would potentially have new ideas and approaches to economic reform and governance. During the Commission's initial brainstorming and drafting, the effects of the crisis were not fully understood or indeed considered (interview DG ENTR 1, 2010). This changed towards the end of 2009 as the sovereign debt crisis began to unfold and speculation about the risk of default spread to several Member States, thereby calling into question the sustainability of the eurozone for the first time (interview DG ENTR 1, 2010). Governments from all political persuasions called on the Commission to 'prevent another Greece' and ensure that laggard Member States could not run large current account deficits, accumulate high levels of debt or postpone necessary structural economic reforms. The Commission therefore faced three challenges: first, to provide a simplified reform agenda that was more effective; secondly, to reduce and prevent large government deficits within peripheral economies; and thirdly, to guide all Member States towards fiscal consolidation and a coordinated exit from the crisis.

[5] For individual Member State responses during the public consultation for Europe 2020 see: http://ec.europa.eu/dgs/secretariat_general/eu2020/contrib_member_states_en.htm. Accessed 6th June 2011.

The drafting of the Europe 2020 proposals against this backdrop of financial and economic turmoil impacted upon the wider inter- and intra-institutional balance of power within the EU. Naturally heads of state and government (HSGs) within the European Council, supported by national finance ministers in the ECOFIN Council and Eurogroup, took the lead in coordinating the EU's initial response to the financial crisis and negotiating the EU's strategy for managing the sovereign debt crisis. But the real significance of the politics of the financial crisis concerns the extent to which it contributed towards a reconfiguration of the balance of power within the Commission. In particular, responsibility for driving and shaping the Commission's response has been increasingly centralised around DG Economic and Financial Affairs (ECFIN).

To appreciate the nature of this shift, it is worth comparing the governance of Europe 2020 with the Lisbon Strategy. In 2005 the Integrated Guidelines were monitored by a team of country desk officers drawn from the Sec-Gen, DG ECFIN, DG Employment, Social Affairs and Inclusion (EMPL), and DG Enterprise and Industry (Enterprise); with the other DGs, such as Education and Culture (Education), providing an input as and when necessary (interview DG ENTR, 2010). Within the monitoring, evaluation and issuing of CSRs, the different DGs had a roughly equal status. The individual DGs would monitor the responses of the Member States to the guidelines which fell within their policy domain, and the final assessment of the economic situation of the individual Member States along with the CSRs was reached via a consensus between the four main DGs (interview 1 DG SEC-GEN, 2010). By contrast the governance of Europe 2020 is dominated by DG ECFIN. Not only did the majority of ideas behind Europe 2020, the Annual Growth Survey and the European Semester originate from within DG ECFIN, but the other DGs were largely sidelined or ignored (interview DG EMPL 1, 2010). In response Commission President Barroso and his colleagues in the Secretariat-General (Sec-Gen) sought to forge a strategic alliance with DG ECFIN (interviews DG ENTR 1, 2010; DG SEC GEN 1, 2010). Together they re-formulated the priorities and governance of the EU's economic reform agenda.

This can be explained in part by the decision to simplify the governance of Europe 2020 by centralising responsibility around three main actors: the Sec-Gen, DG ECFIN and DG EMPL. The Lisbon Treaty formalises the division of labour between these three actors by stating that both ECOFIN and EPSCO Councils can issue CSRs (Articles 121.1 and 148): this ensures that responsibility for the oversight of Integrated Guidelines 1-6 and 7-10 is shared by DG ECFIN and DG EMPL respectively. Moreover, the Treaty gives little scope for the Commission to increase its competence in the macroeconomic coordination or surveillance of the Member States. How then has DG ECFIN been able to dominate the process? We argue that DG ECFIN has attempted to move beyond the constraints of its narrow legal competences by advocating and exploiting the strengthened surveillance procedures of the new annual European Semester. This empowers DG ECFIN by providing for the simultaneous but separate reporting of Europe 2020 and the Stability and Growth Pact, and by enabling the Commission to issue more targeted CSRs which impact directly on employment policy and microeconomic reforms in the Member States (interview DG ECFIN 1, 2010). Furthermore, the ability of DG ECFIN to situate macroeconomic concerns at the centre of Europe 2020 does not simply derive from the functional necessity of having to address the sovereign debt crisis. Rather we argue that it also reflects a deliberate political strategy on the part of DG ECFIN to redefine the competitiveness discourse that underpins the EU's economic reform agenda (interview DG ENTR 1, 2010).

In the Lisbon Strategy, the Integrated Guidelines outlined in 2005 emphasised the importance of Member States undertaking microeconomic reforms to improve competitiveness. Guidelines 1-6 concerned the macro-economy with guideline 1 referring to the importance of the relationship between current account deficits, macro-economic imbalances and external competitiveness in securing 'economic stability' (European Commission 2005: 14). But guidelines 7-15, which concern microeconomic reform, overwhelmingly focus on increasing the EU's competitiveness via improvements in labour productivity: by reducing the burden of taxation and regulation on business, improving skills training and worker mobility, and raising spending on research and development (European Commission 2005: 18-23). The relationship between the macroeconomic guidelines and competitiveness in the Lisbon Strategy was therefore distinctly thin.

By contrast the discourse on competitiveness in Europe 2020 has been strategically re-constructed. In the eyes of DG ECFIN, Lisbon provided an insufficient incentive for Member States to raise their competitiveness because the microeconomic reforms it championed were too disconnected from wider macroeconomic conditions (interviews DG EMPL 1, 2010; DG ENTR 1, 2010).[6] In response the narrow focus on internal competitiveness (i.e. microeconomic reforms) is now combined and increasingly subordinated to the importance of external competitiveness (i.e. macroeconomic imbalances). This is justified on the grounds that the long-term competitiveness of the Member States rests on 'macroeconomic stability and the sustainability of public finances' and a reduction of 'macro-economic imbalances' (European Commission 2010: 1). The new Integrated Guidelines in Europe 2020 therefore seek to provide tighter governance and country surveillance for the macro-economy by 'ensuring the quality and sustainability of public finances' (Guideline 1), 'addressing macro-economic imbalances' (Guideline 2) and 'reducing imbalances in the euro area' (Guideline 3). It adds that 'Member States with large current account balances rooted in a persistent lack of competitiveness or prudential and taxation policies should address the underlying causes by acting on fiscal policy, on wage developments, [or] on structural reforms' (European Commission 2010: 9). The logic underpinning this new discourse is simple: greater macroeconomic discipline is a necessary condition for effective microeconomic reform. This shift of emphasis gained widespread support in the European Council in March 2010, with Member State objections limited to the education and poverty targets.[7] By strategically reconstructing the competitiveness discourse surrounding economic reform, DG ECFIN (allied with the Sec-Gen) therefore successfully bolstered its position within the Commission and helped to legitimise the new governance arrangements in Europe 2020.

Using the analytical framework outlined at the start, these findings contribute to our understanding of the dynamics of policy making within the Commission. To use Ackrill and Kay's (2011: 73-4) terminology, the management of the Lisbon Strategy prior to 2010 was characterised by a high level of endogenous 'spillover' within the Commission. Put simply, because decisions related to different policies were closely interconnected, different DGs were forced to share ownership of the strategy and develop a relatively consensual approach to decision making. Furthermore, the absence of a clear hierarchy of authority for the Lisbon Strategy created a wider space for contestation between different DGs over the aims and objectives of economic reform, and greater competition between distinct policy frames which identified particular policy problems and solutions. This was almost certainly an important contributory factor to the proliferation of objectives and conflicting priorities that characterised the early strategy (Kok 2004). By 2010 the most important impact of the financial crisis on the politics stream has been to establish a clearer hierarchy of authority for the EU's economic reform agenda within the Commission. In contrast to the high level of spillover generated by the relative absence of hierarchy surrounding the Lisbon Strategy, Europe 2020 has seen power and responsibility 'spillback' through a process of centralisation around DG ECFIN. Furthermore, this process of spillback has served to reduce the space for contestation surrounding the aims and objectives of Europe 2020 and competition between policy frames originating from different DGs. This is reflected in the development of the simultaneous but separate surveillance procedure and the potential for the subordination of microeconomic reforms to wider macroeconomic objectives. Crucially, we argue that this process of spillback

[6] See the ECOFIN Council Conclusions of 16 March 2010 for a similar argument.
[7] See EurActiv: http://www.euractiv.com/en/priorities/eastern-europe-frowns-eu-poverty-target-news-493720. Accessed 15 February 2011.

is not simply functional, but also explicitly political. This is because it does not simply derive from the functional necessity of having to reshape the EU's wider economic governance in response to the sovereign debt crisis, but also reflects a deliberate strategy on the part of DG ECFIN to reframe the EU's competitiveness discourse in order to enhance its pre-eminent political role in the economic reform process.

Conclusion: The Importance of Discourse

This paper set out to explore the impact of the global financial crisis on the EU's economic reform agenda and to explain the Commission's response to it. Specifically, it examined the recent transition from the Lisbon Strategy to Europe 2020 by addressing three questions. How has the Commission framed the EU's response to the financial crisis? To what extent has the governance of economic reform been reconfigured? How have policy makers used discourse to shape and legitimise change? The paper employed Kingdon's (1995) multiple streams approach to explore how the three independent streams of problems, policies and politics became 'coupled' together, leading to the creation of a window of opportunity for policy reform in 2010.

Using this framework we conclude that the impact of the financial crisis on the re-launch of the EU's economic reform agenda in Europe 2020 can be explained through three interconnected processes.[8] The first relates to the way in which the financial crisis has progressed through a series of distinct stages since 2007, giving rise to new definitions, meanings and discourses about the nature of the problem confronting the EU. In particular, the onset of the sovereign debt crisis has caused EU policy makers to strategically reconstruct the 'exogenous' global financial crisis as an 'endogenous' failure of governance. They have done so by re-framing the discourse on the crisis in order to link it directly to the inadequacy of economic reform under the Lisbon Strategy and systemic weaknesses in the functioning of the eurozone. Second, the Commission proposed a strengthened governance architecture based on the simultaneous but separate evaluation and reporting of Europe 2020 and the Stability and Growth Pact in an annual European Semester. In doing so we argue that the microeconomic objectives of economic reform have been potentially subordinated to the more immediate demands of fiscal discipline and macroeconomic stability. This is justified on the grounds that more effective economic governance is needed to coordinate national exit strategies from the financial crisis and to minimise the impact of spillover within the eurozone. The third process concerns the way in which the politics of the financial crisis have contributed to a reconfiguration of the balance of power within the Commission. In particular, responsibility for driving and shaping the Commission's response has been increasingly centralised around DG Economic and Financial Affairs (ECFIN) through a process we refer to as political and functional 'spillback'. Central to legitimating this process has been the way in which it has sought to reframe the concept of competitiveness: away from a narrow concern with microeconomic reforms towards broader macroeconomic competitiveness developments.

As a consequence of these three inter-dependent processes, we argue that key EU-level policy entrepreneurs – predominantly located within the Commission – have been able to facilitate and shape the re-launching of the EU's economic reform agenda by 'coupling' the three streams of problem, policy and politics together. Central to this coupling process has been the manipulation of the EU's agenda through the use of discursive strategies, such as policy framing: the strategic construction and communication of narratives that associate a perceived policy problem with certain concepts, values and symbols in order to mobilise

[8] It is important to stress that these processes do not develop sequentially: like the independent streams in Kingdon's model, it is rather the concurrence of the three distinct processes that helps to explain policy change.

political action and legitimise particular solutions. We conclude that discourse has therefore been central in shaping the EU's economic governance and driving its economic reform agenda.

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