The Eurozone crisis and European integration: 'new intergovernmentalism' as a valid theory

Christian Lequesne

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Introduction

As a polity, the European Union (EU) grew up since its creation in 1952 through a permanent interaction between two institutional methods: a *Supranational Method*, also called the Community Method, and an interstates method, also called the *Intergovernmental Method*, close from the one characterising diplomacy in the Westphalian international system.

European integration theories have devoted thousands of pages since the 1950s to assess which of the two methods has been dominant in the development of the EU polity. A lot of contributions have been written opposing mainly the neofunctionalist argument, insisting on the dominance of the Supranational Method, to the statist argument, focusing on the primacy of the Intergovernmental Method (Saurugger 2013; Rosamond 2000). Each of the two 'theoretical families' has never been a monolith and has provided its own nuances, according to the authors and to the phenomena they choose to focus on.

In the 1990s, EU scholars became less satisfied with the opposition of neofunctionalism to intergovernmentalism, and developed alternative theories. New approaches, like the multi-governance theory (Hooghe and Marks 2001) or neo-institutionalism (Bulmer 2009), introduced more eclecticism and, by the way, gave often more importance to the empirical dimension of the analysis (Saurugger 2013).

The economic and financial crisis of the EU, whose maximum intensity was reached between 2008 and 2012, reactivated the debates about the respective virtues of theories to understand the EU and the Eurozone (the 19 member states of EU using the currency Euro) as polities (Puetter 2006). It moves the EU again from the study of the policy-making, where it has been very much confined since the 1990s, to the study of the polity-making, where it was located between the 1950s and the 1980s.

The main objective of this chapter is to show, in accordance with the edited volume's conceptual framework, how the economic and financial crisis has produced institutional change in the EU and how this change had impacted the theoretical debate. It is structured in three sections.

In section 1, I will map the main features of supranationalism and intergovernmentalism as institutional methods (and not theories) to demonstrate that, in the long term, the EU polity can be explained as a recurrent balancing act between the two methods.

In section 2, I will show how the economic and financial crisis between 2008 and 2012 has produced change in the power of the EU member states, reinforcing the power of some and decreasing the power of others. The fluctuated power of the member states is one dimension of what Sabine Saurugger and Fabien Terpan name institutional density, conceived as 'a dynamic concept, implying fluidity and movement'.

In section 3, I will show how the economic and financial crisis forces the EU scholars to reassess their theoretical approaches. The emergence of *de novo* institutions created by the member states to respond and manage the crisis makes the argument of a new intergovernmentalist theory valid. In this case, the substantive intergovernmentalism is not used to describe an institutional method, but is a theoretical account to explain the EU institutional change.

Supranational and intergovernmental methods: a balancing act in the long term

Analyses of the EU as institutional methods (not theories) take rarely into consideration the long period that consists in more than 60 years of historical experience. By method, I mean a process using a particular manner of building institutions. Even the so-called historical institutionalists do not consider much long-term history, when historians of European integration remain often too descriptive and show little interest for conceptualisation. The French political scientist Jean-Louis Quermonne (a lawyer by education) is one of the few institutionalists who have taken into account the long period (what he names *le temps long* in French) to understand the EU institutional methods (Quermonne 2008; see also Goetz and Meyer-Sahling 2009). My argument in this section is, when we precisely consider the long period, the development of the EU (or of the European Community before 1993) does not fit exclusively with the supranational method OR the intergovernmental method, but is a balancing act between both.

The Supranational Method

The Supranational Method, also known in the EU practitioners' jargon as the *Community Method* (Dehousse 2011), bears on six institutional characteristics and practices.

The EU polity has specific supranational institutions able to assume a certain autonomy vis-à-vis the member states that have created them in signing interstate treaties. The 'supranational' institutions can be run by politicians (like the Commission and the European Parliament), and by experts (like the Court of Justice and the European Central Bank). One important tenet of the Supranational Method is the right of initiative devoted to the Commission in the EU policy cycle. Except on CFSP issues, the Commission has the monopoly of drafting all policy proposals that will be further discussed and adopted by the member states and the European Parliament (Kassim 2013).

In the Supranational Method, the EU polity requires its own parliament separated from the parliaments of the constituent member states. The Supranational Method favours the development of a European Parliament – directly elected by the citizens of the member states – that exercises its proper legislative competences. Between 2009 and 2014, 89 per cent of the EU public policies have been adopted through a so-called co-decision procedure between the European Parliament and the member states (Pittela *et al.* 2014). Co-decision has become the norm of the ordinary legislative procedure in the EU (Ringe 2010).

The Supranational Method does not deny the role of states' representatives (ministers and officials) inside EU institutions: the European Council (heads of state and government), the Council of ministers (ministers) and the Committee of the Permanent Representatives (ambassadors to the EU). However, the Supranational Method tries to bypass the principle of national sovereignty within these institutions in organising decisions through majority and not unanimity rule. With the Supranational Method, the language of negotiations between the member states is the language of the majority. Even if the search for consensus has not disappeared in the practice of the Council of ministers, the majority rule constitutes the main incentive to reach consensus (Naurin and Wallace 2008).

The Supranational Method assumes that the EU – as one level of a multilevel polity – detains its own budget. If the EU budget represents only 1 per cent of the member states' GDP (142 billion euros in 2014), it is not exclusively funded by the member states' contributions but by a series of own resources: customs duties on imports, a levy on the Value Added Tax. As in a federal state, the treaties (equivalent to a constitution) also attribute exclusive policy competences to the central level. These exclusive competences devoted to the EU concern the customs union, the establishing of competition rules, the monetary policy, the conservation of marine biological resources, the common commercial policy and the conclusion of certain international agreements. In these policy areas, the member states have renounced to exercise their own policy competences to the sole benefit of the EU institutions.

With the Supranational Method, the member states agree that the polity produces a specific law – the EU law – accepted as superior to the national laws by the member states and whose compliance is compulsory. A European Court of Justice composed of European judges, like a constitutional or a supreme court in a federal state, is in charge of arbitrating conflicts of competences between the EU law and the national laws (Meeusen 2013). It is also the European Court of Justice that can impose to the member states the implementation of the EU law. Since the Treaty of Maastricht (1993), the European Court of Justice can impose fines to the incumbent states that do not comply with the EU law. The main result of this judicialisation is an EU law much closer in its effects from domestic laws than from international public law (Foster 2014).

Finally, the Supranational Method anticipates the possibility for the polity to add or revise policies from the existing ones. Several procedures exist. One applies just to the internal policies of the EU and consists in revising the competences without convening a specific conference of the member states. On the basis of proposals made by the Commission, the European Parliament and the European Council can agree upon policy changes. A unanimous ratification of the member states is in certain cases required and the treaties call it a 'simplified revision'. The other procedure consists in reforming the treaties after convening a Convention and an Intergovernmental Conference of member states. It is a heavier and longer procedure requiring at the end the ratification of the policy changes by all the member states, according to their respective constitutional practices.

The Intergovernmental Method

Differently from the Supranational Method, the Intergovernmental Method does not rest upon the principle of autonomy of the EU vis-à-vis the constituent member states (Hoffmann 1966). Close from what exists in most of international governmental organisations, the Intergovernmental Method is characterised by five components.

The EU polity is reflecting what the member states are bargaining, because the EU institutions are agents at the service of member states considered as principals (Pollack 2002). The member states have a right of policy initiative at the EU level. In the field of CFSP for instance, the member states and not the EU Commission have the right of initiative.

In the Intergovernmental Method, the legislative power is concentrated in the hands of the institutions composed of member states – the European Council and the EU Council of ministers (Hayes Renshaw and Wallace 2006). Inside those institutions, the power is dominated by the 'big' member states. The policy-making also escapes for a large part any parliamentary power at the EU level.

In the Intergovernmental Method, the decisions agreed by the member states respect the principle of national sovereignty in using unanimity rather than majority voting. Each member state keeps a veto power, as it is the case in policy domains like CFSP, citizenship, enlargement policy, tax policy. It does not mean that there is no deliberative dynamic. As for the supranational institutions, negotiating and bargaining are normal modes of political exchange inside the intergovernmental institutions (Naurin and Wallace, 2008).

In the Intergovernmental Method, there is no compulsory EU law having a direct effect on the national laws. The European Court of Justice has no power to exercise a judiciary control, as it is the case for CFSP and CSDP (Garbagnati-Kebel 2006).

Finally, the Intergovernmental Method does not necessarily require a reform of the EU treaties to add new policy competences to the existing ones. There is a possibility to develop new policies on an ad hoc basis through interstate treaties, as the Prüm Convention on the stepping up of cross-border cooperation, signed in May 2005 between Austria, Belgium, France, Germany, Luxemburg, the Netherlands and Spain and the Treaty on Stability, Governance and Coordination signed in March 2012 by all member states except the Czech Republic and the United Kingdom.[2] In these cases, the policy changes affecting the polity are mainly referring to international public law.

The balancing act

In the long period, the development of the EU polity is a recurrent balancing act between the Supranational Method and the Intergovernmental Method. What scholars name *European integration* is the outcome of permanent interactions between both methods. The resulting polity is a hybrid with no equivalent among domestic and international institutions. It explains why scholars often use periphrases to qualify this polity, as William Wallace when he wrote that the EU was 'more than an international regime and less than a federation' (Wallace 1983). Being a hybrid polity does not mean that this polity cannot be compared to other existing models. There is a huge difference between underlying this hybridisation and stressing the so-called *sui generis* nature of the EU. The latter does not make sense, as all polities can be regarded as *sui generis*.

To demonstrate empirically that the EU polity is a balancing act between the Supranational Method and the Intergovernmental Method, it is useful to look at the policy level. The making of policies in (and not by) the EU since 1952 can all be located in a continuum going from the Supranational Method to the Intergovernmental Method, with regular crossings and overlaps. There is a pole of pure intergovernmentalism represented by the CFSP and the CSDP at one tip of the continuum and a pole of pure supranationalism represented by the exclusive competences of the EU at the other tip.[3]

All the other policy issues are located in between, at a distance that is more or less far from the two poles. It is confirmed by the vast number of 'share competences' that the Treaty on the Functioning of the European Union mentions in its article 4. A 'share competence' is the legal name to describe policy overlaps between the Supranational Method and the Intergovernmental Method.

Four observations can be raised about the effects of the two institutional methods on the EU polity, when we consider long-term period.

First, the EU member states have been more prepared to delegate to the supranational institutions (the centre) the management of their economic interdependence than the management of their security. Interestingly, a comparison with most of the federal states existing in the world shows an opposite trend: the security and defence issues are often central competences when economics is more under the competences of the federated states (Burgess 2006). The difficulty to delegate the security issues is more difficult for military issues, a significant example of failure being the project of the European Defence Community in 1954. It is not at all the same trend for police and immigration issues. Since the Treaty of Amsterdam (1997), the member states have accepted to move immigration, police and control of borders issues, which were ruled by the Intergovernmental Method (the Third Pillar of the Maastricht Treaty) to the supranational pole (Bremberg 2015).

Second, if the Supranational Method applies more to the management of economic issues than security issues, we can observe counter-examples going in the direction of the Intergovernmental Method, as tax harmonisation for example, ruled by unanimity in the Council of ministers. None of the institutional reforms that took place since the Single European Act, in 1986, was able to modify this situation.

Third, the examples of re-nationalisation of EU policies have been rare despite political debates in favour of such an evolution in some member states, like the United Kingdom or the Netherlands. Since the Single European Act (1986), we can find obvious examples of policies that moved from the Intergovernmental Method to the Supranational Method, as the policy on justice and home affairs or some aspects of economic policy (Schimmelfennig 2015a: 3). There are less obvious examples of the opposite movement, except some issues of the Common Agricultural Policy, which moved from exclusive competences to shared competences under the Treaty of Lisbon (Skogstad and Verdun 2010).

Finally, there is a strong influence of the 28 domestic politics of the member states on the pendulum between the Supranational Method and the Intergovernmental Method. For this reason, it is senseless to study EU integration without investing in parallel the domestic politics and the polities of the member states (Bulmer and Lequesne 2013).

If the EU polity can be considered empirically as a balancing act between the two methods, why do theories lose then so much time to demonstrate theoretically the superiority of neofunctionalism on intergovernmentalism or vice-versa? The answer to this question is because theories often focus on periods and policy domains where one method has been more pregnant that the other to explain the development of the EU polity. This is precisely why theories, to move forward, have to avoid catching entirely the Supranational Method or the Intergovernmental Method to explain the development of the EU polity, but have to find new tools to explain the interactions between both, as I will demonstrate in section 3.

The impact of economic crisis on member states' power

In their introduction to this book, Saurugger and Terpan formulate the hypothesis that 'the higher the relative power of actors, the higher the probability that these actors influence institutional change' in regional integration. I will consider this hypothesis in insisting on the causal impact of 'domestic politics' (Bulmer 2015). In the case of the economic and financial crisis of 2008, institutional change is not so much the result of how regional institutions *constraint* member states, but of how member states were able to influence the crisis domestically. To measure the impact of the crisis on what Saurugger and Terpan name 'institutional density', we must absolutely consider the capacity of each member states to cope efficiently or not with the crisis and to influence or not policy decisions. I am deliberately choosing the case of four member states usually classified in the category of the 'big' – Germany, France, Poland and Spain – to demonstrate this causality.

Germany: the empowerment of the 'virtuous' economy

Since the 1990 reunification, Germany is the most populated member state of the EU (82 million inhabitants) and the fourth economy in the world. The costs of the 1990 reunification had negative effects on the macro-economic situation of Germany, which was considered at the end of the 1990s as the 'thick economy of Europe'. After ten years of salary restriction and welfare austerity, the country recovered his position in 2010, just after the start of the economic crisis. Simon Bulmer has showed how 'Germany has played a prominent role in advocating solutions to the Eurozone crisis' (Bulmer 2014: 1253). Chancellor Merkel's first diagnostic in 2009 was that Greece had an internal problem and had to follow the EU rules in order to resolve it (Jones 2014). Only in spring 2010 was the recognition by Berlin that the crisis needs a European emergency arrangement, because of the risk of contamination.

> As the scale of the Eurozone crisis became apparent, with rescues afforded to, successively Ireland (autumn 2010), Portugal (spring 2011), Greece again (summer 2011), with the risks of spill-over to Spain and Italy, plus the bailout of Cyprus in 2013, German policy was forced to evolve.
>
> (Bulmer 2014: 1253)

It is during this long second phase that the CDU/CSU – FDP government argues for fiscal discipline and strict conditionality to be imposed on the recipients of the rescue funds. This policy, as we will see in section 3, produces results in inspiring the creation of new institutions at the EU level. France in particular found compromises with Germany but without being able to rebalance the general philosophy of fiscal discipline and conditionality towards less austerity. It was explicit when the right-wing Nicolas Sarkozy was president, but also when the left-wing François Hollande took office after the May 2012 presidential election (Lequesne 2014). If the new socialist President articulated a discourse on the necessity not to forget growth, his government – confronted to a strong public deficit (4.1 per cent in 2010) – was not able to oppose in EU negotiations the fiscal orthodoxy established in Berlin and shared by a certain number of Northern countries like the Netherlands, Denmark and Poland. There is then evidence that Germany – which recovered itself from the slow down of its economy – has played, through its policy actions, both a dominant and a leadership role in the Eurozone crisis. The economic crisis makes Germany the de facto hegemon of Europe not through an explicit political project to dominate Europe, but because of its economic position and the impossibility for the other member states to impose credible and convincing alternatives (Paterson 2011; Lequesne 2015). Considering the necessity raised by Saurugger and Terpan not to limit the analysis of institutional density to governmental decisions, the German position at the EU level was reinforced by the broader concern of German institutions and German public about EU representation and legitimacy.

At the German domestic level, debates about the Greek crisis involved three German institutions which have based their legitimacy on the 1949 Basic Law: first, the German parliament (Bundestag) and the Federal Court of Justice (Bundesverfassungsgericht) which have often convergent strategies; and second, the German Bundesbank.

In 2009, the Federal Court of Justice of Karlsruhe ruled on the constitutionality of the Lisbon Treaty, 'holding again the Treaty was in conformity with the Basic Law' (Bulmer and Paterson 2013: 1399). In the absence of a European *demos*, the German Federal Court required new legislation to be passed to grant the Bundestag appropriate powers before the ratification of the Treaty of Lisbon (Auel and Höing 2014). Similar parliamentary conditionality has arisen from judgements directly inspired by the measures decided at the EU level to cope with the Eurozone crisis: one on the European Financial Stability Facility (in 2011) and the other on the European Stability Mechanism and the Fiscal Compact (September 2012). The European Stability Mechanism, for instance, 'was declared compatible with the German Basic Law, but any increase in its resourcing would have to receive the explicit approval of the Bundestag' (Bulmer and Paterson 2013: 1399). The German Bundesbank also plays a role in the German political debate, as the largest shareholder of the European Central Bank and a highly respected institution in the public opinion. The new president appointed in February 2011, Jens Weidmann (Chancellor Merkel's former economic adviser), criticised several times during the crisis the lack of economic convergence in the Eurozone and the necessity to think about the exit of default members, looking particularly at Greece. In July 2012, he opposed publicly the ECB Board of Directors' decision to buy Spanish and Italian bonds to keep interest rates in these countries capped at manageable levels (Linn 2012).

These institutional positions emphasised some reactions among the German public against letting the German taxpayer financing the deficits of the so-called 'badly managed' Southern EU member states. It gave birth in February 2013 to a new political party, *Alternative für Deutschland* (AfD), hunting votes among the electorates of the Chancellor's party CDU and the Liberal party FDP who considered that the Eurozone has become a real burden for the German taxpayer. AfD got 7 per cent of the votes in the European elections of June 2014 and entered four regional parliaments in 2014 and 2015 (Brandenburg, Thüringen, Saxe and Hamburg). It has become a competitor for the German governments, both during the CDU/CSU/FDP coalition (2009–2013) and the CDU/CSU/SPD 'Great Coalition' after 2013.

Both the good state of the German economy and the changing debate about Europe in the German public opinion are variables to understand why the German government was keeping firm on its model of fiscal orthodoxy in EU negotiations. More than ever, Germany appeared to itself but also to the partners the powerful member state able to give the tone to institutional density in the EU (Kundnani 2014; Schimmelfennig 2015b, Lequesne 2015).

France: not wealthy enough to impose an alternative scenario

France is a country that a long tradition of co-leading the EU with Germany (Krotz and Schild 2013), and, in some policy issues like defence, with the UK. France, a long time defender of Keynesianism in Europe, was not totally resistant to the neoliberal norms that penetrated Europe after the mid 1980s (Jobert 1994, Hall 2012). Parts of the bureaucratic and political elites (both right and left) became convinced that fiscal discipline is a valid argument and that France did not do enough to control its public budget under deficit since 1974. It does not mean that the French elites were suddenly sharing a neoliberal line and that the pro-austerity argument was successful to impose a decrease of the French public deficit, because of strong veto players in the French society (Algan *et al.* 2009).

In the first phase of the economic crisis (2009–2011), President Nicolas Sarkozy assumed the necessity to work in the same direction than the German Chancellor Merkel upon the creation of fiscal rules to make the Eurozone more sustainable. It immediately created in France an opposition to the 'Merkozy' tandem, President Sarkozy being accused of following what Merkel wanted and renouncing to play the established role of an independent leader in the Gaullist tradition (Lequesne 2013). In the perspective of the presidential election of 2012, the Socialist candidate François Hollande understood the political importance for his campaign to distinguish his economic views from the German economic orthodoxy. His discursive claim to give more importance to growth in the EU was mostly an instrument to differentiate himself from 'Merkozy' and to give the impression that France was not just following Berlin. After Hollande succeeded in the May 2012 election, he asked the European Council to adopt in June 2012 a 'European Pact on Growth' but, for the rest, did not renegotiate the Fiscal Compact signed by Sarkozy. The French Parliament ratified the Fiscal Compact with a large majority in October 2012 (Lequesne 2014). There are at least two explanations to that decision. A first explanation is ideological: Hollande chose prime ministers (Jean-Marc Ayrault, and then Manuel Valls) and ministers of finance (Pierre Moscovici, and then Michel Sapin) who belong to the centre-left of the Socialist Party and accept the idea of cuts in the public spending. The second explanation has to do with the relationship between the state of the French domestic economy and the ability of the French government to influence institutional change in the EU. Due to structural difficulties aggravated by the crisis (a decrease of firms' competitiveness and 10 per cent unemployment rate), Hollande's France was not in a position to impose to the EU a credible alternative economic model to the German one. This economic vulnerability has been correlated to a political one: the raise of the far right party Front National that proposed the withdrawal of France from the Eurozone and a return to the French Franc. The National Front got the largest number of seats in the European elections of June 2014, sending 23 deputies to the European Parliament. Due to these weaknesses directly linked to the governance of the economic crisis at the domestic level, France's traditional role of co-leading power in the

EU decreased when Germany imposed itself as the leading power that influence the direction of institutional change in Europe (Fabbrini 2013). This equation resulting from the economic crisis also explains why France decided – under Sarkozy as under Hollande – to adopt a higher profile compared to the rest of the EU (UK included) regarding the foreign and military interventions abroad. These domains are exactly the ones where Germany – due to its history – is not prepared to compete with France (Lequesne 2015). This French strategy of assertiveness in external foreign policy is a form of compensation to the difficulty to influence institutional change in the economic and financial domains.

Poland and Spain: the opposite effects of the crisis on power

Spain and Poland have often been compared as countries of a similar size inside the EU, having both experienced democratic transition and a strong support of their public opinion towards the EU as a way to modernise both their state and society. The differentiated effects of the economic crisis on each country have impacted their respective capacity to influence institutional change.

The Spanish crisis began in 2008. The main cause of Spain's crisis was an enormous housing bubble and the accompanying artificial and unsustainably high GDP growth rate. In 2009, Spain entered officially in recession. The consequences were a strong economic downturn, a severe increase in unemployment and bankruptcies of major companies. The Socialist government of José Luis Zapatero started austerity measures, but did not ask for EU loans in the first years of the crisis. It is only in 2012 that the Conservative government of Mariano Rajoy was unable to bailout its financial sector and had to apply for a €100 billion rescue package provided by the European Stability Mechanism (ESM). Spain felt suddenly in the category of the 'left behind' states of the EU (Garcia Cantalapiedra and Pacheco Pardo 2014). The jump of the unemployment rate (50.7 per cent for those younger than 25 years old in January 2012) forced young people – including qualified ones – to migrate to other EU member states, especially Germany. Movements of undignified people grew up in Madrid and in the main cities of the country, leading to the creation of a new left-wing party *Podemos* opposed to the strong conditionality imposed by the EU institutions. In the EU negotiations, the position of Spain changed from a proactive country supporting all new steps of European integration to one submitted to conditionality from the northern countries, and especially from Germany. The economic crisis has changed the power of Spain, moving from a member state considered virtuous to a member state under EU monitoring. In October 2012, the so-called Troika (European Commission, ECB and IMF) started negotiations with Spain to establish an economic recovery programme in exchange to additional financial loans from the European Stability Mechanism. The effect of the crisis on the decrease of the Spanish power in the EU has been direct. Mariano Rajoy's government implemented the austerity measures but also started in parallel a strategy of nation branding, named *Marca Espana*, to recover a good image abroad, especially among the EU investors.[4] The main objective was that Spain escaped as soon as possible the group of ‘thick economies’ of the Eurozone to recover a leverage on the EU institutional change (Garcia Cantalapiedra and Pacheco Pardo 2014).

Contrary to Spain, Poland is one of the EU member states that have been the least impacted by the economic and financial crisis in the period 2008–2012. The reasons are both institutional and economic. The institutional factor is the non-participation of Poland to the Eurozone, despite the political commitment of the centre-right government of Donald Tusk to adopt the Euro (Pomorska and Vanhoonacker 2012). Keeping a capacity to play on the devaluation of the zloty was an advantage all over the economic crisis, despite the contradiction with the political objective to join the Eurozone. The economic factor is the cautiousness of the Polish banks vis-à-vis the purchase of toxic assets in the decade preceding the crisis. Contrary to other countries like Ireland, Greece or Spain, the Polish prudential rules were conservative enough to avoid major risks on the foreign financial markets.

The Polish government led by Prime Minister Tusk adopted during the crisis a position on institutional change close from the German one. The Civic Platform (PO), his party, understood that the support to the more powerful member state of the EU was a way to reach a main objective: being recognised as a ‘big’ member state. In terms of strategy, the discourse of Polish leaders played an instrumental role, especially during the Polish Presidency of 2011 where Poland suffered from being excluded from the Eurogroup negotiations (Lauenroth and von Ondarza 2014). The Polish minister of Foreign Affairs, Radoslaw Sikorski, did not hesitate to repeat publicly that in the face of the economic crisis, Poland was considering itself as ‘North European’ country, which meant in the camp of the ‘responsible’ Germany and other member states as the Netherlands and Finland (Jokela 2015). In a discourse in Berlin in November 2011, Sikorski asked for a further strengthening of institutional change in the EU, proposing a merger of the posts of the Presidents of the European Council and the European Commission. He even advocated the direct election of the President by the European demos. Warning that EU was standing at the brink of a disaster, he spoke strongly in favour of active power of its Western neighbour: ‘I will probably be the first Polish foreign minister in history to say so, but here it is: I fear German power less than I am beginning to fear German inactivity’.[5] As Pomorska and Vanhoonacker rightly observe:

> The speech was a clear expression of the Polish desire to be part of the European core and also an illustration of how Poland, since its accession in 2004, has increasingly been turning towards the EU rather than the United States, with Germany becoming its major partner.
>
> (Pomorska and Vanhoonacker 2012: 78)

For Poland, the rapprochement with Germany during the economic and financial crisis was an instrument to increase its own power in the EU. This strategy has borne fruit as Poland started to be considered more not simply as a ‘new’ member state of Central Europe, but as a 'big' member state with a political ambition regarding institutional change. In the French *White book on Defence and National Security* published in 2013, Poland is mentioned as a worthy partner for a future European Defence Policy (Livre blanc sur la défense et la sécurité nationale, 2013). Former President Giscard d'Estaing published in 2014 a book where he suggested a new start for the Eurozone around a limited number of 12 states. The only Central and East European State included in Giscard's list was Poland (Giscard d'Estaing 2014: 127). The rapprochement with the 'earnest' Germany was the political mean that the Polish government used to consolidate this strategy of empowerment, expecting political dividends at the EU level (Kaminska 2014).

This comparative analysis is important to demonstrate how the member states remain main units to be taken into account in the analysis of institutional change in the EU. Understanding the EU polity requires the necessity to open the box of domestic politics and to do in parallel comparative politics (Bulmer and Lequesne 2013). More than ever, understanding institutional change in the EU requires an analysis of 'how problems in domestic preference formation have become standalone inputs into European integration process' (Bickerton *et al.* 2015). It imposes an interest not only for the negotiations taking place in Brussels but also in each member state.

The economic and financial crisis is a good example of how the member states' polities influence their respective capacity to impose institutional change in the EU. Power arises both from a capacity to impose decisions in the intergovernmental game and to present a 'respectful image'. Analysing institutional density in regional integration as the degree to which regional institutions constrain member states in their domestic and international politics is clearly not enough. We must also admit that domestic politics constraints institutional change.

De novo institutions and the theory of new intergovernmentalism

This section is not using the term intergovernmentalism to qualify a method but a theory. The economic and financial crisis has reactivated among EU scholars the project to elaborate 'grand theory' instead of concentrating exclusively on the 'less grandiose issues' of EU policies or EU governance (Bulmer 2015: 289). In this refreshing debate, Bickerton *et al.* bring a solid theoretical argument about what they call new intergovernmentalism defined as a way to explain the 'new phase in European integration' that represents the Post-Maastricht era (Bickerton *et al.* 2015: 3).

Bickerton *et al.* formulate six hypotheses, each of which is related to a particular aspect of the new intergovernmentalism:

1 Deliberation and consensus have become the guiding norms of day-to-day politics;

2 Supranational institutions are not hard wired to seek ever-closer-union;
3 Where delegation occurs, governments and traditional supranational actors support the creation and empowerment of *de novo* institutions;
4 Problems in domestic preference formation have become standalone inputs into European integration process;
5 The differences between high and low politics have become blurred;
6 The EU is in a state of disequilibrium.

Not all six hypotheses have the same explanatory value, as further empirical studies shall demonstrate. Some critics of new intergovernmentalism have emerged in the literature, insisting that the theory is not very new compared to what Stanley Hoffmann and Andrew Moravcsik have analysed in the past under the label of intergovernmentalism or liberal intergovernmentalism (Schimmelfennig 2015a). I do not share this critic for one main reason: Hoffmann and Moravcsik's theories were mainly attempts to refute the influence of the Supranational Method and, then, the validity of neofunctionalism as a theory. With new institutionalism, we are not anymore in this binary opposition, as the theory is reconciling the power of the member states (linked to domestic politics argument) without denying the influence of the supranational method. It is an interesting attempt to theorise the balancing act between the Supranational Method and the Intergovernmental Method.

Schimmelfennig is right when he says that it is useful to take into account the 'policy characteristics' to theorise the balancing act (Schimmelfennig 2015b, 2). Let's take the Economic and Monetary Union (EMU) as an example. EMU is typically a policy resulting from the balancing act between the Supranational Method and the Intergovernmental Method. According to the Treaties, the monetary policy is 'supranationalised' with an independent central bank – the European Central Bank (ECB) – in charge of controlling inflation in the member states' economies. The main rationale behind this policy choice, responding to a strong German demand in the 1990s, was to disconnect the control of inflation from electoral politics (Fabbrini 2013). On the other hand, the macro-economic policies (the 'E' component of EMU) have remained a coordination between the member states using the Intergovernmental Method. Regarding EMU, the Treaty of Lisbon has confirmed the intergovernmental nature of the EU economic policy, in deciding, as Sergio Fabbrini writes, that these policies should be pursued through *soft law*, not *hard law*' (Fabbrini 2013: 1008).

The crisis of 2008–2012 has re-launched, among the EU leaders, a political debate about the *coherence* between a supranational monetary policy and intergovernmental macro-economic policies. It is here that new intergovernmentalism appears very relevant as a theory. The institutional change to move towards more macro-economic coherence has consisted for the member states in creating *de novo* intergovernmental bodies, but with clear links with the existing supranational institutions (Bickerton *et al.* 2015: 11). Three *de novo* institutions have been created by the EU states to respond to the crisis, using intergovernmental agreements rather than a formal reform of the existing EU Treaties: the European Financial Stability Facility (EFSF) in 2010 to assist the member states that were unable to finance their public debt; the European Stability Mechanism (ESM), a permanent structure that replaced the EFSF in 2012; and finally the Fiscal Compact (formally the Treaty on Stability, coordination and governance in the European Union) signed by 25 member states in 2012 to impose fiscal discipline to the national budgets (Verdun 2015).

New intergovernmentalism helps to explain the 'ambivalent relationship between *de novo* institutions' and existing supranational institutions provided by the EU Treaties (Bickerton *et al.* 2011: 11), reinforcing the logic of crossing, overlaps and hybridisation between the Intergovernmental Method and the Supranational Method. Let's take the example of the *Fiscal Compact* to understand this ambivalence. It is formally an intergovernmental treaty between 25 member states to make sure that the national budgets of the Eurozone members remain in balance or in surplus, but not in deficit (the so-called Golden Rule). The Golden Rule, resulting from a purely intergovernmental treaty, shall however work in accordance with join principles proposed by a supranational institution, the EU Commission. In the same vein, according to the *Fiscal Compact*, it is another supranational institution – the European Court of Justice – that can decide financial sanctions against member states that do not respect the Golden Rule (Treaty on Stability, Governance and Coordination 2012). By the way, the *Fiscal Compact* creates for the Court of Justice itself difficulties in the interpretation of EU law. In their Pringle case of 2012, the European judges stated that 'the general principle of effective judicial protection does not preclude the conclusion … of an agreement such as the Treaty establishing the European stability mechanism' between a limited number of EU member states whose currency is the Euro.[6]

The positions of the Heads of State and Government, when they addressed the crisis also support the relevance of new intergovernmentalism as a theory. German Chancellor Merkel, for instance, made her institutional choice clear in the discourse she pronounced in November 2012 at the College of Europe in Bruges. She stated that time has not to be wasted anymore in debates about the benefits of the supranational or intergovernmental methods of integration. For her, the EU can establish intergovernmental frames that give responsibilities to the existing EU supranational institutions. This is what Chancellor Merkel calls the Union Method – in German *die Unionsmethode*.[7] President Sarkozy goes in the same direction when he said, in a speech in Toulon on 2 December 2011, that 'the reform of Europe is not a march towards supranationality … The integration of Europe will go the intergovernmental way because Europe needs to make strategic political choices' (quoted in Fabbrini 2013: 1012). The positions of major EU leaders are useful to investigate more the causality of hybridisation between the Supranational Method and the Intergovernmental Method catched by new intergovernmentalism. Two causal factors can at least be identified. The first has to do with controversial domestic politics on the management of the Eurocrisis, which makes the empowerment of supranational institutions more difficult to present in terms of public justification and legitimacy. This is what we saw in Section 2, in particular about Germany. The second causal factor is the increased requirement, with the economic crisis, of differentiation in negotiation and implementation (Leuffen *et al.* 2012). Concerning negotiation first, only 19 EU member states on 28 are participating to the Eurozone and some of them (like the United Kingdom, Denmark and Sweden) are not interested in a full membership to EMU for reasons of domestic politics. It explains why the UK but also Czech Republic (which was governed by a Eurosceptic majority in 2012) were not interested to negotiate the *Fiscal Compact*. Having an intergovernmental treaty rather than reforming the existing treaties was the mean for the other member states to bypass the reluctance of Prague and London and to get, at the end, a decision (Fabbrini 2013). Regarding implementation, *de novo* institutions also offer some effectiveness to the member states that signed it. To take again the example of the *Fiscal Compact*, contrary to the EU treaties that require ratification of all member states according to their respective constitutional rules, the intergovernmental treaty can enter in force when 50 per cent of the signing member states have ratified it. This derogation to classic EU law shall be analysed as a guarantee for the member states to get effective decisions for the Eurozone.

The creation of *de novo* institutions in the EU to manage the economic and financial crisis demonstrates that EU theories have to avoid reducing the power relationships between member states and supranational institutions to a zero sum game. As Simon Bulmer wrote in a comment to an early draft of this chapter, theory is very often a 'matter of taste'.[8] Considering the theoretical box, new intergovernmentalism seems to be the tastiest tool to explain the effects of the economic and financial crisis on institutional change.

Conclusion

This book is about regional institutional change in periods of economic and financial crises. The EU offers an excellent case study to reflect on this phenomenon as it has experienced between 2009 and 2012 a lot of institutional changes resulting from a difficult economic and financial crisis. As a conclusion, I would like to come back on two questions that Saurugger and Terpan invite us to think about in this volume.

The first is the power relations between the member states and the regional organisation in the different policy domains. A clear conclusion of this chapter is that member states matter and that the capacity of them to resist or, at the opposite, to be deeply affected by the economic and financial crisis has direct influence on their capacity to exercise power in the regional organisation. Germany, as a member state not only 'big' but also able to adapt its economic policies to the crisis influenced the search for solutions at the EU level and increase, by the way, its empowerment at the regional level. We must think more about the causality of what Saurugger and Terpan name institutional density when member states are concerned. Institutional density is not only the degree to which institutions created by regional organisations constraint member states, but also the degree to which domestic politics of the member states constraint regional organisations.

The second question raised by Saurugger and Terpan is the institutional change in the regional integration schemes themselves, both with regard to formal and informal institutions. The economic and financial crisis has confirmed a long-term trend in the building of the EU polity, which is a balancing act between supranational and intergovernmental methods of integration. In this regard, there is always a risk considering too much the relationship between crises and institutional changes in regional organisations as a break. The institutional response to the economic and financial crisis in the EU can only be understood if we replace the angular momentum in a long-term perspective. Crisis does not bring necessarily radical institutional changes but make more visible existing trends, as the balancing act between the Supranational Method and the Intergovernmental Method.

Finally, the economic and financial crisis had an impact on the theoretical debate about regional integration. Regarding the EU, forces EU studies to consider more seriously the EU as a polity and not only a governance or a policy regime, and to reassess the theoretical toolbox. New intergovernmentalism, as developed by Bickerton *et al*., fits particularly well with the institutional changes during the crisis. It invites the scholar to escape the theoretical trap consisting in searching a theory to validate either the superiority of the Supranational Method or the superiority of the Intergovernmental Method. New intergovernmentalism (as a theory and not a method) offers a good perspective to reflect on the balancing act between the Supranational Method and the Intergovernmental that characterises the EU polity during the crisis and more generally in the long-term perspective.

Notes

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2 Czech Republic finally signed the Fiscal Compact in May 2014 after a change of government and majority in Prague.
3 According to article 3 of the Treaty on the Functioning of the European Union, the exclusive competences of the EU concern the following and limited policy issues: customs union; the establishing of the competition rules necessary for the functioning of the internal market; monetary policy for the member states whose currency is the euro; the conservation of marine biological resources under the common fisheries policy; the common commercial policy.
4 www.marcaespana.es.
5 To read Sikorski's discourse in Berlin on 28 November 2011, see www.mfa.gov.pl/resource/33ce6061-ec12-4da1-a145-01e2995c6302:JCR.
6 Pringle Case C-370–12, European Court of Justice, 27 November 2012.
7 Merkel kritisiert EU Parlament und Kommission, *Euractiv*, 2 November 2010.
8 Simon Bulmer's comment, email to the author, 18 May 2015.

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