The Politics of Eurozone Reforms

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Chapter 2

Preference Formation and Decision-Making in the Reform of the Eurozone

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2.1 INTRODUCTION

The reforms of the Economic and Monetary Union (EMU) represent the most profound deepening of European integration in modern times, and they offer a unique opportunity to study all aspects of European Union (EU) decision-making during a period in which stakes were at their highest. For a rigorous analysis of this integration step, we collected two encompassing datasets in the *EMU Choices* project: the *EMU Positions* and *EMU Formation* datasets. Both datasets are based on information from the analysis of 5,000 documents and more than 160 expert interviews conducted in Brussels and across all EU member states. They provide detailed empirical information on the formation of member state preferences at the domestic level as well as bargaining and decision-making at the European level. This chapter summarises and synthesises the most pertinent findings of the project research derived from the analysis of this data.

The *EMU Choices* project research builds on the baseline model of European integration, which dissects EU policymaking into a first step of national preference formation and a second step of interstate bargaining (Moravcsik 1993, 2018). Accordingly, the analyses of the two datasets investigate various steps of EU decision-making: from preference formation to agenda setting, bargaining dynamics and decision-making. The *EMU Positions* dataset reports the positions of all twenty-eight EU member states and six EU institutions, covering forty-seven contested issues negotiated in the Eurozone reforms between 2010 and 2015. It includes policies of the Greek assistance programmes, European Financial Stability Facility, European Stability Mechanism, Six-Pack, Two-Pack, Fiscal Compact and

the Banking Union (for a more detailed discussion of these negotiations and issues, see Wasserfallen et al. 2019). The *EMU Formation* dataset covers fewer policy positions but is more detailed on the preference formation step by coding the domestic and supranational actors that were most influential in the formation of member states' preferences for each of the twenty-eight EU member states (Kudrna et al. 2019).

Among others, the analyses of these datasets show that (a) the preference formation in most EU member states was dominated by the governments, with little responsiveness to public opinion and marginal involvement of other political and social actors, besides the heads of governments and finance ministries (Kudrna et al. 2019); (b) the governments, by and large, defended the economic interests of their country in the negotiations on the European stage (Târlea et al. 2019); (c) in the interstate bargaining at the European level, two larger coalitions, led by France and Germany, opposed one another (Lehnert and Wasserfallen 2019); and (d) neither of the two opposing coalitions dominated the bargaining outcomes. Rather, the negotiations were characterised by reciprocity and compromise (Lundgren et al. 2019).

As far as the supranational influence in the reform of the Eurozone is concerned, we find that EU institutions shaped the preferences of the member states and that particularly the Commission influenced the negotiation outcomes (Lundgren et al. 2020; Kudrna et al. 2019; Finke and Bailer 2019). Thus, while the key role of the European Central Bank, with its activist monetary policy, has been widely acknowledged, more recent research shows that the Commission also was highly influential in EMU decision-making.

Taken together, these findings make three substantial contributions to both academic literature and public debate. First, the very government-centred preference formation process follows, to a large extent, economic interests and is neither responsive to public opinion nor involves multiple political and social actors. This points to a lack of domestic deliberation and democratic anchoring of governments' actions at the European level. Second, the research on intergovernmental bargaining shows that the negotiations are structured by a very polarised setting, where concessions are negotiated across two stable coalitions confronting one another. Third, the finding that the Commission was highly influential adds to the classic debate in European integration studies, which centres around the question of how and when supranational institutions and interests shape EU policymaking (Haas 1958; Hoffmann 1966; Moravcsik 1999; Sandholtz and Stone Sweet 1998; Tallberg 2002; Pollack 2003). All of these results on EMU decision-making are also relevant for ongoing and future EMU reform attempts, as they point to systematic dynamics in preference

formation and interstate bargaining, which are likely also to shape upcoming reform efforts.

2.2 EMU DECISION-MAKING IN TWO STAGES: PREFERENCE FORMATION AND INTERSTATE BARGAINING

The *EMU Choices* project's research organisation follows the two-stage model of European integration, which dissects EU policymaking into the two steps of preference formation at the national level and interstate bargaining at the European level (Moravcsik 1993, 2018). Of course, the processes of domestic preference formation and interstate bargaining are not strictly unidirectional. Member states also change positions during negotiations at the European level, and the formation of national positions is influenced by discussions within European institutions (Csehi and Puetter 2017). However, the representatives of member states defend distinct national interests, and they have formulated policy stances before negotiations start at the European level.

Like any other model, the two-stage model builds on an analytical abstraction. We believe that the theoretical distinction into a domestic and a European stage is very useful for elaborating theoretical and empirical insights on EU and EMU politics. However, to explore the interactions between the domestic and European levels, several studies of the project go beyond this model, analysing how EU institutions shaped member state preferences and decision-making outcomes (Csehi and Puetter 2017; Lundgren et al. 2020).

During the Eurozone Crisis, one of the major crises of the EU in the last decades, member states experienced how weak economic policy coordination and loose fiscal oversight destabilised the monetary union, which was originally intended to further unite the internal market. As a reaction to this major economic crisis, EU governments opted for an even more integrated EU, involving further economic coordination, to avoid similar crises in the future. To understand this rather unexpected move towards more economic integration, just after having experienced the pitfalls of the monetary union, we study in detail which factors determined the preferences of EU governments.

2.3 PREFERENCE FORMATION

To analyse the first step of the two-stage model – member state preference formation – the project researchers conducted several systematic studies building on the two major datasets, *EMU Positions* and *EMU Formation*. Târlea et al.

(2019) examine national preference formation with regard to the Eurozone reforms, analysing the determinants of member state positions in the negotiations. Among others, the authors investigate the following questions: What were the factors that shaped government preferences in the EMU reforms? Did concerns about countries' structural economic vulnerability matter, or was it rather fluctuations in public support for the Eurozone, or possibly other factors?

Since we still have rather limited knowledge of the political and economic determinants of government positions (Copelovitch et al. 2016), this study takes up an ongoing debate. Particularly, international relations and political economy literatures state the importance of economic factors for determining a country's preferences (Frieden 1999; Moravcsik 1997; Bailer et al. 2015; Wasserfallen 2014), in contrast to approaches which underline that government preferences in international negotiations are strongly influenced by public opinion (Hagemann et al. 2017; Aldrich et al. 2006), the partisan orientation of governments (Hagemann and Hoyland 2008) and interest groups (Schneider and Baltz 2003).

Târlea et al. (2019) rely on the *EMU Positions* dataset to empirically analyse the economic and political factors that informed national preference formation during the Eurozone Crisis. Member state positions are coded in this study on a scale from the least ambitious to the most ambitious reform proposal, seeking to capture the willingness of a member state to support further fiscal, economic and financial integration (please note that this is not the same as the divide between supporters and opponents of fiscal discipline as investigated by, for instance, Schlipphak and Treib (2017) or Armingeon and Cranmer (2018)). This approach allows for a structural analysis of whether member state positions on further EMU integration are better explained by variations in economic profiles, public opinion, political systems or party conflicts.

The main finding of the study suggests that the domestic level of economic integration is the strongest predictor of the willingness of a member state to advocate further economic, fiscal and financial integration – more specifically, the level of financial integration, measured as financial liabilities of a country's banking sector vis-à-vis all other EU member states. While other economic variables also explain some variation in positions, it is striking that the extent of financial interconnectedness is the most powerful predictor of support for further integration. This finding indicates that a government is more willing to increase the prerogative of European institutions if its economy has an oversized financial sector that would be difficult to control (or bailout) domestically. If a financial sector is multiple times larger than the entire GDP of a country, this is perceived as too great a risk to be dealt with just at the domestic level, implying that governments prefer greater supranational integration through reforms to the EMU.

In contrast, the study finds no support for arguments that public opinion, the partisan conflict structure or the vote share of EU-sceptic parties contribute to explaining variation among the positions of member states. This is not to say that domestic politics do not matter at all, but, according to this broader comparative analysis, we cannot detect systematic differences in the willingness of member states to support further integration based on such political variables. This further emphasises that governments primarily act based on national, economic interests in EU negotiations, rather than domestic party politics or public opinion (see also Armingeon and Cranmer 2018).

It is up for further debate to which degree the dominance of economic factors holds. While some previous research on preferences (Bailer 2011) or votes (Bailer et al. 2015) in the EU Council confirm the importance of economic rules, other studies have detected which domestic political actors play an important role, such as public opinion (Hagemann et al. 2017) and national parliaments (Hagemann et al. 2019; Auel and Christiansen 2015). Most prominently, national parliaments have pushed for more oversight and control at the EU level in recent decades (Winzen 2012), which can be detected in the negotiation behaviour of states in the EU Council of Ministers dealing with EU legislation (Hagemann et al. 2019). As for the EU crisis, qualitative studies looking at individual countries and the interplay between parliaments and governments did detect an impact of the legislators on their government in specific cases (Puntscher Riekmann and Wydra 2013; Auel and Höing 2014, 2015; Auel and Christiansen 2015).

The influence of national parliaments does not seem to be based on an established connection between a government and its legislature, which means that we cannot yet speak of democratisation of EU negotiations in that respect. Rather, the national legislatures need to push for a larger say: necessary is the combination of attentive parliamentarians with an Eurosceptic public to motivate a national parliamentary debate about EU affairs (Winzen et al. 2018). This highlights that further research needs to pay more attention to the interplay of domestic actors and the question of how they increase each other's power to influence the government's position in EU negotiations. For too long, domestic actors were considered as unconnected actors. Future studies need to develop models studying how they interact.

In contrast to Târlea et al. (2019), Kudrna et al. (2019) analyse domestic preference formation with a focus on agency rather than structure. Their study builds on the EMU Formation dataset, which codes the involvement of all potentially relevant actors in the formation of positions, based on 141 expert interviews conducted in all 28 EU member states (more than 160 interviews were conducted for both datasets). This comparative dataset codes the extent to which the preferences of the governments were shaped by the finance ministries, parliaments, parties, national central banks, public opinion,

media, banking sector associations, employers' associations, trade unions and external EU actors, such as the European Central Bank, European Council, European Commission, European Parliament, Eurogroup, and Economic and Financial Committee.

With this approach, Kudrna et al. (2019) are the first to assess systematically and comparatively for all 28 EU member states the influence of national and supranational actors on national governments' negotiation positions. While previous studies have combined data on governments' negotiation positions with data that measured domestic preferences on other issues (Bailer 2011; Armingeon and Cranmer 2018), or on only a subset of countries (Schneider and Baltz 2005; Schneider et al. 2007; Hagemann et al. 2017), the combination of the *EMU Positions* and the *EMU Formation* datasets allows for a thorough study of the factors influencing negotiation positions, using data on the same negotiation issues.

The analysis of the data clearly shows that national governments and finance ministries were the key – and in many countries exclusive – domestic actors in the formation of member states' preferences. As far as the influence at the European level is concerned, the positions of EU institutions were, for most governments, an important point of orientation in the formation of preferences. In the majority of countries, national parliaments have also shaped (to varying extents) the negotiation positions of member states, while the media, public opinion and social partners were only in very few countries relevant in the formation of preferences (and, even then, to a rather marginal extent), which also holds for business interests. These findings are in line with more detailed qualitative findings on preference formation in Southern countries (Morlino and Sottilotta 2019). The result that each member state's position was formed almost exclusively by its government suggests that member states' governments have not reacted to the pressure from organised, domestic interests. Rather, the governments seem to have internalised the focus on the domestic, economic interests of their own country as a key point of orientation in EMU politics.

Based on the analyses of these novel datasets, it was possible to contribute to an ongoing debate on the influence of national parliaments, public opinion, interest groups and the media on foreign policy and negotiation positions. While research on foreign policy assumed for a long time that public opinion hardly matters (Aldrich et al. 2006), more recent studies recognise that voters care about international politics (Gelpi et al. 2007) and that they can exert some pressure in international and EU negotiations (Hagemann et al. 2017). While voters are simply not sufficiently informed about EU legislative negotiations of average salience (Bailer et al. 2015), it is a different matter in negotiations receiving attention in the media, giving rise to different dynamics (Hagemann et al. 2017; Hobolt and Wratil, 2020).

Particularly during and after the Eurozone Crisis, much scholarly attention was paid to public opinion on the Euro and the EU (Hobolt and Wratil 2015; Cramme and Hobolt 2015). However, even in this case, we could not find clear evidence for the impact of public opinion on government behaviour. Germany appears to have been an exception in this regard (see Degner and Leuffen 2018).

The lack of evidence that public opinion and interest groups matter is fascinating and troubling since both factors are usually considered influential for guaranteeing the success and survival of governments. During the Eurozone Crisis, neither the mass protests in Southern European member states (Altiparmakis and Lorenzini 2018) nor the intense politicisation of EU affairs or the rise of challenger parties in debtor countries (Hernandez and Kriesi 2016) seems to have directly impacted national preferences and negotiation positions. Possibly, the impact of these factors on government preference formation could have been captured using a research design that is more sensitive to underlying processes and time dynamics.

With regard to the impact of interest groups on a government's foreign policy, the international relations literature has developed a more thorough understanding in recent years (Jacobs and Page 2005; Mearsheimer and Walt 2006), while this issue has always attracted extensive interest in the EU literature (Dür and Mateo 2013; Dür et al. 2015; Klüver 2009, 2013). However, the evidence for interest groups' influence on national negotiation positions is scarce (for an exception see Schneider and Baltz 2003 or Schneider et al. 2007). Similarly, the study of Kudrna et al. (2019) could not show that interest groups play an important role in determining a government's negotiation position on EMU reforms. Therefore, it remains to be established whether interest groups manage to impact their national governments' positions in EU negotiations or whether they rather lobby directly EU institutions such as the Commission and the Parliament.

Likewise, understanding of the media's impact on EU negotiations is so far rather limited, apart from studies by Hagemann et al. (2017) and Hobolt and Wratil (2020), which find an impact of greater media attention in national politics on government behaviour in the Council. Closer media attention is associated with the saliency of a policy proposal; often, they are considered the same concept. Saliency or media attention may also increase the impact of public opinion and strengthen the voice of voters or even play an independent role in influencing a government's foreign policy decision (Aday 2017; Iyengar and Simon 1993; Iyengar et al. 1982). However, our knowledge regarding the impact of media and saliency on national preference formation is extremely limited: while we could expect that more media attention leads to more voters paying attention to a government's actions at the international stage, we simply cannot identify this effect in our studies. Although various

interview partners did talk about the effect of mass media, the economic variables seem to matter far more (Târlea et al. 2019).

Taken together, our research on preference formation suggests that national governments were only to a very limited extent responsive to domestic political actors and the opinion of the public in EMU reforms. Rather, the governments acted based on their domestic economic interests and the fear of economic consequences related to a country's financial exposure and interconnectedness. Interestingly, the analysis of the data suggests that this is not necessarily a function of intense and successful lobbying by economic interest groups, but seems to be internalised as national interest by the governments themselves. While domestic actors beyond the government were not of great relevance in the formation of member state preferences, the executives of EU member states took the stances of the EU institutions into account when they formed and prepared their positions for European negotiations.

2.4 INTERGOVERNMENTAL BARGAINING

A further focal point of the *EMU Choices* project is the analysis of intergovernmental bargaining on the European level – the second step in the two-stage model of European integration. Following the outbreak of the Eurozone Crisis in late 2009, European policymakers agreed to a string of reforms that together amounted to a profound deepening of fiscal and monetary cooperation in the Eurozone. Battling the crisis, EU governments created joint resources for Eurozone states in fiscal stress (European Financial Stability Facility and European Stability Mechanism), strengthened the Stability and Growth Pact through multiple sets of reforms (Six-Pack and Two-Pack), agreed on a new treaty to force a balancing of government budgets (Fiscal Compact) and adopted measures to establish a Banking Union. These reforms did not come about lightly. On the contrary, they typically resulted from an intense battle against the raging crisis and arduous negotiations among the governments. Several studies in the project investigate the processes and outcomes of the interstate bargaining resulting in these reforms.

Lehner and Wasserfallen (2019) analyse which conflict dimension(s) structured the contestation among governments in the Eurozone reform. The classic dimensions of conflict in EU politics are between more vs. less integration and the left vs. right of the political spectrum (Marks and Steenbergen 2002; Hooghe et al. 2002; Hix 1999). The political economy literature on the Eurozone Crisis adds the divide between advocates of fiscal transfer and fiscal discipline as a key dimension of conflict (Armingeon and Cranmer 2018; Beramendi and Stegmueller 2017; Frieden and Walter 2017). Lehner

and Wasserfallen (2019) consider the possibility that each of these conflict dimensions structures the politics of EMU reform in a one-dimensional conflict space – or, alternatively, that different combinations of these underlying conflicts span over a two-dimensional space. They empirically investigate the dimensionality of political conflict during the Eurozone Crisis with dimension-reduction methods using the *EMU Positions* dataset. Based on Bayesian IRT and other scaling methods, they reduce the forty-seven contested negotiation issues into underlying conflict dimensions.

In contrast to most analyses of EU politics, the findings show that the politics of EMU reform are not multi-dimensional (e.g., a combination of left–right and pro–anti EU), although they cover a broad range of fiscal, economic, financial and institutional reform proposals. Rather, a one-dimensional conflict between countries advocating for more fiscal transfers vs. countries prioritising fiscal discipline dominated the EMU negotiations.

On this single conflict dimension, Lehner and Wasserfallen (2019) estimate the aggregated positioning of each member state. Figure 2.1 shows the ideal point estimates from this analysis. France advocated the most extreme positions on the fiscal transfer side, followed by Greece and supported by the other Southern European member states and Belgium. At the other end of the spectrum, the Netherlands and Finland were the most pronounced advocates of fiscal discipline, followed by Germany. On the fiscal discipline side, yet closer to the middle, is a large group of Northern, Central and Eastern European member states. The fiscal transfer and discipline coalitions both seek the support of the actors positioned in the middle. Here, we find most EU institutions, Ireland, Cyprus, Luxembourg and Slovenia.

In sum, the scaling analysis points to a very profound and historically rooted divide between advocates of fiscal discipline and countries that support more transfers within the Eurozone, which is consistent with the findings of other studies (Armingeon and Cranmer 2018; Brunnermeier et al. 2016). The enlargements of the EU to Central and Eastern Europe have strengthened the fiscal discipline coalition. However, this has not strongly affected the negotiation dynamics. In essence, member states are still divided over two different macroeconomic concepts for the EMU, while the diverging

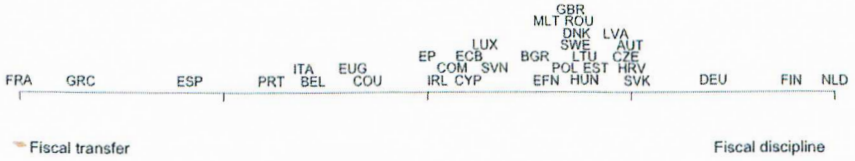

Figure 2.1 Ideal Points of Member States and EU Institutions on the One-dimensional Conflict Space Estimated with Bayesian Ordinal IRT Models. *Source*: Lehner and Wasserfallen (2019, 55).

preferences for these concepts reflect ideational, economic and institutional differences among EU member states (Brunnermeier et al. 2016). Within this clear divide, opposing narratives and analyses of the causes and consequences of the challenges of the Eurozone persist – if anything, the crisis has deepened this divide further.

Going a step further, Lundgren et al. (2019) analyse the relative bargaining success of EU member states in the EMU reforms negotiations. They start from a typical observational stance of pundits: that Germany was successful in getting its way in the Eurozone negotiations (Bernhard and Leblang 2016). From the discussions on bailouts in 2010 to negotiations of successive Eurozone reforms and the talks on Greece's macroeconomic adjustment, Germany was seen to prevail. Against this backdrop, Lundgren et al. (2019) offer the first systematic analysis of bargaining success in the reform of the Eurozone. They consider whether the narrative of German dominance holds up to the empirical evidence, or whether the pattern of bargaining success is more multifaceted.

Empirically, Lundgren et al. (2019) map and explain the bargaining success of member states on the most fundamental proposals for Eurozone reform from 2010 to 2015. They estimate bargaining success through spatial analysis, calculating the distance between member states' positions at the beginning of negotiations and the final outcome. Theoretically, they advance an argument about preferences and institutions as determinants of bargaining success. They submit that bargaining success is explained by conditions of the strategic setting as determined by the positioning of actor preferences and the applicable decision rules. They contrast this argument with an alternative account that privileges member states' power resources.

Contrary to the narrative of German dominance, their analysis shows that the EMU negotiations produced no clear winners and losers, confirming previous findings (Arregui and Thomson 2009; Bailer 2004). Holding preferences that were centrist or close to those of the European Commission favoured bargaining success, particularly when the adoption of policy reform did not require unanimity among member states. The analysis of bargaining success suggests that the two opposing coalitions, identified by Lehner and Wasserfallen (2019), negotiated with one another in a dynamic of compromise and reciprocity, where gains and concessions appear to have been traded both within and across issues. Importantly, the findings reported in figure 2.2 show that the two most powerful countries of the EU, Germany and France, did not dominate the negotiation outcomes at the bargaining stage.

Lundgren et al. (2019) offer three complementary interpretations for why these findings run counter to prevailing power-orientated narratives. First, the influence of larger member states was partly neutralised by their commitment to the Euro, which opened them up for exploitation by other parties. Second,

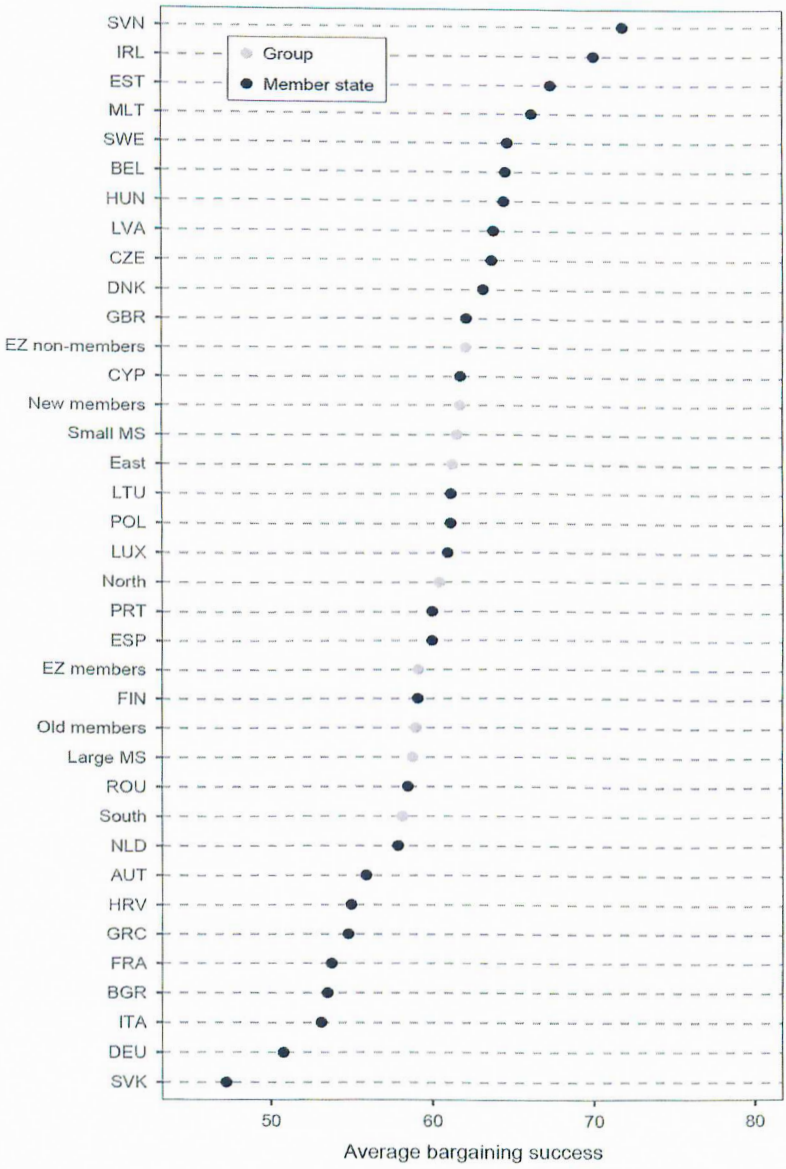

Figure 2.2 Mean Bargaining Success by Country and Group. *Note*: Higher values indicate greater preference attainment. *Source*: Lundgren et al. (2019, 74).

larger member states partly exercised influence by shaping the issues for negotiation, even if they were less successful at the negotiation table. Third, larger member states often held extreme preferences, forcing them to give more ground as the parties converged on compromises.

These findings carry three broader implications for our understanding of negotiations and politics in the EU. First, they suggest that the EU is a bargaining setting in which economic power does not dictate outcomes at the negotiation table. While the EU's larger member states may have influenced what issues came up for negotiation, the results are consistent with earlier studies finding evidence against superior bargaining success for the most resourceful states in EU legislative negotiations (Cross 2013; Arregui and Thomson 2009; Bailer 2004; Golub 2012). Second, and related, the results suggest that a spatial approach anchored in rational choice institutionalism can take us far in understanding the nature of EU negotiations. Third, the findings speak to concerns about legitimacy in Eurozone reform. Some researchers have pointed to the potentially detrimental consequences for the legitimacy of the EU if some states were disproportionately more influential in determining policy outcomes (Golub 2012; Arregui and Thomson 2009). However, the discussed empirical findings shed a different light on this issue and do not display dominance of one group of member states. While the economic woes of the crisis were certainly highly unevenly distributed, the steps taken to resolve the crisis reflected a balancing of gains and concessions that left no states as unequivocal winners or losers.

Taken together, the results of the studies by Lehner and Wasserfallen (2019) and Lundgren et al. (2019) suggest that the advantage of a one-dimensional conflict structure is a setting that provides a straightforward negotiation space for reciprocity and compromise with the median position as an equilibrium solution. In practice, France and Germany act as the leaders of two opposing camps among EU governments. Collectively, the preference distribution among EU member states with the two major countries, France and Germany, as leaders of the two opposing coalitions, provides an ideal setting for joint German–French initiatives, proposals and compromises.

Focusing specifically on this issue, Degner and Leuffen (2019) provide a detailed analysis of the Franco–German cooperation during the Eurozone Crisis. To this end, they explore three mechanisms linking Franco–German cooperation to EMU decision-making. The first mechanism refers to the elimination of proposals or issues from the European negotiation agenda; by casting a joint veto, France and Germany are argued to have reduced the choice set available to all other member states. The second mechanism suggests that these two countries broker solutions that are acceptable for other member states. France and Germany seem to form an inner negotiation circle, developing compromises and proposing compensation measures. Thus, they

reduce the transaction costs of EU decision-making. According to the third mechanism, France and Germany constitute a power duo that imposes its preferred solutions on other member states.

To test the effects of Franco–German cooperation on EMU decision-making, Degner and Leuffen (2019) apply process tracing to proposals contained in the EMU Positions dataset. The analyses reveal that France and Germany, indeed, jointly affected EMU reforms between 2010 and 2015, even beyond their individual weights as large, powerful member states. In particular, they show that these two countries together eliminated several issues from the official negotiation table, which substantially impacted the final negotiation outcomes. The power of issue selection and agenda control may account for the limited bargaining power of Germany and France documented by Lundgren et al. (2019). In addition, their case studies highlight that France and Germany repeatedly identified compromise solutions or compensations, and thus facilitated the adoption of key reforms. The case studies do not find evidence, however, that France and Germany were able to impose their preferred policy solutions for EMU reforms on the other member states. They conclude that France and Germany possess the negative power of the veto but cannot independently shape EMU reforms. However, due to their strong resource endowments and their joint interests in rescuing the Eurozone, they have contributed to brokering viable solutions for larger European majorities.

Finke and Bailer (2019) offer an additional analysis of the determinants of bargaining outcomes in the Eurozone reform, focusing specifically on the predictive power of multiple bargaining models. Drawing on the *EMU Positions* dataset, they locate actors' positions on three reform dimensions, namely the level of fiscal discipline, transfer payments and institutionalisation. On this basis, they test three established models of decision-making: the Symmetric and Asymmetric Nash Bargaining Model, as well as an Agenda Setting Model. The graphical illustration and the comparison of the predictions with actual outcomes show that models, which consider formal decision rules and asymmetric market pressure, perform best in predicting negotiation outcome. Pressures from financial markets on member states with high debts weakened the bargaining power of debtor countries. Accordingly, they argue that the dominance of fiscal discipline and austerity in the reform approach (Frieden and Walter 2017) – compared to other measures, such as debt reliefs and transfer payments – is a function of asymmetric economic exposure and pressure. The dominance of economic explanations is also due to the crisis nature of the reforms: decisions taken at the height of the crisis are not to the advantage of countries that are most affected and in need of reforms.

Finally, Lundgren, Tallberg and Wasserfallen (2020) move beyond intergovernmental bargaining by studying the influence of the European Commission on EMU reforms. They conceptualise the power of this

supranational institution as the extent to which the Commission is able to pull the negotiation outcomes towards its own positions, away from what is to be expected based on the broader intergovernmental power structure. Lundgren, Tallberg and Wasserfallen (2020) develop theoretical expectations about the determinants of the Commission's differentiated influence by analysing on which member states the Commission exerts bargaining influence. Empirically, they draw on data from the *EMU Positions* dataset, including thirty-nine contested policy issues negotiated during the Eurozone Crisis. Methodologically, they pioneer a novel relational measure of supranational influence vis-à-vis individual member states, which they analyse with cross-nested hierarchical models.

The central findings of their analysis are that the Commission greatly influenced negotiated outcomes and, most importantly, that Commission exerted influence by pulling closer to its own position member states with greater voting power, less network capital, higher economic vulnerability and lower issue salience. These findings suggest that supranational influence remains an important feature of EU politics, even on a highly contested issue such as Eurozone reform.

These insights indicate that the Commission played a more central role in Eurozone reform than recognised by earlier research, which has tended to focus on the struggle between creditor and debtor countries (Brunnenmeier et al. 2016; Frieden and Walter 2017). When supranational institutions are discussed in that respect, it is typically with a focus on the activist role of the European Central Bank. The finding that the Commission was highly influential in the negotiations of policy solutions is all the more important because the Eurozone reforms present a hard case for supranational influence in EU politics, particularly as far as the influence of the Commission is concerned. While the Commission conventionally is regarded as powerful in everyday agenda setting and implementation and on issues of low politics (Sandholtz and Stone Sweet 1998; Lelieveldt and Princen 2015; Nugent and Rhinard 2016), the Eurozone reforms represented the exact opposite: hard bargaining on a highly contested political issue. In this contested setting, the Commission successfully pushed for solutions closer to its own preferences (without simply assuming the role of an honest broker).

2.5 CONCLUSION

The EMU reforms represent a unique opportunity to study EU decision-making during a period in which stakes were at their highest. Drawing on the novel *EMU Formation* and *EMU Positions* datasets, the *EMU Choices*

project has engaged in comprehensive analyses of the preference formation and negotiations at the European level.

As described in this chapter, the analyses offered a range of novel results, many of which cut against conventional accounts about domestic preference formation and interstate bargaining in Eurozone reform. In the broader context of EU politics, several of these results also further nuance previous findings with regard to the dominance of economic factors in preference formation, the conflict and bargaining dynamics among member states in negotiations and the role of supranational actors, such as the Commission. That said, future research needs to tackle several questions yet unanswered.

To begin with, we need to study in more detail whether the negotiation behaviour of member states can be explained by domestic actors, for example, parliaments, interest groups, public opinion or the media, and what the exact interplay is between them. In which instances does the role of public opinion or interest groups matter, and can they reinforce each other's impact? Moreover, several aspects of the analysis of national preference formation deserve further scrutiny. How does time pressure impact the number of actors able to influence a government? In which instances does it matter to have a partisan, technocrat or populist government negotiating (Târlea and Bailer 2020)? How does salience and media attention influence the formation of a government's negotiation position? Only case studies such as Miklin's (2009) analysis have so far paid attention to the various stages of this process; further research should explore how representative such illustrations are. Until now, we could hardly detect an impact on the choice of negotiation strategies: not only technocratic but also partisan governments are driven more by the economic interests of the member states and not by their political orientation.

Additionally, more research is needed to fully understand the stage of interstate bargaining, for example, by integrating the bargaining conditions in more detail. We still know little about the following questions: How do negotiations and their course change according to the actor setting as well as the timing of the negotiations? Do states choose negotiation behaviour also depending on the number of actors opposing or supporting them? How does negotiation strategy vary over time and during negotiations?

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