Conflict among member states and the influence of the Commission in EMU politics

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Abstract

The recent reforms of the euro zone are best explained in three steps: a) member states’ preferences were determined by national governments on the basis of their economic interests, which are interpreted through a distinct set of ideas, b) the diverging preferences among member states translated into a straightforward intergovernmental bargaining setting, and c) the European Commission maintained a leading role throughout the process of negotiating policy outcomes. On the interstate bargaining level, all major reform proposals were negotiated between two opposing groups of member states: one advocating for fiscal discipline and the other asking for more burden sharing and transfers. In this intergovernmental bargaining setting, the Commission was influential in policy negotiations and in turning the political compromises into reform outcomes. Taken together, the politics of euro zone reform were shaped by the conflict among two opposing coalitions of member states and the influential role of the Commission.

Keywords: Economic and Monetary Union; EMU; euro zone; euro zone crisis; European Commission
Introduction

The euro zone crisis triggered a set of reforms of the Economic and Monetary Union (EMU), which have further deepened the already most integrated policy area of the European Union (EU). As such, the recent EMU reforms constitute a new landmark of European integration. At the same time, the decision making processes during the euro zone crisis have revealed how divided member states are in their effort to create a more resilient institutional and political EMU framework (Brunnermeier, James and Landau 2016; Copelovitch, Frieden and Walter 2016; Ioannou, Leblond and Nieman 2015).

The EMU reforms include policies of the Assistance to Greece, European Financial Stability Facility (EFSF), European Stability Mechanism (ESM), Two-Pack, Six-Pack, Fiscal Compact, and the Banking Union. For the analysis of the broader picture of the politics of these reforms, our contribution to this debate section aims to answer the following three questions: how can we explain member states’ preferences for different reform proposals? What is the dominant conflict structure in the intergovernmental bargaining? And what role played the European Commission?

For the investigation of these questions, we rely on the insights from recent research, which suggests that in EMU politics the executives of most countries defend economic interests, like export-dependence and exposure of the financial sector, while such material interests are interpreted through a distinct set of economic ideas. The intergovernmental bargaining on the European stage was dominated by a one-dimensional clash between a predominantly northern and a predominantly southern group of member states, whereas the final negotiation outcomes reflected a balancing of gains and concessions among the two opposing groups.

In the following analysis, we rely, among others, on research that was conducted as part of the Horizon 2020 project EMU Choices, which analyzes domestic preference
formation and EU decision making between 2010 and 2015. The project researchers collected two large data sources – the *EMU Positions* and *EMU Formation* datasets (Târlea et al. 2020; Wasserfallen et al. 2019). These datasets provide rich empirical accounts of how governments were willing to agree on further European rules and legislation. A key motivation of some governments was to prevent a potential meltdown of their financial sectors. The analyses of the data show that member states’ representatives engaged in intense political bargaining about substantive parameters of the reform legislation, with the Commission influencing the final outcomes by shaping compromises between the two dominant coalitions of member states.

Specifically, the empirical findings provide evidence for the following accounts: member states preferred policy solutions that fit their economic profile in respect to the exposure of their banking sector and their creditor and debtor status, while political factors, such as the party ideology of the government or public opinion, had no systematic effect on positions (Târlea et al. 2019; Armingeon and Cranmer 2017; Johnston, Hancké and Pant 2014). On the European level, the EMU reform agenda was delimited by France and Germany that were able to exclude some proposals from the negotiation table, such as Eurobonds. Individual reform proposals were subsequently negotiated between a group of predominantly northern member states, led by Germany, and a group of predominantly southern member states, led by France. The former advocated for fiscal discipline and the latter for fiscal transfers and burden sharing.

Taken all reforms of the euro zone together, these opposing camps of member states traded concessions across different aspects of the reforms, whereas the negotiation outcome reflected a balanced compromise between the two coalitions (Lehner and Wasserfallen 2019; Lundgren et al. 2019). In the final negotiations and over the whole policy-making process, the Commission played a central role. In sum, the reform of the
The euro zone was shaped by the compromise equilibrium among two rather stable coalitions of member states that were in conflict with one another, while in the decision-making process, and also in the final legislative bargaining, the Commission successfully influenced the negotiation outcomes (Lundgren et al. 2020).

**Economic profiles and ideas explain member states preferences**

Member states are represented by their governments in EU negotiations, and they compete for influence in the European Council and other intergovernmental institutions. A large literature explores the determinants of member states’ preferences and negotiating positions. Classic studies of EU politics argue that the governments of some member states, like Belgium, are genuinely more supportive of European integration than others and that ideological differences between left and right governments explain variation in preferences (Hagemann and Hoyland 2008; Hix 1999; Hooghe and Marks 2001). A further set of models identifies national, economic interest as the main explanatory factor of member states preferences (Bailer, Mattila and Schneider 2015; Wasserfallen 2014; Zimmer, Schneider and Dobbins 2005; Moravcsik 1998).

In the case of the politics of the euro zone crisis, empirical research has shown that economic differences, more precisely, current account surpluses and deficits of member states, explain variation in negotiation positions (Hall 2018; Armingeon and Cranmer 2017; Copelovitch, Frieden and Walter 2016; Schimmelfennig 2015; Johnston, Hancké and Pant 2014). Exporting countries with a current account surplus lend money to countries that are importing and borrowing. In euro zone politics, creditor countries advocate strict fiscal discipline and oppose, at the same time, fiscal transfers.

The analysis of the EMU Positions dataset also provides evidence for the dominance of economic factors, as compared to political factors, such as party ideology...
and public opinion. Târlea et al. (2019) find that neither public opinion, nor the left-right ideology of the government or the vote share of Eurosceptic parties are systematically correlated with governments’ negotiation positions. This is, by itself, an important finding, as the increased politicization of euro zone decision making may suggest that member state governments have become more responsive to the domestic public opinion in reforming the euro zone (Hobolt and Wra 2015). However, as Puetter and Puntscher Riekmann (2020) also note in their contribution to this special issue, domestic actors and public opinion are not key determinants in the formation of member states positions.

Instead, according to the analysis of Târlea et al. (2019), the most important predictor of variation among member states’ positions is the level of a country’s financial integration, measured as financial liabilities of the banking sector vis-à-vis all other member states. This finding further corroborates that structural economic factors shape the politics of EMU reforms, as governments of countries with a highly exposed financial sector insist on fiscal discipline and structural reforms.

Economic interests, such as export-dependency and exposure of the financial sector, do not translate directly from economic structure into preferences and positions of governments. Rather, such material interests are interpreted and articulated through a set of economic ideas and ideologies. Brunnermeier, James and Landau (2016) shed light on this interplay between ideas and interests. They identify an ideological divide among EU countries by distinguishing between two dominant economic visions, namely the northern approach, which ‘is about rules, rigor, and consistency’ and the southern emphasis ‘on the need for flexibility, adaptability, and innovation’ (Brunnermeier, James and Landau 2016: 4).

This divide between different economic visions reflects and reinforces the material divide based on variation in current accounts and financial exposure, which, as
a consequence, intensifies the conflict among the two opposing groups of predominantly southern and northern member states. The ideational divide is thus, by and large, congruent with the divide in economic interests. Taken together, recent research suggests that in EMU politics the executives of most countries defend economic interests, which are interpreted through a distinct set of ideas.

In the process of formulating national positions for EU negotiations, the governments are only very weakly, if at all, influenced by other domestic political actors (see also Puetter and Puntscher Riekmann (2020) in their contribution to this debate section). Târlea et al. (2020) empirically corroborate the dominance of national governments in preference formation. They investigate the EMU Formation dataset, which provides comparative data of the most influential actors in the formation of member states’ positions. The dataset – compiled from 141 expert interviews in all 28 EU member states – codes the influence of domestic and EU actors in the national preference formation (that precedes negotiations on the European stage). As potentially influential actors, the dataset codes, among others, the heads of government, finance ministries, parliaments, parties, the national central banks, media, banking associations, employers’ associations, trade unions, and EU actors, such as the European Central Bank, European Council, Commission, European Parliament or Eurogroup. The findings show that the heads of the national governments and finance ministries are by far the most influential actors in formulating the bargaining position of a member state.

Accordingly, Bailer et al. (2019: 11) conclude that ‘national governments were only to a very low extent responsive to domestic political actors and the opinion of the public. Rather, the governments acted on the basis of their domestic economic interests. Interestingly, the data suggests that this is not necessarily a function of intense and successful lobbying by economic interest groups, but seems to be internalized as national
interests by the governments themselves.’ Overall, we conclude, in line with the findings of recent studies, that euro zone reforms are driven by economic interests (most importantly, the current account profiles and the financial sector exposure). Thus, in the competition for influence in EMU negotiations, the main point of reference for the governments of member states is the advocacy of their domestic economic interests.

**Interstate bargaining on the European level**

Economic differences between member states not only explain the formation of preferences, but also the coalitions and conflicts among members states in the competition for influence in the intergovernmental bargaining on the European level. Lehner and Wasserfallen (2019) analyse the *EMU Positions* data using several scaling methods for the identification of the underlying structure of conflict among member states.

One of the analysed 40 issues is from the negotiations on the set of legislative measures known as the two-pack. In November 2011, the Commission proposed two further regulations meant to enhance the surveillance of budgetary processes in euro zone member states, which were to be decided by the Council in co-decision with the European Parliament. A contested issue in these negotiations was the so-called “redemption fund,” which was supposed to mutualize member state debts. Eleven member states, led by France, wanted to establish a formal commitment to a debt redemption fund, whereas the Commission and a smaller group of nine member states, led by Germany, successfully opposed such a commitment.\(^1\)

The scaling analysis of Lehner and Wasserfallen (2020) relies on 40 policy issues coded in the *EMU Positions* dataset. The findings show that the politics of EMU reform

\(^1\) Austria, Czech Republic, Germany, Estonia, Finland, Malta, Netherlands, Slovakia and Slovenia opposed a formal commitment for a redemption fund, while Denmark, Spain, France, Greece, Ireland, Lithuania, Luxemburg, Portugal, Romania and Sweden supported such a proposal.
were to a large extent dominated by a one-dimensional divide between a coalition of predominately northern and continental member states that stand in opposition to a coalition of predominately southern member states. The former, led by Germany, advocated for more (and better enforced) fiscal discipline and structural reforms, while the latter, led by France, asked for more burden sharing and fiscal transfers within the euro zone (see Figure 1 for the ideal point estimates of each country).

Figure 1. Ideal point estimates of member state positions on 40 contested policy issues of euro zone reforms in 2010 to 2015 (shown are relative positions on a single dimension).

This one-dimensional divide between two rather stable coalitions of member states applies across 40 politically contested reforms. The empirical results suggest that the bargaining of EMU reforms was characterized by logrolling as member states traded concessions across contested policy issues (Aksoy 2012). This structure of conflict provides a straightforward setting for the (re-)negotiation of a constantly updated compromise between two opposing coalitions (i.e., advocates of fiscal discipline and proponents of fiscal transfers). The deep division among member states may contrast the view on consensual decision making during the euro zone crisis, as discussed by Puetter and Puntscher Rickman (2020) in their contribution to this debate section, particularly when we focus on the politics of single issues. Taken all reforms together, however, one may conclude that the negotiations and outcomes come close to a balanced approach.

Lundgren et al. (2019: 84) investigate the bargaining dynamics using the *EMU Positions* data, stating that the EMU reform outcomes ‘reflected a balancing of gains and concessions that left no states as unequivocal winners or losers.’ Thus, neither Germany
or any other member states led the negotiations (Schoeller 2019), nor was one of the two opposing coalitions of member states able to dominate the legislative bargaining on euro zone reforms. Finke and Bailer (2019: 111) come to a slightly different conclusion, as they find some evidence ‘that governments under less financial pressure [from refinancing their debts] are more likely to return successful from the international bargaining table.’

In sum, economic and ideational differences among member states explain the variation in their preferences as well as the structure of intergovernmental bargaining on the EU level. At the same time, the EU legislative bargaining reduces the advantages of creditor countries that were under less economic pressure as the two opposing coalitions of member states take turns in leading and consenting to policy compromises. As a consequence, the final legislative compromises are balanced, which is also the result of an empirical analysis of bargaining success conducted by Lundgren et al. (2019).

**Institutional rules of decision making and the Commission**

The Commission was instrumental for the completion of the EMU reforms due to its ability to sustain fragile compromises developed at the overnight summits. These broad agreements had to be translated into hundreds of pages of EU legislation, which is a key competence of the Commission. Already the fact that multiple major policy reforms were concluded – except for the common deposit insurance and fiscal backstop for bank resolution – attests to the Commission’s capacity to formulate such complex compromises. This can be interpreted as evidence of the ideational and institutional power of the Commission (Carstensen and Schmidt 2020).

In respect to the agenda-setting power, an institutional prerogative of the Commission, more recent research also points to the importance of the joint influence of
the Franco-German tandem, not the Commission, in this early stage of decision making. Degner and Leuffen (2020) argue in their contribution to this debate section that Germany and France were able to exclude reform ideas, such as proposals for a debt restructuring or Eurobonds, from the reform agenda, despite the Commission’s openness to such discussions.

In terms of negotiation outcomes, the Commission appears to be a winner of the crisis-induced EMU reforms. Reforms resulted in more centralized coordination and supervision of financial and macroeconomic policies, which corresponds to the Commission’s long-term preference signalled since the signing of the Maastricht Treaty. Moreover, the Commission gained many new powers to enforce polices introduced in the six-pack, two-pack or Fiscal Compact as well as the EFSF and ESM (Bauer and Becker 2015). However, not all new competences created by the EMU reforms were delegated to the Commission (da Conceição-Heldt 2015), as member states chose to limit its role in the Banking Union and empower the European Central Bank instead (Nielsen and Smeets 2018; de Rynck 2016).

The highly influential role of the Commission in EMU reforms is evident from an analysis of the final bargaining stage. Lundgren et al. (2019: 67) investigate the negotiations of 39 contested aspects of EMU reforms using the EMU Positions dataset. The findings of their analysis show that on average ‘sharing a negotiation position with the Commission positively influenced a state’s bargaining success.’ Importantly for our understanding of the Commission’s influence, they find no evidence that the Commission chose its negotiation position strategically in the middle of the member states’ preference distribution. Hence, its relative success reflects the Commission’s ability to steer the negotiations towards its preferred outcomes.
Lundgren et al. (2020) provide even more detailed results in that respect. They develop a measure of bargaining influence defined as the ability to pull intergovernmental compromises in the direction of an actor’s position. The Commission is, according to this measure, the most influential actor in EMU politics. Moreover, the empirical analysis shows that the Commission exerts influence on member states that attach lower salience to an issue, are diplomatically less connected and economically more exposed to the policies under negotiation. These more recent findings on the influential role of the Commission correct the notion that EMU politics was dominated by intergovernmental bargaining. Although the divides among member states, as discussed above, structured the negotiations, the final outcomes have been strongly shaped by the Commission.

The analysis of the *EMU Formation* data finds additional evidence of the Commission’s central role. Not only in the negotiations on the European level, but also in the formation of national positions on EMU reform policies, the Commission played a key role. The empirical findings show that the Commission ranks as the third most influential actor, after the ministry of finance and the office of the head of government (Târlea et al. 2020). Thus, the Commission already exerted influence in the formation of the positions of the national delegations, which comes on top of its high influence in the negotiations among member states on the European level.

Table 1. EMU reforms and decision rules

[Table 1 here]

Finally, one of the consequences of the ‘fear of treaty change’, as discussed by Griller and Lentsch (2020) in their contribution to this debate section, is that most
intergovernmental compromises had to be adopted as secondary EU law (see Table 1). Through this institutional channel, the Commission regains a leadership role with its involvement in the legislative bargaining. The Commission effectively became a guardian of the compromises between the two opposing coalitions, which had to be maintained within and across the individual pieces of legislation. In this process, the Commission not simply accommodated the conflict among member states, but actively shaped the negotiations and policy making.

The Commission could exert a high influence in EMU politics also because the political and economic stakes were higher than usual. A collapse of the legislative bargaining on the Banking Union or the European semester would have had the potential to reignite the euro zone crisis. Put differently, unlike in most other EU negotiations, there was no status quo to fall back on in case of disagreement. This has empowered the Commission – and the Commission was able to take advantage of this empowerment.

**Conclusion**

The reform of the euro zone was shaped by the compromises reached among two rather stable coalitions of opposing member states, with the Commission exerting considerable influence in the process of position formation and the bargaining on the European level. This account of EMU politics is supported by recent empirical research using new data. The findings of this research suggest that the decision making during the euro zone crisis from 2010 to 2015 is best explained in three steps.

First, member states formed preferences according to their national economic interests (largely on the basis of their current account and financial exposure). These conflicts were embedded within a distinct ideational context. The empirical findings of recent studies further suggest that economic considerations trumped political
considerations, such as ideological differences between left and right governments. Second, during the intergovernmental bargaining on the EU level, all major reform proposals were negotiated between a coalition of fiscal discipline advocates, led by Germany, who were opposed by supporters of fiscal transfers, led by France. The two coalitions traded concessions over time and across issues to achieve political compromises that combined commitments to fiscal discipline with some risk-sharing among euro zone countries. Third, and finally, the Commission regained its institutional leadership role by turning initial political compromises into specific legal proposals and by shaping intergovernmental compromises.
References


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Note on Contributors

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Figure 1. Ideal point estimates of member state positions on 40 contested policy issues of euro zone reforms in 2010 to 2015 (shown are relative positions on a single dimension).

Source: Data from Lehner and Wasserfallen (2019).
Table 1. EMU reforms and decision rules

<table>
<thead>
<tr>
<th>Proposal</th>
<th>Decision rules</th>
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<tbody>
<tr>
<td>1. Assistance to Greece</td>
<td>Special legislative procedure$^2$</td>
</tr>
<tr>
<td>2. EFSF</td>
<td>Intergovernmental agreement</td>
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<td>3. ESM</td>
<td>Special legislative procedure</td>
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<td></td>
<td>Treaty change</td>
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<td>4. Six-pack</td>
<td>Ordinary legislative procedure</td>
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<td></td>
<td>Special legislative procedure</td>
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<tr>
<td>5. Two-pack</td>
<td>Ordinary legislative procedure</td>
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<td>6. Fiscal Compact</td>
<td>Intergovernmental agreement</td>
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<td>7. Banking Union</td>
<td>Ordinary legislative procedure</td>
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<td></td>
<td>Special legislative procedure</td>
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<td></td>
<td>Intergovernmental agreement</td>
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Note: The table covers EMU reforms included in the *EMU Positions* dataset.

$^2$ The Commission developed a proposal with the consultation of the European Central Bank and with the involvement of the International Monetary Fund (IMF). The Eurogroup unanimously agreed to support Greece, which resembles the special legislative procedure.