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Institute on Comparative  
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# Working Paper Series

W-2019/6

Evolving Patterns of European Fiscal and Economic  
Policy Coordination:  
A Historical Institutional Analysis

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## Abstract

Using historical institutionalism (HI) as a lens, this paper addresses the evolving pattern of the EU's approaches in economic and fiscal governance, from the preventive arm of the Stability and Growth Pact (SGP) to the European Semester. The measures to counter the Eurozone sovereign debt crisis are explained by path dependence, critical junctures and HI's three-phase analytical model (T<sub>0</sub>-T<sub>1</sub>-T<sub>2</sub>). Our paper finds that the European Semester represents an incremental change (i.e. path dependence) rather than a substantial reform (a critical juncture of a new path), of EU fiscal and economic policy coordination. We also find that micro-level adaptations ('sunk costs') were decisive in the adoption of the European Semester.

**Keywords:** *European Semester, Historical Institutionalism; EU economic and fiscal governance*

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## 1. Introduction

The Eurozone sovereign debt crisis demonstrated the effects of lacking fiscal cohesion among the Eurozone member states. The European Semester was established in January 2011, to strengthen economic and fiscal policy coordination within the European Union (EU). It was created and implemented in accordance with the preventive arm of the Stability and Growth Pact (SGP), and therefore its remit was expanded in conjunction with the implementation of the 'six-pack' and 'two-pack' reforms of the SGP. The European Semester represents a new, reinforced, annual response mechanism to facilitate the coordination of national budgets and economic plans. It was adopted by the EU Council of Economic and Financial Affairs on 7 September 2010 and finally codified into EU law in 2011.<sup>1</sup> Later, on 30 May 2013, Regulation (EU) No 473/2013<sup>2</sup> introduced a new element to the European Semester procedure: a common budgetary surveillance timeline for the eurozone member states. In 2014, the European Commission conducted a review of the application and effectiveness of the SGP, which led to the informal adoption of more flexibility in the application of the SGP in 2015 (European Commission, 2014a & 2015; Seikel, 2016).

Several scholars have argued or have implied that the implementation of the European Semester has drastically changed the balance of power among the European institutions with a dramatic increase of influence for the supranational actors (e.g., Schmidt, 2016; Seikel, 2016; Savage and Howard, 2018). This paper aims to have a critical look at that claim, by applying the theory of Historical Institutionalism (HI) to assess to which extent the European Semester is *de facto* based -- seen from an institutionalist angle -- on the SGP's preventive arm. Through this, it is hoped that by situating the European Semester into its historical context, it will be ascertained as to whether its introduction represents either a substantial or incremental change to patterns of EU economic governance. The core arguments of HI will be employed to dissect the issues mentioned above. HI as a theoretical model has been chosen as it has one broad advantage: It is the 'golden mean' between competing traditional European integration theories and the different forms of institutionalism. Among the European integration theories, HI looks to overcome the impasse of the dichotomous debate between two older, traditionally competitive theories -- neofunctionalism and intergovernmentalism (e.g. Pollack 1996, 2009; Rosamond 2000, 2010, 2013). HI is one of the three schools of new institutionalism. The other two -- rational choice institutionalism and sociological institutionalism -- are the polarized ends of a spectrum, whereon HI finds itself in the middle; in this position, HI benefits from the insights offered by both other schools of thought and therefore, incorporates both rational choice and sociological elements in its approach (Aspinwall and Schneider, 2001: 2-5; Rosamond, 2010: 110).

To test the validity of HI propositions and the two hypotheses presented in this paper, we use the congruence method and process-tracing as approaches, which are taken as both an alternative and supplement to other comparative methods (George and Bennett 2005: 153). The congruence method tests whether a theory is consistent with the outcome in a case, while process-tracing aims at uncovering the casual mechanisms suggested by a theory (George and Bennett 2005: 153). If the outcome of the case is in line with the theory, then there is the possibility that a causal mechanism exists. However, the congruence method does not identify which causal mechanism it is and thus it needs to be combined with process-tracing. A process-tracing method can identify the causal relationship between an independent and a dependent variable. It studies 'the unfolding of an event

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<sup>1</sup> Council of the European Union (2011a).

<sup>2</sup> Council of the European Union (2013).

over time' and examines 'the chain of events' (Panke 2012: 129), answering both 'why' and 'how-come' questions (Panke 2012: 136).

The case study of the European Semester based on HI propositions is based on a 'most-likely' research design. In this approach, only a single case is studied in depth and it is expected that a causal relationship is probable. HI is one of the main integration theories accounting for the EU; the causal mechanisms of EU integration posited by HI are expected to 'most-likely' be found in new EU integration projects, such as the introduction of the European Semester. Accordingly, the hypotheses derived from HI are to be tested based on the case of the European Semester. If evidence of a hypothesized causality is present in the case of the European Semester, the hypothesis can likely be accepted, and if not, it is falsified.

The paper is structured as follows. Section two presents HI's propositions on path dependence, critical junctures, and the three-step analytical model (T<sub>0</sub>-T<sub>1</sub>-T<sub>2</sub>). Based on these, two HI hypotheses about the European Semester are derived and presented. Section three offers the case study and the analysis. Thereafter, section four adds a critical look at our findings based on a wider interpretation of the European Semester and the criteria to judge HI, primarily in view of the Excessive Deficit Procedure and Excessive Imbalances Procedure. Lastly, section five aims to present answers to our research questions, summarizes the main findings of the paper, and concludes.

## 2. Theory

### 2.1 The Development of Historical Institutionalism

Historical Institutionalism is a variation of New Institutionalism which itself is a revised version of Traditional Institutionalism or 'Old Institutionalism'. The study of institutions is by many considered to be the 'root' of political science; initial works in this tradition are considered to reflect old institutionalism. After the Second World War, the focus of political science shifted to the study of self-interested rational individuals or states and their behaviour in a relative vacuum, because of the popularity of behaviouralism and of rational choice as new approaches. New Institutionalism brings back the focus on institutions and their context, but with the scientific rigour that accompanied behaviouralism and rational choice, and other innovations that were made in political science.

There are multiple variations of New Institutionalism, but Peters (1999, 18-19; 2005, 18-19; 2012, 19-20) defines four common features: (1) an institution is a structure, being formal (e.g. legal framework) or informal (e.g. network or shared norms), when given specified relationships among the actors, "some sort of individual patterned interactions [...] are predictable"; (2) an institution is characterized by some stability over time; (3) an institution must affect individual behaviour with its formal or informal constraints; and (4) it is of "shared values and meaning among the members of the institution". Based on these four common features, Peters distinguishes six variations of New Institutionalism, but for the application to EU studies, this paper will adopt Hall and Taylor's (1996) categorization of three institutionalisms: rational choice, historical and sociological institutionalism.

Rational choice institutionalism (RCI) assumes that actors involved in EU decision-making behave rationally and employ strategies to realize their preferred outcomes; consequently, the EU is generally analysed based on principle-agent models (Aspinwall and Schneider, 2001:7). As such, RCI research on the EU mainly focuses on rationalist approaches to legislative procedures; rationalist approaches to the implementation of rules, measures and policies; and rationalist approaches to the analysis of the European Court of Justice. In comparison, Sociological Institutionalism (SI) applied to the EU focuses on identifying normative and cultural mechanisms that are constructing or

constraining national behaviour and studies how identity itself influences state interests and behaviour, as well as the international normative structures. SI touches upon a wide variety of topics such as domestic-European relations; regionalism and European integration; policymaking of member states; European citizenship and EU enlargement. Given the differences in their fundamental assumptions and research foci, RCI and SI are often viewed as two polar opposites of a spectrum. HI tries to overcome this polarization and places itself in the middle (Rosamond, 2010: 110). HI highlights how prior institutionalist arrangements and commitments condition further action, set limits on possible options, and lead actors to redefine their interests (Pierson, 1996 & 1998; Aspinwall and Schneider, 2001: 10): it assumes that "institutions reflect the complex and unique structures that influence both the interests of actors and action arenas" (Sitek, 2010: 570). In laymen terms, "history creates context, which shapes choice" (Aspinwall and Schneider, 2001: 10); this constitutes the core of HI.

Hall and Taylor (1996) argue that there are four distinctive features of HI. First, it tends to have a broad conception of the relationship between institutions and individual actions. Second, it emphasizes power relations and the asymmetrical power distributions during the operation and development of institutions. A given institution provides different interest groups with "disproportionate access to the decision-making process" (Hall and Taylor, 1996: 941). Third it views institutional development through the lens of "path dependence" and 'unintended consequences'. Finally, it sees institutions as one factor in a causal chain leading to political outcomes. HI takes both rational choice assumptions of self-interested utility seeking actors and sociological assumptions such as socioeconomic development and the propagation of ideas and beliefs in account (Hall and Taylor, 1996: 942). As such, HI studies of the EU can be close to RCI when they view institutions as being power neutral, but at the same time, they can be close to SI when stressing cultural factors and institutional power implications to social groups (Aspinwall and Schneider, 2001: 11-12).

As regards the study of the EU, HI stresses the difficulties in terms of controlling institutional evolution and the need to take an 'evolving' rather than a 'snapshot' view while examining the EU (Pierson 1998: 30). Two main inferences can be drawn from the term 'historical institutionalism' itself. Firstly, that the EU can be explored in a historical context, as its political development has unfolded over time. Secondly, that the EU is institutionalist in character, as its process and current developments are "embedded in institutions — whether these be formal rules, policy structures, or social norms" (Pierson 1998: 29; 2000: 264-65). Both viewpoints highlight HI's theoretical relevance to the analysis of developments in EU fiscal and economic policy coordination, as it has evolved from the preventative arm of the SGP to the introduction of the European Semester. They also convey the two basic propositions of HI: choices in the past do matter and national control over EU policies may be reduced due to institutional constraints. HI offers two main methodological tools to analyse the evolution of institutions that are particularly relevant to this paper: (1) path dependence, unintended consequences and critical junctures, and (2) the three-step analytical model: T<sub>0</sub>-T<sub>1</sub>-T<sub>2</sub>.

### 2.1.1 The Path Dependence Framework and the Formulation of Hypothesis 1

Path dependence states that the sequences of decisions matter and past choices exert an influence over today's decisions by making certain alternatives appear more attractive. It suggests that once a course of action is chosen it will be difficult to diverge significantly from it, as the *status quo* holds precedent and a drastic change requires a large investment of political resources (Lelieveldt and Princen 2011: 42). The core mechanisms of path dependency are 'sunk cost', 'increasing returns processes' and 'self-reinforcing or positive feedback processes" (on this, also see Hosli and Dörfler

2019). As “the relative benefits of the current activity compared with other possible options increase over time” while “the cost of exit – of switching to some previously plausible alternative – rise”, “the probability of further steps along the same path increases with each move down that path” and therefore, “preceding steps in a particular direction induce further movement in the same direction” (Pierson, 2000, 252), and those previous steps “make reversal very difficult (Pierson, 2004: 10). “Increasing returns” are self-reinforcing as “long movement down a particular path will increase the costs of switching to some previously forgone alternative” (Pierson, 2000: 261): They are “positive feedbacks” as “institutions and policies generate incentives for actors to stick with and not abandon existing institutions, adapting them only incrementally to changing political environments” (Pollack, 2009: 127). Path dependent decision-making can be problematic, however, as path dependency informed form is often preferred over functionality; path dependency can result in both positive and negative externalities or ‘unintended consequences’. When these are negative, the institutions need to change, but change requires a large investment of political resources. Often the investment of resources is higher than the costs of negative externalities, leading to a continuation of the *status quo*. Nonetheless, path dependence can be interrupted by ‘critical junctures’: unforeseen drastic changes in the internal or external environment, often crises situations. Only when these occur, path dependency will undergo drastic change, as it legitimizes the allocation of the needed large investment of political resources. In these instances, one witnesses ‘branching points’, where radically different behaviour can exist and different decisions can be made, detached from courses determined by ‘path dependent’ processes (Hall and Taylor 1996: 942; Pierson 2000: 263). It is important to keep the two terms, ‘path dependence’ and ‘critical junctures’ distinct, however, as it is the former that lays the foundations for the latter, not *vice versa*. In following the concept of path dependence, one can explain why critical junctures can have such ‘lasting consequences’ (Pierson 2000: 263).

The path dependency framework will be used to judge here whether the European Semester was a fundamental change (critical juncture) to earlier attempts at European economic and fiscal policy coordination or not. As a crisis response mechanism, the European Semester represents a component of the ‘phases of institutional flux’ and is the institutional successor of the SGP’s preventative arm. Accordingly, the European Semester has the potential to have introduced, via the EU’s fiscal and economic coordination patterns, a drastic as opposed to incremental change to the national-supranational and/or national-national power relations. To acknowledge this, hypothesis 1 can be formulated as follows:

*Hypothesis 1: The European Semester indicates a ‘critical juncture’ for the EU governance path in fiscal and economic policy coordination, because compared with the EU’s previous practices, the European Semester effectively alters national-supranational and/or national-national competences and powers.*

If Hypothesis 1 is supported by empirical evidence, then HI’s arguments on the causes of critical junctures (i.e., economic crises) are also warranted. However, if the hypothesis is rejected, then the European Semester represents a path dependent pattern starting from the establishment of the SGP. Moreover, if national government powers are further constrained (perceived as ‘negative externalities’), HI’s proposition of unintended consequences is seen as having been supported by empirical evidence. This paper will take legalist criteria on national-supranational and national-national competence and power distributions as the gauge to judge the ‘critical junctures’ and ‘new



paths'. Legal criteria will be used as they mark significant (fundamental) changes that could lead to a significant shift, but not a critically significant one which is the characteristic of a 'critical juncture'.

### 2.1.2 The three-step analytical model: To-T<sub>1</sub>-T<sub>2</sub>

The three-step analytical model is a conceptual elaboration on the path dependence framework and embodies the core ideas and mechanisms of HI. We will now discuss the most important scholars who contributed to the three-step analytical model, Pierson, Hix and Drezner, and based on their different conceptual interpretations, propose a single unified model. Hix (1999, 2005) represents and summarizes HI as a three-step analytical model (To-T<sub>1</sub>-T<sub>2</sub>):

"At time To, a set of institutional rules is chosen or a policy decision is made (by the member state governments), on the basis of the structure of existing preferences. At time T<sub>1</sub>, a new structure of preferences emerges under the conditions of the new strategic environment: the changed preferences of the member states, the new powers and preferences of the supranational institutions, and the new decision-making rules and policy competences at the European level. And, at time T<sub>2</sub>, a new policy decision is adopted, or a set of institutional rules is chosen." (Hix 1999: 16)

In Hix's model, national governments are in control at the first stage, To, and decisions made at time To 'lock' the integration process into a particular 'path'. This means that 'the decision taken by the member states at T<sub>2</sub> is very different from that which they would have taken if they had faced the same decision at To' (Hix 2005: 17). The shift from To to T<sub>1</sub> is the result of changing national preferences due to changes in the internal or external environment. In this shift from To to T<sub>1</sub>, Hix describes three variables that contribute to the institutional changes, namely: changed preferences of the involved actors, the new powers and preferences of the supranational institutions, and the new decision-making rules and policy competences at the integrative level. Both in the shift from To to T<sub>1</sub> and from T<sub>1</sub> to T<sub>2</sub>, 'unintended consequences' can be present. This is the result of the involved actors' imperfect information to predict changing preferences at T<sub>1</sub>, or policy outcomes at T<sub>2</sub>. These 'unintended consequences' can take the form of disproportional shifts in governmental policy competencies towards the supranational level (Hix 2005: 17).

The most elaborate contribution to the three-step analytical model was Pierson's application of the model to EU studies in his 'the path to European integration' (1996, 149; 1998, 49). For Pierson, T<sub>1</sub> indicates the period between two grand bargains which resulted in considerable gaps in national government control, and lead to the altered context for T<sub>2</sub>. He describes four variables that contributed to the shifts from To to T<sub>1</sub>, namely: shifts in domestic conditions, micro-level adaptations ('sunk costs'), accumulated policy constraints, and heavily discounted or unintended effects. The shift from T<sub>1</sub> to T<sub>2</sub> indicates a changed internal (variables of T<sub>1</sub>) or external context forged by changing member state preferences, changing member state bargaining powers, and the power of other actors. These three factors taken as a whole explain the institutional and policy outcomes after the grand bargains of T<sub>2</sub>. Pierson argues that decisions arising from 'the short-term preoccupations of institutional designers', such as those made during the evolution of European social policy, could 'undermine (...) the long-term control of member state governments' and lead to widespread unanticipated consequences (1998: 56). This is mainly because the institutional arrangements and increasing 'sunk costs' (i.e. the ever-increasing costs of exiting from the existing supranational institutional arrangements) make any reversal both difficult and unattractive in practice. The logic here is not only concerned with the institutional constraints at the macro level, but also with societal

actors at the micro level incrementally building up their vested interest in the maintenance of EU policies over time.

Similar causal chains have also been proposed by other researchers, such as Drezner's (2010) path dependency approach:

"At time  $t$ , a set of rules  $R$  is codified. These rules help to shape and reinforce the preferences of the salient actors. At time  $t+1$ , the cost of switching away from  $R$  is somewhat higher. With each iteration, the reinforcement between actor preferences and the rules that bind them make it increasingly unlikely that  $R$  will be changed endogenously" (Drezner 2010.: 794).

Drezner's description highlights the theoretically unlimited 'iteration' and 'reinforcement' of rules  $R$  via time stages of  $t$ ,  $t+1$ ,  $t+2$ ,  $t+3$ , ...,  $t+n$ . However, the analysis of rules  $R$  can be divided into sequences of  $T_0$ - $T_1$ - $T_2$  analyses. In his interpretation, Drezner proposes three variables that contribute to shift from  $T_0$  to  $T_1$  (or in his model, from  $t$  to  $t+1$ ): higher switching costs from the rules codified at  $t$  (essentially the same as Pierson's 'sunk cost' variable), the reinforcement between actors' preferences and the rules that bind them, and an increasing unlikelihood to change the rules codified at  $t$  endogenously. The difference is that Pierson's and Hix's  $T_0$ - $T_1$ - $T_2$  model stresses the evolving relationship between nation states and supranational institutions as regards institutional rules and policymaking throughout certain periods of time. The focus of Drezner's proposition, by comparison, is on the rules themselves, and the underlying factors that drive the reinforcement and 'stickiness' of the established rules and policies throughout given time phases. Hix's  $T_0$ - $T_1$ - $T_2$  model and Drezner's  $t$ ,  $t+1$ ,  $t+2$ ,  $t+3$ , ...,  $t+n$  proposal should hence be viewed as two separate, but complementary, approaches to the path dependency mechanism: Hix's model emphasizes the historical and institutionalist context to explain how a path dependent mechanism works and evolves, whereas Drezner emphasizes the dynamics of path dependence themselves — i.e. the increasing costs of switching away from a path. Moreover, Drezner's argument that 'it (is) increasingly unlikely that  $R$  will be changed endogenously' implies that to break up the current chain of reinforcement and thus to embrace a new path, may require exogenous pushes such as the global economic crisis.

To combine the different conceptualizations in one model, this paper will use Pierson's  $T_0$ - $T_1$ - $T_2$  path map as its baseline and then synthesize it with Hix's new structures of preferences and Drezner's switching costs. In  $T_0$  the decision is made to create an institution, the institutional and policy outcomes are dependent on interstate bargaining process between the involved actors. The interstate bargaining agreement will reflect the involved actor's preferences and subsequent bargaining power. A shift from  $T_0$  to  $T_1$  will then be dependent on nine variables: (1) shifts in domestic conditions, (2) micro-level adaptations ('sunk costs') or higher switching costs from the rules codified at  $t$ , (3) accumulated policy constraints, (4) heavily discounted or unintended effects, (5) the changed preferences of the involved actors, (6) the new powers and preferences of the supranational institutions, (7) the new decision-making rules and policy competences at the integrative level, (8) the reinforcement between actors' preferences and the rules that bind them, and (9) an increasing unlikelihood to change the rules codified at  $t$  endogenously. Lastly, the shift from  $T_1$  to  $T_2$  is informed by (1)  $T_1$  dependent changes to preferences of the involved actors, (2) changing bargaining powers of the involved actors, and (3) the power of other actors. This then leads to institutional and policy outcomes finalized in  $T_2$ . These processes are shown in figure 1.

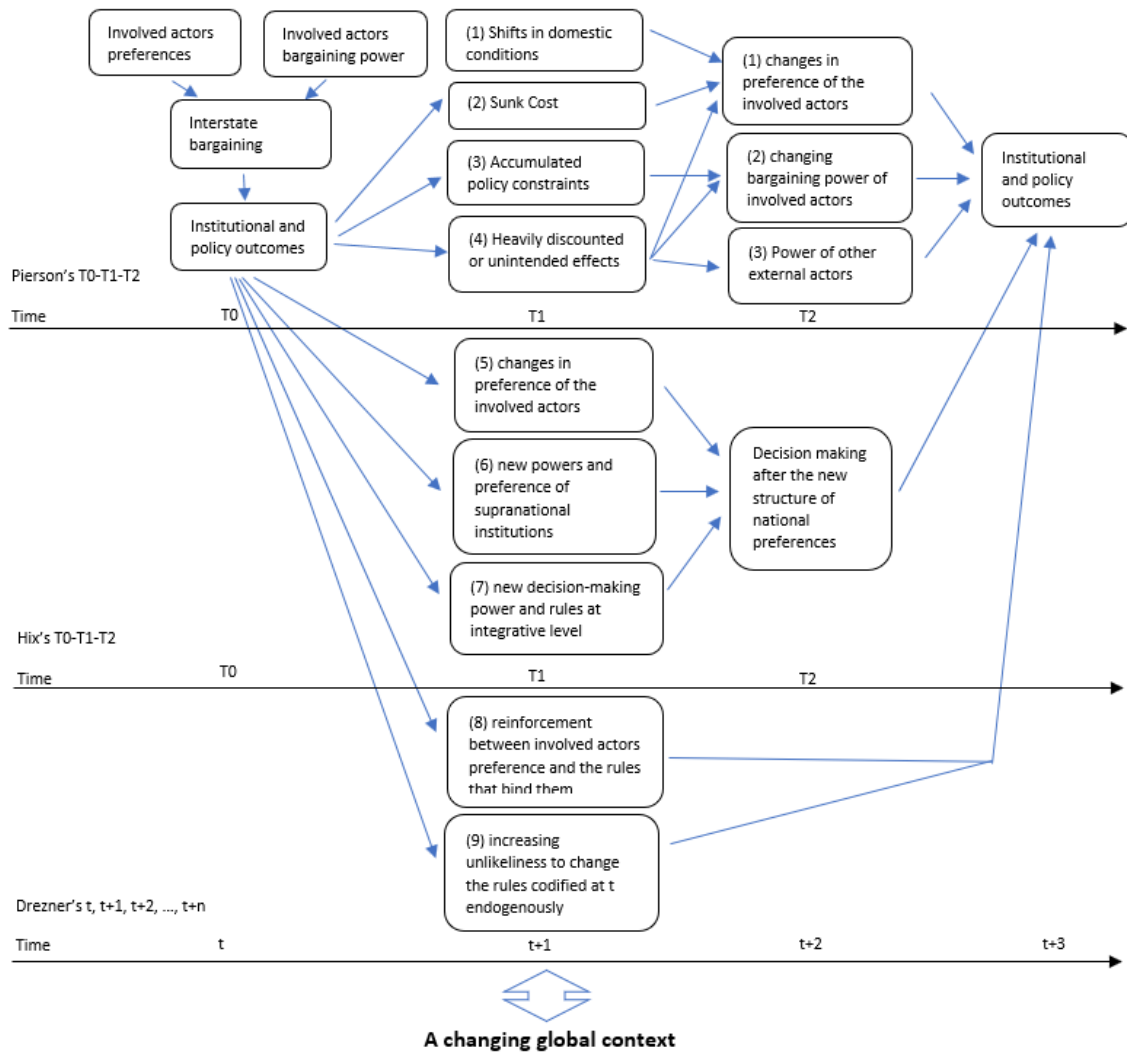


Figure 1: The three-steps analytical model, combining Pierson, Hix and Drezner's conceptualizations

Sources: Pan (2015) based on Pierson (1996, 1998), Hix (1999, 2005) and Drezner (2010).

The application of the three-step analytical model in this paper will follow Pierson's To-T1-T2 path dependent model. It focuses on institutional and policy evolution through EU intergovernmental 'grand bargains' for Treaty revisions (which require member states' unanimous approval); it hence attributes the time points to the consecutive EU Treaties that were in effect. The merit of this proposed path dependent model is that from To to T2, each time point represents Intergovernmental Conference (IGC) bargains and EU Treaty revisions. This meets the conditions for Pierson's model, and also represents changed structures of preferences and new contexts for policymaking, as argued by both Pierson and Hix. Each concluded EU Treaty is based on previously adopted Treaties, and each Treaty revision and expansion implies the potential of iterating and reinforcing the initial rules as suggested by Drezner. Therefore, the nature and property of the selected time points for analyses meet the different requirements of the different perspectives offered by Pierson, Hix and Drezner, making the proposed path dependent model both feasible and reasonable in terms of contents.

Considering that the formulation and adoption of the SGP occurred within the framework of the Treaty on European Union (TEU) and combining the propositions by Hix (1999, 2005), Drezner (2010)

and Pierson (1996, 1998), our paper proposes the following path dependence model (hypothesis 2) with an attempt to explain the policy outcome of the European Semester:

*Hypothesis 2: Using HI's To-T1-T2 model, the adoption of the European Semester displays a path of To (the TEU, under which the SGP was adopted) - T1a (the Amsterdam Treaty) - T1b (the Nice Treaty) - T2 (the Lisbon Treaty, under which the European Semester was adopted). This path follows causal chains based on a total of 12 analytical factors (indicators) as displayed in Figure 2.*

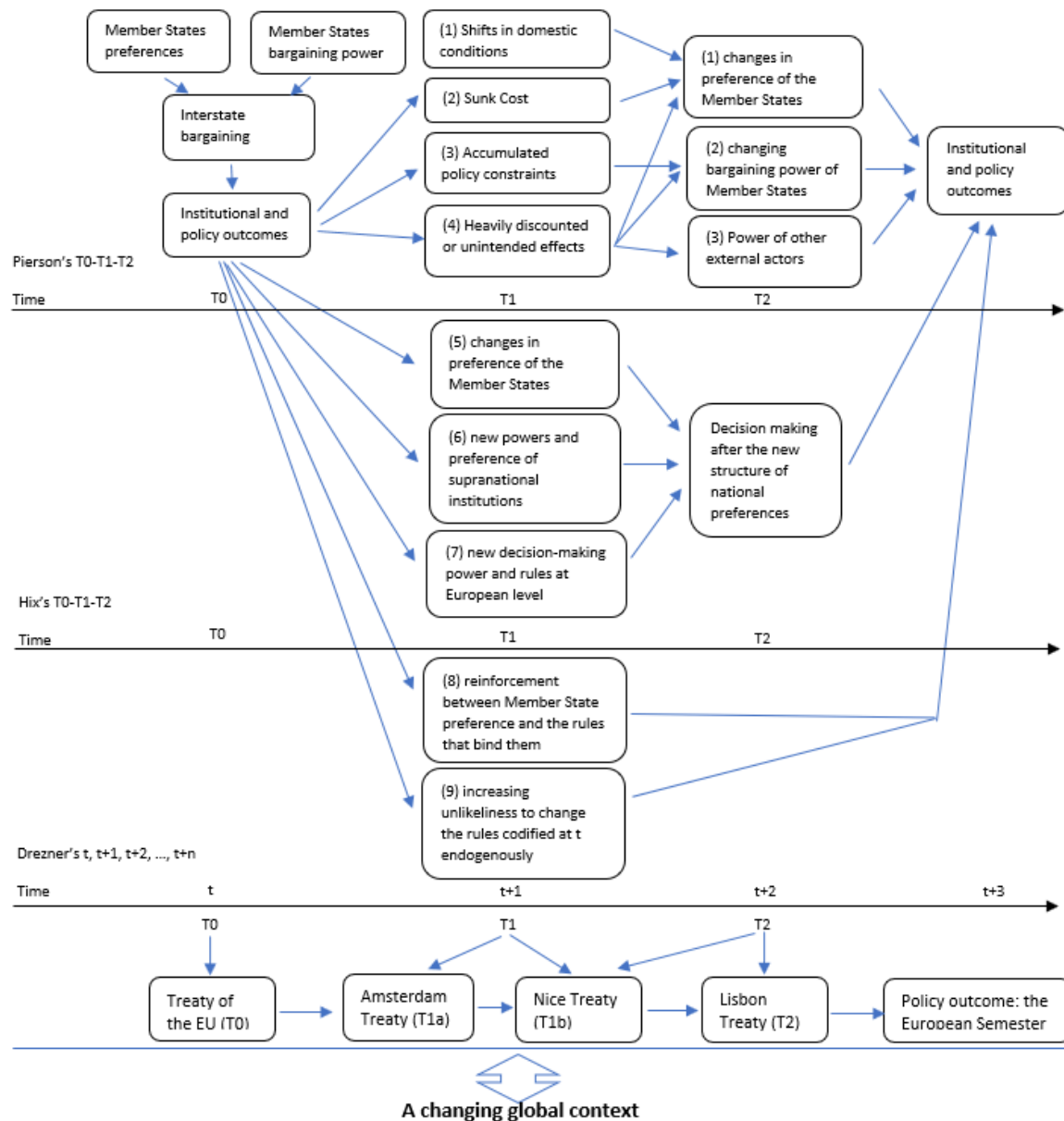


Figure 2: The proposed adapted three-step analytical model to understand the European Semester.

Sources: Pan (2015) based on Pierson (1996, 1998), Hix (1999, 2005) and Drezner (2010).

In our paper, the sequence is  $T_0$  (the TEU) -  $T_{1a}$  (the Amsterdam Treaty) -  $T_{1b}$  (the Nice Treaty) -  $T_2$  (the Lisbon Treaty).  $T_0$  (the TEU) then marks the beginning of the decision and policy-making procedures with regards to the single common currency and the then related trends in economic governance. The European Semester -- as an EU response to the sovereign debt crisis -- is an institutional and policy outcome of the grand bargains on the Lisbon Treaty. The Lisbon Treaty is categorized as  $T_2$ , whereas the TEU marks  $T_0$ : the TEU satisfies the requirement of the  $T_0$ - $T_1$ - $T_2$  model, in that at the initial time  $T_0$ , national governments had control over EU institutional structures and supranational policy-making; the TEU laid down the specifications and regulations for EMU. Adopted under the TEU, the SGP was meant to ensure budgetary discipline after the adoption of the single currency by the euro member states and the implementation of a new exchange rate mechanism for the non-euro member states (European Parliament-2012/0002 (NTT)). The TEU not only stipulated three stages to realize an EMU, but also specified the convergence criteria for member states to join the EMU at the final stage, implemented in practice on 1 January 1999, thus 'constitut(ing) the legal basis for the EMU and its new single currency' (Hosli 2005: 37). In sum, it was in the preparation of the TEU that national governments conducted their first IGC negotiations and decisions related to an EMU and the common currency; accordingly, national governments at that time can be assumed to have had control over the respective policies; this included the SGP, which initiated the submission of SCPs to coordinate as well as monitor national fiscal and economic behaviour after the adoption of the new common currency — the euro. As such, this determined institutional and policy initiation of economic policy coordination in the EU. Between  $T_0$  (the TEU) and  $T_2$  (the Lisbon Treaty) lies  $T_1$  -- a large time gap which consists of two chronological intergovernmental grand bargains:  $T_{1a}$  (the Amsterdam Treaty) and  $T_{1b}$  (the Nice Treaty), both of which satisfy various interpretations of  $T_1$  in the context of a HI three-phase model. In synthesizing all the factors contained in them as shown in Figure 1, we formulated Hypothesis 2. Hypothesis 2, in turn, builds on Hypothesis 1, but offers concrete assumptions as to how path dependence or a critical juncture occurred. Factors (1)-(9) for  $T_1$  and (1)-(3) for  $T_2$  discussed here are the analytical elements for the proposed path dependent model to be applied to the case of the European Semester. The HI  $T_0$ - $T_1$ - $T_2$  model emphasizes that decisions made at time  $T_0$  may cause unintended consequences at time  $T_2$ .

### 3. The European Semester as a Case Study

#### 3.1 Testing Hypothesis 1: Path Dependence or a Critical Juncture

The European Semester was introduced in 2011 as a new EU policy coordination and surveillance mechanism aimed at coordinating and monitoring member states' national budgetary and economic behaviour. It is essentially "[a] six-month period each year when EU Member States' budgetary, macroeconomic and structural policies are coordinated so as to allow these countries to translate EU considerations into their national budgetary processes and into other aspects of their economic policymaking" (European Stability Mechanism, 2017). The European Semester includes three approaches/dimensions to strengthen economic policy coordination within the EU: (1) monitoring national fiscal policies, (2) inspecting member states' economies, and (3) preventing excessive macroeconomic imbalances. Overall, the annual European Semester procedure can be divided into the 'European semester' for the first half of the year and the 'national semester' for the second half. These establish a common timetable for policy guidance and monitoring at the EU level, and policy implementation at the national level, respectively. Though the Semester cycle officially commences at the beginning of each year, the preparatory work begins towards the end of the previous year. Chronologically, a full European Semester includes the following:

1. In November and December, the Commission publishes the Annual Growth Survey (AGS) and the Alert Mechanism Report (AMR). The AGS states the EU policy priorities which member states should take into account when drawing up their own economic policies for the coming year, while the AMR reviews individual member state macroeconomic developments. Based on the AMR, the Commission may decide to conduct In-Depth Reviews (IDRs) to identify potential high macroeconomic imbalances and make relevant policy recommendations to the member states concerned.
2. In January and February, the Council of Ministers discusses the AGS, formulates orientations, and adopts conclusions. The EP deliberates over the AGS and may publish its own initiative report, and issue its opinions on Employment Guidelines (EGs);
3. In March, based on the AGS and the Council's analysis and conclusions, the European Council gives policy orientations. Member states must take these into account when preparing their SCPs (covering budgetary policies), and National Reform Programmes (NRPs) (covering policies promoting growth, employment and competitiveness). The Commission may issue IDRs on macroeconomic imbalances and draft Country-Specific Recommendations (CSRs) for remedying these imbalances.
4. In April, member states submit their Stability and Convergence Programs (SCP) and National Reform Programs (NRP).
5. In May, the Commission evaluates the submitted plans and issues draft CSRs;
6. In June, the Council discusses the drafts and reaches agreement (with possible amendments) on the final CSRs, which require the endorsement of the European Council in June.
7. In July, the Council adopts the CSRs, and the member states begin implementing them, by taking the CSRs into account in their national decision-making processes on the following year's national budget and economic policies. Consequently, 'governments, when submitting the draft budget to the national parliament, are expected to include policy recommendations by the Council and/or the Commission accompanied by an explanation of how these have been incorporated' (The Task Force Report 2010: 10).

Towards the end of each year, a new cycle of the European Semester starts again. The European Semester grew alongside other EU developments, most notably the two reforms made to the SGP following the 2008 economic crisis; the 'six-pack' and the 'two-pack'. In March 2011, Euro Plus Pact commitments were integrated into the SCPs and NRPs checked under the European Semester. And in December 2011, the 'six-pack', reforming the SGP inter alia, codified the European Semester into EU regulation (Article 2-a of Regulation (EU) No 1175/2011). It introduced a new dimension to EU policy coordination and surveillance which was to prevent macroeconomic imbalances through the MIP (Regulation (EU) No 1176/2011), and it also reinforced the EP's role by integrating the Economic Dialogue into the European Semester procedure. This gives the EP the right to intervene in the Semester at almost any point in time (Regulation (EU) No 1175/2011). In May 2013, Regulation (EU) No 473/2013, one of the 'two-pack' regulations, added an autumn counterpart to the spring semester procedure to check euro member states' budgetary plans and the Excessive Deficit Procedure (EDP) countries' Economic Partnership Programmes.

Compared with the EU budgetary and economic coordination before 2011, the European Semester integrates different strands of economic policy coordination into a new single surveillance cycle, 'bring(ing) together existing processes under the SGP and the Broad Economic Policy Guidelines (BEPGs), including simultaneous submission of SCPs and NRPs' (COM(2010) 526 Final 2010: 2). According to Regulation (EU) No 1175/2011, which codifies this newly invented policy coordination procedure, the European Semester includes BEPGs, EGs, SCPs, NRPs, and the surveillance to prevent

and correct macroeconomic imbalances. Exploring Hypothesis 1, Table 1 shows how dynamics assumed to have been effective are, or are not, found in our case study.

According to table 1, the European Semester appears to have arisen from a path dependence process originating from the SGP rather than being a critical juncture as such the case negates Hypothesis 1. Neither national-supranational nor national-national competences and powers were changed by the new mechanism because no legally binding decisions can be made under the European Semester procedure. Consequently, the European Semester only represents an incremental change rather than a drastic reform. This is in line with Verdun's (2015) historical institutionalist analysis of the EU crisis response, which she found were derived from already existing institutions.<sup>3</sup> Though national governments were the main actors when it came to policy response, the EU (supranational) level intervention was critical for policy enforcement (Falkner, 2016). As national government powers were not (further) constrained or reduced, the European Semester does not represent an unintended consequence of the initial decisions adopted through the SGP. However, the case study results as displayed in Table 1 do reveal that the already existing cleavage of euro versus non-euro member states has been reinforced by both the SGP reforms and the European Semester, accentuating the trend towards a two-speed EU. HI's assumption of the role of economic crises in triggering critical junctures is not justified as far as the case of the European Semester is concerned. Rather, it demonstrates the 'stickiness' of EU policy in coordinating and monitoring national fiscal and economic behaviour as well as the stability of EU institutional structures.

### 3.2 Testing Hypothesis 2: The three-step analytical model T<sub>0</sub>-T<sub>1</sub>-T<sub>2</sub>

The purpose of the proposed three-steps analytical model (as encompassed by Hypothesis 2) is to identify the possible factors (indicators) contributing to the evolution of EU policy coordination from the SGP's preventive arm to the European Semester from a HI perspective. Table 2 presents the case study results in accordance with Figure 1 that displayed the 12 analytical factors (T<sub>1</sub> (1-9) and T<sub>2</sub> (1-3)). The purpose is not to make a judgment on path dependency. The results of testing Hypothesis 1 already confirm path dependency in the case of the European Semester.

Based on the case study of the European Semester this paper proposes three propositions to understanding the evolution of the European Semester in light of Historical Institutionalism. The absence of certain causal steps between the 12 analytical factors in the proposed model once again suggests path dependency (as the test of H<sub>1</sub> already did) as a link between the European Semester and preceding practices becomes clear. But, the absence of variables (3), (4), (5), (6) and (7) show a partial collapse of the proposed three-steps analytical model. The partial failure of the model can be a result of the irrelevancy of the absent variables or the criteria this paper uses to judge these variables or the peculiarity of the case. As the, in this case, absent variables have been confirmed on other case studies and this paper stand by its legalistic criteria as the only objective criteria to judge most of the variables, this paper concludes that HI, which emphasizes unintended consequences, is better at explaining EU policies and measures with binding powers on its addressees.

*Proposition 1: Unintended consequences after the initial decisions tend to appear in the policy areas/measures of legally binding powers where national control over EU policy is constrained.*

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<sup>3</sup> Please note that also Schimmelfennig (2018), in his application of liberal intergovernmentalism (LI) to different EU crises finds that LI as a static theory insufficiently accounts for endogenous preferences which in fact can be a result of path dependencies (a concept core to historical institutionalism).

Two further inferences can be derived from Table 2:

*Proposition 2: Among the three factors: (1) shifts in domestic conditions, (2) sunk cost ('micro-level adaptations') and (3) heavily discounted or unintended effects, factor (2) tends to exert the decisive influence on member state preferences rather than the other two factors.*

*Proposition 3: On the issues that require coordination and cooperation among the individual member states as well as between the EU and national authorities, EU institutions (particularly the Commission) tend to be assigned with more functional tasks to maximize the synergetic effects of all individual member states.*

Proposition 3 highlights an important element of the EU project: how to deal with collective challenges of the entire bloc and maximize the synergistic effects for each individual member state. The European integration project brings significant advantages for the member states which they cannot obtain individually. Therefore, we may anticipate that the EU shall further strengthen macro-level coordination, cooperation and surveillance of micro-level performances, which tend to cut across national borders, different policy areas and various EU institutions. The European Semester seems to have developed into a grand and inclusive policy coordination and surveillance mechanism, integrating all possible policy coordination related to EU economic governance into a single procedure with a common timetable. However, challenges remain in streamlining each coordinated dimension effectively and efficiently, and ensuring proper transmission of the CSRs into national actions. The EU budgetary and economic policy coordination is still subject to the discretion of nation states, and the EU can only offer necessary macro-level support to maximize the synergistic benefits to the member states.

## A look at the EDP and EIP in light of our findings

The European Semester is a fundamental part of EU economic policy convergence and constitutes a major innovation in the SGP preventative arm. But to judge the impact of the European Semester on EU policy-making and Historical Institutionalism as a theory to judge this possible impact it is not enough to look at the European Semester alone. To understand the wider implications of the European Semester innovation there has to be looked at the Excessive Imbalances Procedure (EIP) and take note of the innovations in the SGP's corrective arm, namely the Excess Deficit Procedure (EDP), as they are inherently tied to and rely on the European Semester.

The EIP is a part the preventative arm of the Macroeconomic Imbalances Procedure (MIP). The MIP aims to identify, prevent and address potentially harmful macroeconomic imbalances in the EU. These macroeconomic imbalances are monitored as part of European Semester, particularly through the Alert Mechanism Report (AMR). The AMR consists out of a scoreboard constituting a number of indicators, when a Member State produces values above or below the 'healthy' thresholds are recorded, further analysis by the European Commission (EC) is conducted. This in turn leads to a discussion in the Council of the European Union (hereafter referred to as 'the Council') and the Eurogroup on the analysis. In the case that the EC detects alarming macroeconomic imbalances then it will advise the Council to issue recommendations for corrective action and the EIP is triggered. Once the EIP has been launched the targeted Member State needs to submit a corrective plan within a specified deadline. Only if a Member State is found to be in contravention of the EIP "political sanctions" may be imposed, including joint talks between the institutions and extensive surveillance and reporting procedures. Only if a euro area country is found to be in contravention of the EIP



“financial sanctions” can be imposed, annual fine of 0.1% of the country’s GDP. The imposition of sanctions is proposed by EC, if the Council does not reject the EC’s proposition by qualified majority vote within ten days, the sanctions are automatically accepted. This procedure is often referred to as the reverse qualified majority voting (RQMV) procedure in the Council (Essl and Stiglbauer, 2011). The Excessive Deficit Procedure (EDP) has a similar institutional construction. It uses the information provided in the European Semester to assess if a certain Member State has breached the EDP’s indicators. The EC notifies the Council on the breach which then gives recommendations to the Member State in question. In the case of inadequate or nonaction by the Member State the EC proposes financial sanctions up to 0.2% of the country’s GDP which automatically are accepted if not for a qualified majority vote (RQMV) by the Council to reject the sanctions.

The possibility of sanctions for countries in breach of the European deficit and debt criteria was already in place with the introduction of the SGP in 1997. But then the sanctioning mechanism was firmly under the control of the intergovernmental institutions of the EU as the EC’s recommendation of sanctions had to be approved by a qualified majority vote before being accepted. As a result, sanctions never were imposed under the 1997 procedure even when countries flagrantly breached the imposed guidelines. This was changed in 2011 when the Fiscal Compact and the Six Pack instituted the aforementioned RQMV procedure and created a more automatic sanctions mechanism and cemented the decisive role of the EC in the EDP and to a lesser extent the EIP.<sup>4</sup> Taken in account this innovation and its possible implications nuances the discussion on the European Semester and Historical Institutionalism.

Seikel (2016) and Dehousse (2016) argue that the reform fundamentally altered the power dynamics between the EC and the Council. That is constitutes a shift towards a ‘quasi-automatic’ sanctions mechanism and changed the discussion from ‘voting on a recommendation of the EC’ to ‘overruling the recommendation of the EC’. As such the EC has become the prime agenda-setter and has monopolized the right of initiative while Member States are forced to choose between the proposal of the agenda setter or overruling it. Seikel (2016) for example shows, using a spatial model, that rejection of the sanctions under the RQMV has become much more unlikely and as such has clearly strengthened the EC’s prerogative. Further evidence can be found on the new position of the EC on economic governance in recent actions taken by the French and Italian state. After scrutinization of the Italian budget in 2018 the Italian state was asked to revise their budget by the EC in line with the EU criteria. First it refused to do so and thereby was under threat of the EDP being triggered. After extensive negotiations between Italy and the EC the budget was revised in line with the EC’s recommendations (Fortuna, 2018). There was a similar discourse on the centrality of the EC when it came to France’s possible breach of the debt criteria in response measures taken to appease the Yellow Jacket Movement. The breach triggered a reaction by French Commissioner Pierre Moscovici and intense discussion in European media (Valero, 2018). Given the changed power dynamics between the EC and the Member States on the imposition of sanctions the discussion on ‘path dependency’ versus ‘critical junctures’ could be reopened. The possible fundamental shift in the power dynamics between the EC and the Member States could signify a ‘critical juncture’. But the limited scope of the EIP and EDP’s sanction mechanism and the fact that it was already cemented in the 1997 SGP suggest a case of ‘path dependency’. This argument is supported by Dehousse (2016) who refers to the fact that no quantum leaps on policy were made, but rather that the decision of RQMV was shaped in a risk adverse environment spurred on by urgency and the need to show

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<sup>4</sup> The sweeping reforms of the Fiscal Compact don’t touch upon the EIP and as a result even though the RQMV stands, the EIP is still under more control of the EU’s intergovernmental institutions than the EDP (Seikel, 2016).

credible commitments to the outside world. In this light the RQMV innovation seems rather a continuation of the past than the development of a new 'branching point'.

Contemporary discussions on the 2011 reform also contribute to the Path Dependency Framework as they suggest or confirm a number of different possible 'unintended consequences'. Savage and Howarth (2017) show that the European Semester has strengthened the EC's position to an even greater extent than conceptualized during the 2011 negotiations. In their research they show that the EC's request for better data and continued accumulation of economic data might put them at an 'unfair' advantage in comparison to the Member States when it comes to negotiations on EU economic governance. Savage and Verdun (2016) find a similar strengthening in professionalism and data access when it comes to the Directorates-General. This changing dynamic where the EC holds the cards on EU economic governance also shows in the EC's review of the SGP whereby it reinterpreted the legal code as established in 2015 to better suit its needs, thereby showing that the 2011 reform further expanded the EC's potential for autonomous action (European Commission, 2015; Seikel, 2016). This paper doesn't make a judgment on these changes, but does suggest that these might be 'unintended consequences' of the 2011 reform and therefore lend credit to the 'path dependency' argument. A last note on the 'unintended consequences' is that the use of the RQMV could lead to its suggested in other EU policy fields as shown in de la Porte and Heins (2015). These discussions might lead to the adoption of RQMV in other policy fields and would then constitute another 'unintended consequence'. Lastly, the three-steps analytical model applied to the European Semester showed a partial collapse of the model as multiple variables were unaccounted for. But taken into account the 2011 reform and the wider context of the European Semester, the three-steps analytical model might prove to be a better tool in understanding the evolution of EU economic governance as the aforementioned issues show that there possible are multiple unintended effects (T1 variable 4); accumulated policy constraint given the debt criteria (T1 variable 3) and new decision-making rules (RQMV) and policy competences at the European level (T1 variable 7).

## 4. Conclusions

The establishment of the European Semester was one of the five approaches adopted by the EU to strengthen its economic governance in wake of the financial crisis and the Eurozone sovereign debt crisis (The Task Force Report, 2010). As it was adopted, implemented and codified based on the SGP, questions arose about the relationship between the SGP and the European Semester. Among EU integration theories and approaches, HI appeared very apt in accounting for the institutional development that evolved through time, and therefore, this paper sought to apply its propositions to dissect the developing pattern of EU policy coordination and the factors leading to the policy outcome of the European Semester. To achieve this, two hypotheses were offered; the first argues for a critical juncture over path dependence, assuming that the European Semester brings a drastic change or 'a new path' to EU economic governance patterns in policy coordination. The second, in light of HI's three-phase path dependence framework (i.e. To-T1-T2), posits a three-steps analytical model of To (the TEU, under which the SGP was adopted) - T1a (the Amsterdam Treaty) - T1b (the Nice Treaty) - T2 (the Lisbon Treaty, under which the European Semester was adopted) with 12 analytical factors (see Figure 2 based on Figure 1). A table was created to clearly illustrate the causal mechanisms behind the development of EU budgetary and economic coordination from the SGP's preventive arm to the European Semester.

The case study results negated Hypothesis 1. Therefore, one can say that the HI three-phase path dependent model  $T_0$ - $T_1$ - $T_2$  of incremental change best explains the European Semester. This accounts for the lack of any critical junctures regards the relevant governance patterns of EU national-supranational and national-national competence and power distributions before and after 2011. However, the formation of the European Semester does not entirely fit the HI  $T_0$ - $T_1$ - $T_2$  model. This is because decisions under the European Semester are not legally binding, though the failure of the implementation of CSRs may trigger sanctions under other separate mechanisms. It is therefore suggested that the model is only appropriate in explaining EU policy outcomes of legally binding powers. Among the 12 factors proposed in the model, factor (2) (micro-level adaptations or 'sunk costs'), as well as factor (11) (switching costs from the rules codified at  $t$  ( $T_0$ )), turn out to be decisive in member state preference formation and thus decisive in the adoption of the EU fiscal and economic coordination and surveillance mechanisms. The 'sunk costs' (and switching costs) also confirm the indispensable role of collective policy coordination and surveillance at the EU level. Thereafter the paper looks at the European Semester in a wider context, including the reforms made on the Excessive Deficit Procedure and the Excessive imbalances Procedure. It finds that both cases further nuance the discussion on the Path Dependency Framework and contribute to the earlier made argument that the Euro crisis wasn't a critical juncture, but that reforms rather were continuation on earlier policy. It also adds a possible reiterated view on the use of the three-steps analytical model given the relevancy of the added nuance to it. Finally, this piece found that holistic approaches are required to streamline and interconnect different policies and priorities from various institutions. This also includes cooperation and coordination between macro (supranational) and micro (national and subnational) entities, with the aim of maximizing synergetic effects of various actors within the EU arena. Overall, the application of HI to this case clarified the evolving pattern and path of EU economic governance in budgetary and economic policy coordination.

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**Table 1: The European Semester: A critical juncture for the pattern of EU budgetary and economic coordination?**

Previous practices (SGP & Lisbon Strategy)	Change?	European Semester
The SGP was agreed in 1997 and introduced the requirement that SCPs be submitted by all EU member states. It prescribed that the SCPs 'shall be submitted before 1 March 1999. Thereafter, updated programmes shall be submitted annually'.	No	All fundamental components of the European Semester can be traced back to the SGP. It simply synchronised the guidance and surveillance at the EU level and the adoption of national budgetary and economic plans at the national level, and changed ex-post to ex-ante policy coordination.
The 2005 Lisbon Strategy introduced a set of new and more powerful measures to steer and monitor economic policy reform: (a) Integrated Guidelines (IGs); (b) NRPs; (c) CSRs; (d) new open methods of coordination (OMCs). The IGs, for the first time, combined the BEPGs and the EGs into a single document. Based on the IGs, each member state shall draw up NRPs, and due to the newly-invented CSRs, '[f]or the first time, policy advice covering the entire field of economic and employment policy was submitted to the European Council and the Council on a country-specific basis'.	No	All coordination tools remain or are reformed in the European Semester. CSRs are not legally binding obligations. If a member state fails to implement the CSRs within the given time-frame, it will not be fined or taken to the Court; only policy warnings can be issued. As such there is no competence shift as Member states' compliances to the CSRs still relies on (a) peer pressure, (b) market pressure, and (c) possible sanctions fall under other separate mechanisms controlled by the European Council, like the Excess Deficit Procedure (EDP) or the Excessive Imbalance Procedure (EIP).
In 2005, Council Regulation (EC) No 1055/2005 amending Regulation (EC) No 1466/97 was adopted, introducing new elements into the SGP's preventive arm, such as assessing the long-term sustainability of public finances in the SCPs.	No	The competence distributions under the European Semester remained unchanged as legally binding decisions could not be made under it. In the end national governments are responsible for the final implementation of CSRs and can't be forced to do so.
Before 2011, due to the separate and different policy coordination procedures, '[t]here was no comprehensive view of the efforts made at national level, and no opportunity for Member States to discuss a collective strategy for the EU economy', but the European Semester has provided a platform for the EU member states to do so.	No	From 2011, the NRPs and SCPs have been submitted simultaneously, following a common timetable and procedure under a single mechanism. All the synchronised policy coordination becomes ex-ante, as EU priorities and objectives enshrined in the AGS are issued 'before the drawing up of the NRPs and SCPs and before the adoption of national budgets'. The new legislations of the 'six-pack' and the 'two-pack' introduced special provisions for the euro countries which further strengthened euro area economic governance. This, however, led to unbalanced governance between the euro and non-euro blocks. Nevertheless, decisions under the European Semester procedure are not legally binding to EU member states. Thus, both national-supranational and national-national power geometries related to EU budgetary and economic policy coordination have remained the same since the preventive arm of the SGP agreed in 1997.

Sources: Council Regulation (EC) No 1466/97; Council of the European Union (2005); European Commission (2010); Halleberg et al. (2011); Delors et al. (2011); European Commission (2012); Hallerberg, et al. (2012); European Commission (2014b)

**Table 2. A path dependence analysis of the European Semester since the Maastricht Treaty**

Checking the proposed To-T1(T1a-T1b)-T2 HI model	Path dependence of the European Semester: the evolution of EU budgetary and economic policy coordination under the EU Treaties	
To(the TEU)- (IGC 1990-1991)	<ul style="list-style-type: none"> <li>Treaty bases for EU economic policy coordination and surveillance: Article 103 TEC and Article 189c TEC* (i.e. the co-operation procedure);</li> <li>Measures and policies developed: the SGP reached in 1997, and within it the Council Regulation (EC) No 1466/97 addressed the issue of strengthening the surveillance of budgetary positions, and the surveillance and coordination of economic policies. Thus, the national submission of the SCPs was brought into existence.</li> </ul>	
T1 (The Amsterdam Treaty and The Nice Treaty)  Analytical Factors (1)–(9)	<b>T1a (the Amsterdam Treaty): IGC 1996</b> <ul style="list-style-type: none"> <li>Treaty bases: Article 99 (ex Article 103) TEC and Article 252 (ex Article 189c) TEC (i.e. the co-operation procedure); no changes brought by the Amsterdam Treaty to the two relevant Articles in the Maastricht Treaty;</li> <li>Measures and policies developed: the Lisbon Strategy which was launched in March 2000;</li> </ul>	<b>T1b (the Nice Treaty): IGC 2000</b> <ul style="list-style-type: none"> <li>Treaty bases: Article 99 and Article 252 TEC; no changes brought by the Nice Treaty to the two relevant Articles laid down in the Amsterdam Treaty and in the earlier Maastricht Treaty;</li> <li>Measures and policies developed: (a) the re-launched Lisbon Strategy in 2005, introducing the practices of NRPs and CSRs; (b) SGP reforms in 2005, including Council Regulation (EC) No 1055/2005 amending Regulation (EC) No 1466/97</li> </ul>
(1) Shifts in domestic conditions	Yes	Yes
(2) Sunk costs (Micro-level adaptations)	No; the SGP for budgetary surveillance and economic policy coordination was not in place yet when the 1996 IGC took place, so the factor of micro-level adaptations was absent. But policy coordination was becoming an important factor for economic prosperity and thus switching away from the idea of policy coordination implied a costs.	Yes; the SGP rules and the Lisbon Strategy were decisively regarded as beneficial and necessary measures to promote micro-level economic growth.
(3) Accumulated policy constraints	No; economic policy coordination at that time under the BEPGs and the EGs was not legally binding.	No; because no legally binding decisions were made for the issue concerned.
(4) Heavily discounted or unintended effects	No; the relevant legal bases were not changed, and national governments' control over relevant EU policies was not reduced as no EU institutions issued legally binding decisions to the member states.	No; the legal bases for the issue concerned were not changed, and an absence of legally binding decisions suggested that national governments' control over relevant EU policies was not reduced.
(5) Changed preferences of Member States	No; the Amsterdam Treaty just renumbered ex Articles 103 and 189c TEC without changing the prescriptions in the two Articles.	No; no Treaty changes were made to the two relevant Articles passed down from the Amsterdam Treaty and the co-operation legislative procedure remained unchanged. This indicates that the power and competence of the supranational institutions remained unchanged since the TEU.
(6) New powers and preferences for supranational institutions	No; the legal basis and the co-operation procedure to adopt the measures related to economic policy coordination and fiscal condition surveillance remained unchanged from the TEU.	
(7) New decision-making rules and policy competences at the European level		
(8) Reinforcement between actors' preferences and the rules that bind them	Yes; though there were no binding rules for the issue concerned, a specific equilibrium between EU institutions and national governments had been established by the SGP, and the launch of the Lisbon Strategy showed strengthened preferences for further cooperation.	Yes; though there were no binding rules for the issue concerned, a specific equilibrium between EU supranational surveillance and national governments' ultimate decisions on their budgetary plans and economic policies had been established and reinforced. The SGP reforms and the re-launched Lisbon Strategy showed reinforced preferences of national governments and EU institutions on the issue concerned.

<b>(g) An increasing unlikelihood to change the rules codified at t endogenously</b>	Yes; the SGP went without changes.	Yes; though the SGP was amended, the aim was to strengthen the SGP rules as well as EU economic governance. The basic principles entailed in the SGP were not changed, exhibiting the 'stickiness' of the SGP rules and the increasing inability to change or break away from the SGP radically.
<b>T2 (the Lisbon Treaty) (IGC 2007)</b>  <b>Analytical Factors (1)–(3)</b>	<ul style="list-style-type: none"> <li>• Treaty bases: Article 121 of the Treaty on the Functioning of the European Union (TFEU)* (amending ex Article 99 TEC) and Article 294 TFEU (ex Article 251 TEC) (i.e. the co-decision procedure/the ordinary legislative procedure (OLP))</li> <li>• Measures and policies developed: (a) Europe 2020 launched in March 2010, which was based on the lessons and experience gained from the Lisbon Strategy; (b) the European Semester implemented as from 1 January 2011, and codified into EU law in December 2011; (c) new coordination and monitoring elements (such as the AMR of the MIP) added into the European Semester procedure, particularly by the 'six-pack' and the 'two-pack' reforms of the SGP.</li> </ul>	
<b>(1) Changes to Member State preferences</b>	Member state preferences changed from the co-operation procedure to the OLP, to codify the relevant measures into EU law. A preference for a greater role for the EP and the Commission suggested more democratic control as well as national willingness to strengthen economic policy coordination and fiscal performance surveillance. The presence of factor (2) at time T1b(the Nice Treaty), which was absent at time T1a (the Amsterdam Treaty), explains these preference changes, while mechanism (4) of the posited path dependence model was still absent.	
<b>(2) Changes in Member State bargaining power</b>	Member states understood the need to strengthen the issues concerned, and to this end they adopted a method of consensus rather than power distribution. A discussion over member state bargaining powers was not deemed necessary because of the negation of (3) and (4) at time T1b (the Nice Treaty).	
<b>(3) Power of other actors</b>	Treaty changes made to ex Article 99 TEC prescribed more responsibilities for the Commission and the EP, while the relevant legislative procedure was shifted from the co-operation procedure to the OLP. Thus, the negation of (4) at time T1b (the Nice Treaty) appeared inadequate to account for the changes in the Power of other actors at time T2 (the Lisbon Treaty). However, the essence of the equilibrium between the EU institutions and member states, since the preventive arm of the SGP was adopted in 1997, has remained unchanged due to the non-binding decisions regarding the issue concerned. The redefined role for the EU institutions, (3), can be explained by the T1 variables of (2), (5), (8), and (9).	

Notes: \* Before the Lisbon Treaty, the abbreviation TEC (for the Treaty establishing the European Community) was often used after a TEU Article of the first pillar of the EU (i.e. the Community pillar), distinguishing itself from the TEU articles of the second pillar (i.e. the common foreign and security policy) and the third pillar (i.e. police and judicial cooperation in criminal matters) prescribed by the same treaty of the TEU. The Lisbon Treaty, among other things, abolishes the three-pillar structure of the EU, and the TEC becomes the TFEU, while the TEU retained the same name.

Source: Pan (2015).



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