Prof. Dr. Michael W. Bauer
Jean Monnet Professor
Chair of Comparative Public Administration and Policy Analysis
michael.bauer@uni-speyer.de

March 2016

MICHAEL W. BAUER

BECKER, STEFAN

THE UNEXPECTED WINNER OF THE CRISIS: THE EUROPEAN COMMISSION'S STRENGTHENED ROLE IN ECONOMIC GOVERNANCE

Publication Details:

Michael W. Bauer and Stefan Becker, 2014: The Unexpected Winner of the Crisis: The European Commission's Strengthened Role in Economic Governance, in: Journal of European Integration, Vol. 36, No. 3, 213-229.

Preprint No. 31

Freiherr-vom-Stein-Straße 2
D – 67346 Speyer

Abstract

Since the latest financial and economic crisis took hold of the European Union (EU), its economic governance architecture has been undergoing crucial changes. Research into the institutional consequences of these reforms is still fragmentary at this point, especially with regard to the function of the European Commission. This article seeks to fill this void by analysing the supranational executive’s role in the four areas that have witnessed the most important changes: financial stability support, economic policy surveillance, coordination of national polices and supervision of the financial sector. The empirical evidence suggests that the Commission continues to be a powerful player in EU economic governance, but its primary role is changing. While its agenda-setting power is decreasing, most decisions in economic governance are dependent on the Commission to make them work. With more and stronger implementation competences it may be less visible, but it is hardly less important. This finding qualifies the degree of intergovernmentalism in economic governance.

Keywords

European Commission, Economic Governance, Euro Crisis, Intergovernmentalism

1. Introduction

Faced with the most severe financial and economic crisis in decades, the European Union (EU) has taken great pains to reforms its economic governance architecture in order to provide immediate relief and prevent further emergencies. After what can well be described as a "step change" (Schimmelfennig 2014, XX), it now features financial stability support with strong conditionality for troubled member states, a tighter grip on domestic economic policies, a clearer focus on competitiveness in the coordination of other national policies and an emerging regime for the regulation of the financial sector. While the *policy* substance of these reforms is widely debated, their *polity* consequences are only beginning to be understood (see Schwarzer 2012 and Salines, Glöckler & Truchlewski 2012 for first assessments).

The role of the European Commission is particularly unclear – the more so as these reforms come at a time, when it has almost become conventional wisdom that this institution, once considered to be the ultimate engine for an ever closer union, is gradually losing political clout (Peterson 2012). Against the background of an empowered European Parliament, progressive political leadership by the European Council and the proliferation of new regulatory institutions, the EU executive's influence has been repeatedly called into question (see further references to this debate in Kassim & Menon 2004; Kassim *et al.* 2013). At first glance, the EU's response to the current financial and economic crisis seems to aggravate this alleged decline. Early accounts argue that agenda-setting has been dominated by intergovernmental institutions (Hodson 2013), while the Commission has been described as being "not very visible in early crisis management" (Puetter 2012, p. 172) and as remaining rather "indecisive and uninspiring" thereafter (Menz & Smith 2013, p. 202). As a consequence, many observers see it successively turning into a mere secretariat for the member states (Ondarza 2011), and "intergovernmentalism" is the key term for describing the EU's crisis management (e.g. Fabbrini 2013).

While the empirical observations are valid, some conclusions are disputable. The concepts of intergovernmentalism and supranationalism are the gold standard of evaluating European integration, but they hard to apply to an economic governance architecture that is growing ever more complex. Differences are to be expected across policy areas and policy phases. The role of the Commission seems to be a strong case in point: It can convincingly be argued that the Commission has

remained rather cautious during the early phases of crisis response (see also Copeland & James 2014), but such a narrow analytical focus runs the risk of underestimating this institution's overall importance and thereby neglecting crucial dynamics in EU politics. After all, policy-making involves more than just agenda-setting; policies have to be formulated, implemented and, ideally, evaluated.

What role the Commission actually plays in these dimensions of the reformed economic governance architecture is, however, hardly elaborated. Quite the contrary, the term "secretariat" is actually prone to obfuscate the significance of "one of the most mature and powerful international bureaucracies worldwide" (Trondal 2010, p. 17). Especially when it comes to implementing the numerous reforms brought about by the crisis, it is intuitive that the Commission will bear much responsibility. So even if institutional changes are results of intergovernmental bargaining, they can involve or empower supranational institutions in deliberate or unforeseen ways. It is thus worthwhile to study the Commission's role in established and emerging policy areas of economic governance in order to provide a more complete picture.

For this purpose, this article briefly reminds us of the manifold functions the Commission already fulfils in European politics and develops a modest analytical framework for capturing its role in economic governance in and after the crisis. The empirical section then considers the Commission's tasks in four areas: financial stability support, economic policy surveillance, coordination of national policies and supervision of the financial sector. It is argued that the Commission is – at least in the policy areas under discussion – indeed undergoing a profound change, but rather than being in decline, it is entrusted with ever wider and deeper implementation tasks that are of high political importance. During the crisis, the Commission may have kept a rather low profile, but its role in the reformed economic governance architecture appears not to be diminished but considerably strengthened. The supranational element of crisis reform is thus not to be underestimated, even if some of the measures take intergovernmental form.

2. Analysing the multifunctional Commission

Many analyses of the Commission focus on its ability to provide political leadership and set the agenda of EU politics – rightly so, given the treaty stipulation that it "shall

promote the general interest of the Union and take appropriate initiatives to that end" (Article 17 TEU). But its functions go far beyond this mandate. As per the treaties, it is also responsible for ensuring the application of primary and secondary EU law, executing the budget and managing programs as well as exercising coordinating, executive and management functions. In practical terms, this has caused a proliferation of Commission tasks. As regards economic governance before the crisis, Brussels bureaucrats were already involved in activities as different as applying state aid control, monitoring budget deficits and benchmarking national social policies, to name a few. With the EU now strengthening its role in established policy fields and expanding its involvement into new areas, the list of Commission activities can be expected to grow even more complex. It therefore seems appropriate to take stock of the recent changes in the Commission's task portfolio.

Two theoretical approaches are to guide our analysis. On the one hand, the policy-cycle approach serves as a heuristic background, according to which the ideal-typical policy process can be divided into more or less four major stages (Jones 1970; Anderson 1975): First, problems are identified and set on the political agenda. Second, policy options are drawn up and eventually decided on. Third, the selected policies are specified and implemented. Fourth, they go through evaluation, after which they are maintained, reformed or dismantled (see also Knill & Tosun 2011). Empirically, these phases are neither distinct nor do they necessarily follow this sequence; but they allow for a more structured analysis of all reforms related to the financial and economic crisis. The implementation phase is crucial for the impact of reforms but, as yet, under-researched in the field of economic governance. It will thus make up the core of this article.

The assessment of the Commission's role in this implementation phase is, on the other hand, based on an adaptation of Börzel's (2005) differentiation between the breadth and depth of integration.[1] The former relates to the range of its involvement, taking into account the policy areas in which the EU – and with it the Commission – has a say. Expansions in breadth can be obvious, when a policy field is becoming a matter of EU competence for the first time, or subtle, when further elements of this particular policy are added or made more prominent. The depth of Commission involvement concerns its type of competence. Its authority varies depending on the decision-making procedures governing the respective policy field. It is, for instance,

quite independent in enforcing the single market, whereas it only plays an auxiliary role in the coordination procedures that are to guide national reforms. There are, by now, quite many governance practices besides and in between the Community Method and intergovernmental procedures. The following empirical account will carefully assess the breadth and depth of Commission involvement in different dimensions of EU economic governance. In so doing, it will also assess the degree to which these policy areas feature supranational elements.

3. Empirical evidence from the policy areas

3.1 Financial stability support

Since the crisis first took hold in Europe, the policy area of financial stability support for EU member states has witnessed rapid and remarkable institutionalization, and the Commission has been and continues to be involved in manifold ways. Having not been extensively dealing with this policy area before the crisis, this represents an enormous expansion of Commission activity. As the first Greek bail-out package was provided by bilateral loans and financing by the International Monetary Fund (IMF), the Commission was only entrusted with coordinating and administrating the pooled bilateral loans, including their disbursement (Commission 2013a). However, when the European stability architecture emerged, its competences grew more complex. This architecture currently features four facilities for granting financial assistance to troubled member states, which are basically based on two governance arrangements.

Balance of Payments assistance and European Financial Stabilization Mechanism

The Balance of Payments (BoP) assistance is a relatively modest facility that is only open to non-euro countries, but the decisions for granting financial support to Hungary (2008), Latvia (2008) and Romania (2009) have arguably been the first responses to the unfolding financial crisis in the EU. Ultimately based on Article 143 TFEU, BoP assistance has already been established in 1988 (Council Regulation (EEC) No 1969/88) and then modified in 2002 (Council Regulation (EC) No

332/2002). Due to this crisis, its loan ceiling has been raised to €50 billion (Council Regulation (EC) No 431/2009), with €14.5 billion having been granted so far.[2]

As concerns the governance of BoP assistance, the Commission is usually part of all relevant phases. It first conducts negotiations with other potential international donors in order to elicit multilateral assistance options. After securing such an arrangement, the Commission is responsible for drafting a decision proposal on a member state's actual request for BoP assistance that the Council has to vote on. If this is agreed in principle, it negotiates a memorandum of understanding with the applicant state and, if an agreement has been reached, monitors compliance. What is most remarkable about the BoP assistance is the Commission's mandate to manage the financial assistance by borrowing on the capital markets – the EU budget being an implicit guarantee and safeguarding the best rating possible – and lending to the member states in question.

Apart from these direct competences, its old mandate of guarding the treaties is also playing a role when granting BoP assistance. In the case of Hungary, which applied for a second precautionary program in 2011, the Commission's role in monitoring compliance with EU law was of considerable importance. After starting an infringement procedure regarding, among other issues, the independence of the Hungarian Central Bank in early 2012 (Commission 2012a), it was not before the Hungarian Prime Minister promised several reforms that the negotiations about a second assistance program would begin. The implicit understanding was that these reforms would have to be implemented before the negotiations can be concluded (Commission 2012b). This incident shows that BoP assistance not only involves the Commission in crucial phases, but also empowers its old mandate of guarding the treaties by adding another incentive for member states to comply with EU law.

When the financial crisis escalated in 2010, two new funding instruments were quickly established to offer financial assistance to troubled euro member states that failed to raise money at competitive rates on the capital market. One of them was the European Financial Stabilization Mechanism (EFSM), which is modelled on the BoP assistance and has the same institutional underpinning. This framework has been proposed by the Commission and endorsed by the Council (Regulation (EU) No 407/2010). For its short-lived existence, the EFSM raised funds up to €48.5 billion for

Portugal and Ireland – and it is, once again, the Commission who is in charge of borrowing and lending.

The Commission's financial responsibilities in both the ESFM and the BoP assistance should, however, not be overestimated because the Council always has to approve the terms. This was, for example, the case in 2011, when the Commission suggested reduced interest rate margins and extended maturities for loans granted to Ireland and Portugal (Commission 2011a), a proposal the Council eventually adopted (Council 2011). The Commission has thus no discretion in financial matters. This has to be kept in mind when analysing the following funding instruments, where member states decided to delegate the management of resources to other bodies.

European Financial Stability Facility and European Stability Mechanism

In case of the European Financial Stability Facility (EFSF), borrowing and lending to euro member states, up to €440 billion in total, was delegated to a new organization in form of a public-limited company in Luxemburg. The same is true for the newer European Stability Mechanism, which is now replacing the EFSF (and the EFSM). Both arrangements also have a distinct intergovernmental treaty basis.

Still, Commission expertise is employed at various stages in the process of granting assistance through the ESM, mostly along with the European Central Bank (ECB) and the IMF (so-called *troika*). First, when a member state requests support, the Commission (along with the ECB) is entrusted with assessing the situation concerning the risk to the overall financial stability, the sustainability of the applicant's public debt and the actual or potential financing needs (Article 13 (1) ESM Treaty). Second, following a general decision by the Board of Directors to grant support, it is the Commission's task (as part of the *troika*) to negotiate a memorandum of understanding with the applicant state (Article 13 (2) ESM Treaty) – which it also signs, if the memorandum is accepted by the creditor states. Third, the Commission and its *troika* partner institutions are responsible for monitoring compliance with the memorandum of understanding (Article 13 (7) ESM Treaty).

It certainly stands to question how much autonomy the *troika* enjoys vis-à-vis the lender states and also how power and expertise are actually distributed in this

group. The European Parliament's hearing (2013) on the working methods of the troika supports early anecdotal evidence from missions to Greece, Ireland and Portugal. The Commission appears to be in a prominent role, together with the IMF, when assessing the countries' financing needs and actually takes the lead when designing reform plans (Merler, Pisani-Ferry & Wolff 2012, p. 7). This impression of the division of labour in the *troika* is also substantiated by the IMF's dissatisfaction with group's performance in Greece. Its respective report (IMF 2013) condemned the Commission's successful insistence on austerity (see also Lütz & Kranke 2011). This shows that its mandate is far from being an administrative matter, its decisions can have significant political and social repercussions.

As in the BoP assistance scheme, granting financial support through the ESM is also linked to the Commission's mandate of guarding the treaties. The program for Spain calls for a close monitoring of state aid rules, which is naturally up to the EU executive. The respective clauses concern the restructuring of Spanish banks and the disbursement of funds for safeguarding their stability. Once again, the Commission plays a crucial role for the decision of granting assistance. In this case, it eventually accepted Spain's plans and the restructuring got under way (Commission 2012c).

Taken together, the governance architecture of financial stability support involves the Commission in various capacities. It proposes decisions on granting assistance, negotiates conditionality agreements and monitors compliance. The EU executive thus fulfils crucial tasks in all phases of this particular policy cycle. Against the background of the ESM replacing both EFSF and EFSM, it can be argued that the Commission has been kept at arm's length when the crisis called for firewalls with more financial leverage (Hodson 2013), but it stands to question if the technical task of handling loans is all that important. Moreover, the policy programs attached to financial stability support empower the Commission in its old mandate as guardian of the treaties.

The depth of Commission involvement in the area of financial stability support has thus hardly been reduced, while the breadth of its involvement (in light of the financial resources now being re-allocated) has been greatly expanded during the financial crisis. The newer lending facilities may have intergovernmental bases, but as indicated by the competences of the Commission – and those of the ECB – their

daily operation features strong supranational elements because most tasks that are to be accomplished before and after the decision are delegated to such institutions. As any act of delegation, this provides agent with some leeway. It comes as no surprise, then, that the *troika*'s performance, and with it the policy prescription heavily designed by the Commission, is coming under closer scrutiny.

3.2 Economic policy surveillance

Apart from introducing these emergency measures, the EU has also passed important reforms aimed at preventing debt crises. In the last two years, there have been crucial changes to all procedures that are to steer national economic and fiscal policies. Most of these are now streamlined under the "European Semester" that has already been put in place in 2010. This framework is important in itself in that it improves the stringency of EU economic policy-making, providing clear timelines and combining 'hard' and 'soft' measures (Hallerberg, Marzinotto & Wolff 2012). It thereby provides political and institutional linkages that could strengthen the Commission's position overall. This section considers the reforms made in regard to 'hard' surveillance with possible sanctions, while coordination by 'soft' law is dealt with in the next section.

Six-Pack

Agenda-setting and policy formulation in the field of economic and fiscal surveillance has been hard-fought between the Commission and the van Rompuy Task Force commissioned by the European Council (2011). The former's right of initiative in this field notwithstanding, the Commission was particularly eager to underline its policy entrepreneurial role. It therefore issued its legislative proposals one month before the Task Force published its report (Schwarzer 2012, p. 19). The so-called Six-Pack has then been quickly passed through the ordinary legislative procedure in 2011. It is made up of five regulations and one directive[3] aimed at reinforcing the Stability and Growth Pact (SGP) that has proven to be ineffective in the run-up to the crisis.

As regards the governance architecture of the SGP, the most important reform is certainly the introduction of the "reverse qualified majority voting" for sanctions

when member states do not comply with recommendations. From now on, a qualified majority of member states have to vote *against* sanctions, whereas before they had to vote *for* them. In combination with fines and sanctions being now possible much earlier in the process, this adds significant political weight to the recommendations of the Commission, who continues to be in charge of monitoring national progress and proposing actions against deviant member states.

The Six-Pack further reinforces the economic policy surveillance regime in two important ways. First, the Excessive Deficit Procedure is strengthened by the operationalization of the debt criterion[4] and the introduction of the development of national expenditures into the monitoring regime. These reforms leave the Commission's assessments and recommendations with more power, as it is now, for instance, able to issue early warnings to member states if their expenditures grow faster than their GDP. Second, the newly introduced Macroeconomic Imbalance Procedure features the Commission in its preventive and corrective arm, with the former being of particular interest. The Commission now follows macroeconomic trends in an early warning system, made operational by a scoreboard that currently consists of eleven indicators.[5] In cases where member states are above certain statistical thresholds, there are in-depth reviews to be conducted by the Commission (and the ECB where appropriate). This qualitative approach goes beyond "doing the numbers"; it even includes the possibility of on-site missions by Brussels bureaucrats. These arrangements leave the Commission with strong interpretative authority for the assessment of imbalances. If member states are eventually found to have excessive imbalances, the Commission is again responsible for drafting a recommendation for corrective measures.

The first significant results of these reforms are a long time coming. At one point in 2013, there were twenty countries under closer observation in the Excessive Deficit Procedure, but these procedures predated the Six-Pack reforms. In all cases, the Commission so far refrained from employing stronger measures. On the contrary, it proposed the extension of six deadlines for fiscal adjustments (Commission 2013b). This can be read as either being hesitant to move toward sanctions or deliberately using its discretion to emphasize its 'softer' reform recommendations (see the case of France below). Under the Macroeconomic Imbalance Procedure, the Commission attended to its duties and conducted in-depth reviews of twelve member states in

2012 and thirteen member states in 2013. Spring 2014 saw in-depth reviews for sixteen countries, involving not only Spain and Slovenia as the most imperilled economies but also Germany, which caused quite some irritation in the latter state. As far the preconditions for these reviews go, however, the Commission had to launch this review. It remains to be seen whether and when any excessive imbalance procedures are actually opened – but the Commission is certainly on the lookout.

Two-Pack

The so-called Two-Pack, which has also been passed by the ordinary legislative procedure and is made of two regulations[6], takes effect in 2014. It basically amplifies the measures brought upon by the Six-Pack and the Fiscal Compact (see below) in regard to the *ex ante* coordination of fiscal policies and the monitoring of financially troubled countries. Starting in fall each year, the surveillance procedure focuses on the budgetary plans of euro area member states for the forthcoming year. It is the Commission's responsibility to assess the "fit" of the draft budgets with the SGP in general and last year's country-specific recommendations in particular. While the Commission can not infringe on national sovereignty on budget issues, this procedure does add to its "toolbox for making recommendations" (Commission 2013c) in that these early opinions can later be used when deciding on placing member states in the Excessive Deficit Procedure.

In more positive words, this procedure empowers the Commission to offer budgetary guidance much earlier than before. Its general budgetary outlook for the upcoming year is to stimulate further debate among governments and parliaments. In addition, the Two-Pack introduces tougher monitoring procedures for member states that are receiving financial assistance or have just finished structural adjustment programs. These tasks are, once again, delegated to the Commission and (where appropriate) the ECB. The same is true for the provision of technical assistance when member states have insufficient capacities.

Fiscal Compact

Other than the foregoing reforms, which have been realized by ordinary legislative acts, the Treaty on Stability, Coordination and Governance (TSCG), also referred to as the Fiscal Compact, is of intergovernmental nature. But this agreement – aimed at further strengthening fiscal discipline and intensifying policy surveillance within the euro area – involves the Commission as well.[7]

On the one hand, the treaty stipulates that the correction mechanisms, which are to be triggered automatically if the deficit criteria are breached, are to be based on common principles put forward by the Commission (Article 3 (2) TSCG).[8] On the other hand, the Commission is once again responsible for monitoring compliance. According to Article 8 TSCG, the "Commission is invited to present in due time to the Contracting Parties a report on the provisions adopted by each of them […]. If [it] concludes in its report that such Contracting Party has failed to comply […], the matter will be brought to the Court of Justice of the European Union by one or more Contracting Parties." While a negative opinion by the Commission is not required for bringing a matter to the Court of Justice, the guardian of the EU treaties plays a corresponding role in this intergovernmental agreement by providing crucial information for the member states to decide on. The Fiscal Compact is thus widening the breadth of Commission involvement. The intergovernmental nature of the treaty, brought about by the resistance of the United Kingdom and the Czech Republic, should not obliterate its supranational characteristics. It stands to question if a legal basis in the EU treaties would have taken a wholly different form as regards the governance architecture.

The Fiscal Compact also intensifies the Excessive Deficit Procedure. Article 7 TGSC states that "the Contracting Parties whose currency is the euro commit to supporting the proposals or recommendations submitted by the European Commission", unless a qualified majority votes against it. This means that the Fiscal Compact extends "reversed qualified majority voting" to all stages of the Excessive Deficit Procedure, even if not mentioned in the Six-Pack reforms, effectively adding further weight to the Commission's assessments.

The reforms aimed at preventing future fiscal crises are thus expanding both the depth and breadth of Commission involvement in economic policy surveillance. It

is now responsible for additionally monitoring overall public debt, the development of national expenditures and macroeconomic imbalances. Due to its complex nature, the latter undertaking involves a more qualitative approach, a new instrumente for the Commission. Its assessments and recommendations are now also carrying additional weight. The introduction of “reversed qualified majority” voting when it comes to fines and sanctions can be considered a notable increase in the depth of Commission competences and an important step away from intergovernmental dominance in the SGP (Schimmelfennig 2012, p. 406). Economic policy surveillance in the context of the treaties has thus seen a clear strengthening of the supranational level. Even the Fiscal Compact, seen by some observers as the prime example of the new intergovernmentalism, employs the Commission and the European Court of Justice in crucial ways, and thus has much supranational substance.

3.3 Coordination of national policies

Apart from economic policy surveillance with possible sanctions, there are also coordination procedures that are to steer national policies by soft law. These are aimed at fostering reforms in policy areas of common interest but utmost national sovereignty, such as social security and employment. Obviously, these policy areas have received greater attention during the financial crisis as well.

There are two broader initiatives in this regard. The first one is Europe 2020, the successor of the Lisbon Strategy that ran until 2010. As its predecessor, Europe 2020 is a broad growth strategy that touches upon several policy fields. The second initiative the Euro Plus Pact, adopted in 2011 by the euro zone members and six other states. Its aims are to improve competitiveness, create employment and contribute to sustainable public debt by reinforcing and refining member states’ commitments made in context of the Europe 2020 strategy. Apart from the euro zone member states, six other countries have joined the pact. Both of these initiatives make use of procedures that broadly resemble the Open Method of Coordination.

This mode of governance is based on soft law, such as guidelines and recommendations, which are to guide the member states’ reform initiatives. There are no hard sanctions; rather, this procedure aims at benchmarking, persuasion through naming and shaming as well as policy learning through best practices. The

Commission is a crucial provider of information in both initiatives. At the beginning of the year, it produces an annual growth survey that outlines the progress made and the challenges to come in general terms. Ideally, these priorities are considered when member states draw up their national stability (under the SGP) and reform (under the Europe 2020 strategy) programs. After evaluating the national documents, the Commission proposes country-specific recommendations that the Council has to endorse. It also assesses the progress made in terms of the Euro Plus Pact commitments, once again providing information for the European Council that is ultimately in charge of the political monitoring. In liaison with Eurostat, it also operates a scoreboard of the progress on Europe 2020's eight headline indicators.

The Commission's role in these coordination procedures should, however, not be overstated, as the European Council provides policy guidance. This does not only concern the overall orientation of the Europe 2020 strategy that was mainly outlined by the European Council, which outrivaled the Commission by narrowly focusing on jobs and growth, dismissing claims for a broader approach (Ondarza 2011, p. 20). Member state institutions are also strong in the implementation phase. In fact, during the first cycle of the European Semester, member states were eager to attenuate some of the Commission's recommendations (Hallerberg, Marzinotto & Wolff 2012), and there have been strong doubts about policy coordination with sanctions in general (e.g. La Porte & Pochet 2012).

However, in light of the current crisis, soft law might become stronger than before. The recommendations for France in 2013 are a case in point. The suggestions for reforming – *inter alia* – the French labour market and pension system were given special meaning by the simultaneous proposal to extend the country's deadline for fiscal adjustment under the SGP (Commission 2013b). This gave the impression as if the reforms were a precondition for the extension, not least displayed by the French President's harsh reaction to the recommendations. While critical observers are eager to emphasize the Commission's legal inability to enforce these reforms, this was certainly one of the most-discussed cases of soft law yet. Given the new "comply or explain" rule that commits the Council to publish its reasons when changing the recommendations (Council 2013), this trend is likely to continue.

If it does and the Euro Plus Pact as well the Europe 2020 strategy are taken more seriously by their respective member states, they widen the depth and breadth

of Commission involvement through closer monitoring, clearer benchmarking and more specific recommendations. Persuasion as well as naming and shaming will always be less forceful than the threat monetary sanctions, but in times of contagious crises national governments are coming under more pressure to argue their cases. This puts the Commission in a more prominent position, and so far it seems as it is tries to use its authority. It can be argued that the symbolic linking with the SGP monitoring regime represents a small self-empowerment by the Commission.

3.4 Supervision of the financial sector

As regards the supervision of the financial sector, the pace of reforms has been slower than in other areas. Two initiatives are, however, worth noting: the European System of Financial Supervision (ESFS) and the banking union that has finally begun to take shape with the introduction of the Single Supervisory Mechanism (SSM).

Other than delivering the proposals for the ESFS in 2009, the Commission is not much involved in this area of financial supervision. Tasks are delegated to four new institutions that took up their work in 2011: three European supervisory authorities[9] for micro-prudential oversight and a European Systemic Risk Board for macro-prudential oversight. The former are mainly responsible for coordinating and monitoring national authorities (but without the right to interfere in their work); the latter can ultimately result in non-binding recommendations to member states and specific national or EU authorities. The Commission is merely represented on the respective boards, but it does play an evaluative role in this domain. The different regulations contain clauses that entitle it to review the structure and performance of the overall oversight system.

The Single Supervisory Mechanism (SSM) can be considered a more important step towards a European banking union. Governments of the euro area called upon the Commission to propose respective legislation in June 2012. Only about 75 days later, the proposal (COM(2012) 511 final) was published. Based on this document, an agreement was reached in the Council at the end of 2012, with the parliament – after some bargaining with the Council under mediation of the Commission – generally agreeing in spring 2013. Details are still to be clarified, before the regulations for this undertaking are finally passed, but the overall structure

is already observable at this point. The SSM will be located in the ECB, which will be entrusted with direct supervision of the most significant banks (as well as those receiving direct financial assistance from EU facilities) and monitoring of national supervision of less significant banks. The Commission will only be granted observer status on its supervisory board. It will, however, once again be responsible for evaluating this new mechanism. As it is stated in the proposed regulation, the Commission shall publish a report on its application after three years and shall make accompanying proposals.

The Commission further fulfilled its duty of formulating policy and proposed legislation for a single resolution mechanism (SRM). The Commission describes its own role in this arrangement as deciding "on the basis of the Single Resolution Board's recommendation, or on its own initiative, […] "whether and when to place a bank into resolution" and setting out "out a framework for the use of resolution tools" (Commission 2013e). Interestingly, it is – as of yet – not clear who will take the final decisions. This competence could be transferred upon the Commission, which sees itself as the only EU institution with adequate legal authority.

So far, therefore, the Commission is mainly fulfilling its old mandates of policy developing and evaluation when it comes to the supervision of the financial sector. Its competences in this field have thus widened a bit, but they have not grown deeper in regulatory terms. If the SRM eventually took the shape the Commission proposes (for this, it has the backing of the European Parliament), its depth of involvement would increase considerably. Still, as the supervision of the financial sector is slowly moving from soft law to hard rules (Hennessy 2013), its supranational element is obvious. As yet, this has strengthened another actor on this level: the ECB.

The foregoing overview of crisis-related reforms and their implications for the Commission has revealed that this institution has been entrusted with ever more implementations tasks in the economic governance architecture, which effectively expands the breadth (in terms of policy areas) and depth (in terms of competence) of its involvement. Its role does, however, vary between policy areas, as is summarized in Table 1. Financial stability support and economic policy surveillance rely heavily on

the EU's executive, the coordination of national policies only to certain extent, and the supervision of the financial sector – so far – hardly at all.

Table 1. Overview of changes in Commission's role in economic governance

Financial stability support (EFSM, EFSF, ESM)	Economic policy surveillance (Six-Pack, Two-Pack, Fiscal Compact)	Coordination of national policies (Europe 2020, Euro Plus Pact)	Supervision of financial sector (SSM, SRM)
Breadth: +++ Wider involvement due to increased financial support in more countries through new lending facilities	*Breadth*: ++ Wider monitoring regime through inclusion of national expenditures, macroeconomic trends, overall debt and budgetary plans	*Breadth*: + Slightly wider coordinating functions through introduction of further procedures focused on competitiveness	*Breadth*: + Slight widening of evaluative role; further expansion, if SRM features Commission as prominently as currently envisioned
Depth: ++ Stronger position in terms of negotiating and monitoring due to prominent role in *troika*; contraction in administrative role because of new lending facilities	*Depth*: +++ Stronger opinions and recommendations by virtue of RQMV, introduction of macroeconomic scoreboard and in-depth reviews	*Depth*: ++ Slightly stronger recommendations by symbolic coupling with 'harder' surveillance and 'comply or explain' rule, operation of scoreboard	*Depth*: 0 No change; possibly strong monitoring role, if SRM features Commission as envisioned

Notes: +++ = strong expansion, ++ = medium expansion, + = little expansion, 0 = no change, – = decrease

4. Conclusion

This close reading of crisis-related reforms has revealed that the Commission is far from being absent in EU economic governance. As the rules for member states are growing ever stricter, the EU's executive plays a pivotal role to enforce them. While its agenda-setting power has been curbed during the crisis, it continues to formulate policy and, more importantly, its role in implementation has grown substantially. It now covers a much broader scope of policies and is, in some cases, equipped with stronger competences. What does this tell us about EU economic governance in general and the Commission in particular?

First of all, regarding the central theme of this special issue, i.e. long-term consequences of the crisis and their theoretical implications for EU studies (Tosun,

Wetzel & Zapryanova 2014), it is safe to say that EU economic governance is changing incrementally. What at first appears to be an institutional big-bang is rather following the established architecture (see also Salines, Glöckler & Truchlewski 2012). As EU economic governance currently features quite different modes of governance in all relevant policy areas, there is no clear intergovernmental or supranational model. However, the foregoing analysis on the Commission shows that supranational actors play an ever more important role, although its involvement varies depending on the policy area and the institutional paths taken before the crises. It has become evident that even intergovernmental frameworks – such as the Fiscal Compact and the ESM – do not foreclose intense Commission involvement; on the contrary, they heavily rely on the EU's central executive.

For the Commission, this means that is successively shifting from policy entrepreneurship to policy management (Bauer 2006). This trend has been envisioned by Laffan as early as 1997, and the two main reasons cited then still sound familiar today: the level of integration achieved and a less benign environment. While it is true that economic governance was and continues to be less supranational than other policy areas, there was already much to be managed by the Commission under the policy surveillance and coordination regimes, leaving little room for policy entrepreneurship in the advent of the crisis. Add to that the "constraining dissensus" across the EU (Hooghe & Marks 2008), which entails historically low trust in supranational institutions, as well as little experience in the field of financial stability support and supervision, and it comes as no surprise that the Commission refrained from putting forward bold integration plans in both areas.

Still, the member states' strategy of "delegation to non-majoritarian, technocratic supranational organizations" (Schimmelfennig 2014, XX) left the Commission on a stronger footing than before, because the delegated tasks are not purely administrative matters. It is a highly political activity to deliver opinions and recommendations – be it in terms of financial stability support or policy surveillance – for the member states to decide on. Negotiating memoranda of understanding is also quite political, as evidenced by the controversies surrounding the conditionality for creditor states. Even monitoring compliance with requirements laid down in the memoranda of understanding or the reformed Stability and Growth Pact leaves the Commission with strong discretion, as does its role as an information hub between

the member states in the coordination of national policies. Finally, putting forward legislative proposals, even if 'commissioned' by the member states, remains a highly influential activity.

For the Commission, its new role will entail further challenges. Its early record in the *troika* shows that negotiating as well as monitoring strict conditionality under precarious circumstances is a delicate task, for which the Commission will have to build up further expertise. Its interpretative authority in the European Semester, too, will demand careful recommendations as to not excessively agitate member states. To a certain extent, it is up to the Commission to safeguard the loose coupling of 'harder' surveillance and 'softer' coordination. Generally, the EU's executive is, so far, only equipped with potential leverage; whether and how it is used remains to be seen.

This is, at the same time, the main implication for future research. Rather than putting too much weight on agenda-setting and grand EU policy initiatives, the Commission's role in implementation has to be taken more seriously, in economic governance and beyond. Otherwise, EU studies run the risk of underestimating the many little 'pockets of power' Brussels bureaucrats are equipped with. This will not be an easy exercise; disentangling the influences inside the troika, for instance, would require intensive research. Yet, not only in the area of economic governance it might come soon to the fore that "implementation", i.e. the areas where the Commission gained influence, are more salient and might show eventually more political weight than what has been studied under the heading of policy entrepreneurship so far.

In sum, the Commission's importance in the European economic integration process has not been diminished, but its role has shifted. The current crisis might well prove to be a catalyst accelerating changes which so far have gone by and large unobserved. Given that the EU system is constantly maturing, entrepreneurship as neo-functionalists conceive it will most-likely become ever rarer. Analysts might thus be well advised not to assess the changing Commission role on decreasingly entrepreneurial spirit but to embrace the challenge to analyse its political room of manoeuvre in supervising and steering policy implementation. The emerging economic governance regime offers new opportunities for supranational influence and the Commission might well use its new implementation powers politically in similar terms as it has used policy entrepreneurship in the past.

5. References

Anderson, J.E. (1975) *Public Policy-making* (New York: Holt-Preager).

Bauer, M.W. (2006) Co-Managing Programme Implementation: Conceptualizing the European Commission's Role in Policy Execution, *Journal of European Public Policy*, 13(5), pp. 717-735.

Börzel, T. A. (2005) Mind the Gap! European Integration between Level and Scope, *Journal of European Public Policy*, 12(2), pp. 217–236.

Copeland, P. & James, S. (2014) Policy windows, ambiguity and Commission entrepreneurship: explaining the relaunch of the European Union's economic reform agenda, *Journal of European Public Policy*, 21(1), pp.1-19.

Council of the European Union (2011) *Press Release*, 3119th Council Meeting, General Affairs. Luxemburg, 11 October 2011, 15336/11.

Council of the European Union (2013) *Explanatory Note, Accompanying Document to Council Recommendations to Member States under the European Semester 2013*. 11336/13.

European Commission (2011a) *Press Release*, Brussels, 14 September 2011. MEMO/11/602.

European Commission (2011b) *Press Release*, Brussels, 12 December 2011. MEMO/11/898.

European Commission (2012a) *Press Release*, Brussels, 17 January 2012. IP/12/24.

European Commission (2012b) *Press Release*, Brussels, 25 April 2012. IP/12/407.

European Commission (2012c) *Press Release*, Brussels, 18 November 2012. IP/12/1277.

European Commission (2012d) *A Blueprint for a Deep and Genuine Monetary Union - Launching a European Debate, Communication from the Commission*, Brussels, 28 November 2012. COM (2012) 777 final.

European Commission (2013a) *Financial Assistance to Greece*. Available at: http://ec.europa.eu/economy_finance/assistance_eu_ms/greek_loan_facility/index_en.htm (Retrieved on 31 August 2013)

European Commission (2013b) *Press Release*, Brussels, 29 May 2013. MEMO/13/463.

European Commission (2013c) *Press Release*, Brussels, 12 March 2013. MEMO/13/196.

European Commission (2013d) *Press Release*, Brussels, 20 March 2013. IP/13/248.

European Commission (2013e) *Press Release*, Brussels, 10 July 2013. IP/13/674.

European Council (2010) *Conclusions of the European Council 25/26 March 2010*. EUCO 7/10.

European Council (2011a) *Conclusions of the European Council 23/24 June 2011*. EUCO 23/11.

European Council (2011b) *Conclusions of the European Council 24/25 March 2011*. EUCO 10/1/11b

Hallerberg, M., Marzinotto, B. & Wolff, G.B (2012) *On the Effectiveness and Legitimacy of EU Economic Policies*, Bruegel Policy Briefs, Issue 4/2012.

Hennessy, A. (2013) Redesigning financial supervision in the European Union (2009–2013), *Journal of European Public Policy* (published online first).

Hodson, D. (2013) The Little Engine that Wouldn't: Supranational Entrepreneurship and the Barroso Commission. *Journal of European Integration*, 35(3), pp. 301–314.

Hooghe, L. & Marks, G. (2008) A Postfunctionalist Theory of European Integration: From Permissive Consensus to Constraining Dissensus, *British Journal of Political Science* 39, pp. 1-23.

International Monetary Fund (2013) *Greece: Ex Post Evaluation of Exceptional Access under the 2010 Stand-By Arrangement*, IMF Country Report No. 13/156.

Jones, C.O. (1970) *An Introduction to the Study of Public Policy* (Belmont, CA: Wadsworth).

Kassim, H., Peterson, J., Bauer, M.W., Connolly, S., Dehousse, R., Hooghe, L. & Thompson, A. (2013) *The European Commission of the Twenty-First Century* (Oxford: Oxford University Press).

Kassim, H. & Menon, A. (2004) EU Member States and the Prodi Commission, in D. G. Dimitrakopoulos (ed.) *The Changing European Commission*, pp. 89-104 (Manchester: Manchester University Press).

Knill, C. & Tosun, J. (2011) Policy-making, in D. Caramani (ed.) *Comparative Politics*, pp. 373-388 (Oxford: Oxford University Press).

La Porte, C. de & Pochet, P. (2012) Why and how (still) Study the Open Method of Co-ordination (OMC)?, *Journal of European Social Policy,* 22(3), pp. 336–349.

Laffan, B. (1997) From Policy Entrepreneur to Policy Manager: The Challenge Facing the European Commission, *Journal of European Public Policy*, 4(3), pp. 422–438.

Lindberg, L.N. & Scheingold, S.A. (1970) *Europe's Would-Be Polity* (Englewood Cliffs: Prentice-Hall).

Lütz, S. & Kranke, M. (2011) *The Paradox of Weakness in Crisis Lending: How the European Commission Prevails over the IMF*, Mimeo, 11 April 2011.

Merler, S., Pisani-Ferry, J. & Wolff, G.B. (2012) *The Role of the ECB in Financial Assistance: Some Early Observations*, European Parliament – IP/A/ECON/NT/2012-04.

Menz, G. & Smith, M. P. (2013) Kicking the Can Down the Road to More Europe? Salvaging the Euro and the Future of European Economic Governance, *Journal of European Integration*, 35(3), pp. 195–206.

Ondarza, N. v. (2011) *Koordinatoren an der Spitze: Politische Führung in den reformierten Strukturen der Europäischen Union*, SWP-Studie.

Peterson, J. (2012) The College of Commissioners, in J. Peterson & M. Shackleton (eds.) *The Institutions of the European Union*, 3rd edn., pp. 96-123 (Oxford: Oxford University Press).

Puetter, U. (2012) Europe's Deliberative Intergovernmentalism: The Role of the Council and European Council in Economic Governance, *Journal of European Public Policy*, 19(2), pp. 161-178.

Salines, M., Glöckler, G. & Truchlewski, Z. (2012) Existential Crisis, Incremental Response: The Eurozone's Dual Institutional Evolution 2007–2011, *Journal of European Public Policy*, 19(5), pp. 665–681.

Scharpf, F.W. (2001) Notes Toward a Theory of Multilevel Governing in Europe, *Scandinavian Political Studies*, 24(1), pp. 1–26.

Schimmelfennig, F. (2014) European Integration in the Euro Crisis: The limits of Postfunctionalism, *Journal of European Integration*.

Schimmelfennig, F. (2012) Zwischen Neo- und Postfunktionalismus: Die Integrationstheorien und die Eurokrise, *Politische Vierteljahresschrift* 53(3), S. 394-413.

Schwarzer, D. (2012) The Euro Area Crises, Shifting Power Relations and Institutional Change in the European Union, *Global Policy*, 3(1), pp. 28-41.

Schmitter, P.C. (1970) A Revised Theory of Regional Integration, *International Organization*, 24(4), pp. 836–68.

Task Force for Greece (2013) *Quarterly Report*, April 2013.

Tosun, J., Wetzel, A. & Zapryanova, G. (2014) Coping with Crisis: Europe's Challenges and Strategies, *Journal of European Integration*

Trondal, J. (2010) *An Emergent European Executive Order* (Oxford: Oxford University Press).

[1] Börzel draws on the works of Lindberg and Scheingold (1970), Schmitter (1970) and Scharpf (2001).

[2] As at summer 2013.

[3] Regulation (EU) No 1173/2011, Regulation (EU) No 1174/2011, Regulation (EU) No 1175/2011, Regulation (EU) No 1176/2011, Council Regulation (EU) No 1177/2011 and Council Directive 2011/85/EU.

[4] From now on, member states can be put in the deficit procedure, when the 60% reference for the debt-to-GDP ratio is not respected, even if the deficit is below 3%. However, the assessment will take into account "all relevant factors and the impact of the economic cycle" and the gap between a member state's debt level and the 60% reference must *not* be reduced by 1/20th annually (on average over 3 years) in order to trigger the deficit procedure (Commission 2011b).

[5] The legal basis for this monitoring system is Regulation (EU) No 1176/2011.

[6] Regulation (EU) No 473/2013 and Regulation (EU) No 472/2013.

[7] Much of its substance mirrors the Six-Pack reforms and will therefore not be discussed.

[8] These principles were published in June 2012 (COM(2012) 342 final).

[9] These are the European Banking Authority, the European Securities and Markets Authority and the European Insurance and Occupational Pensions Authority.