

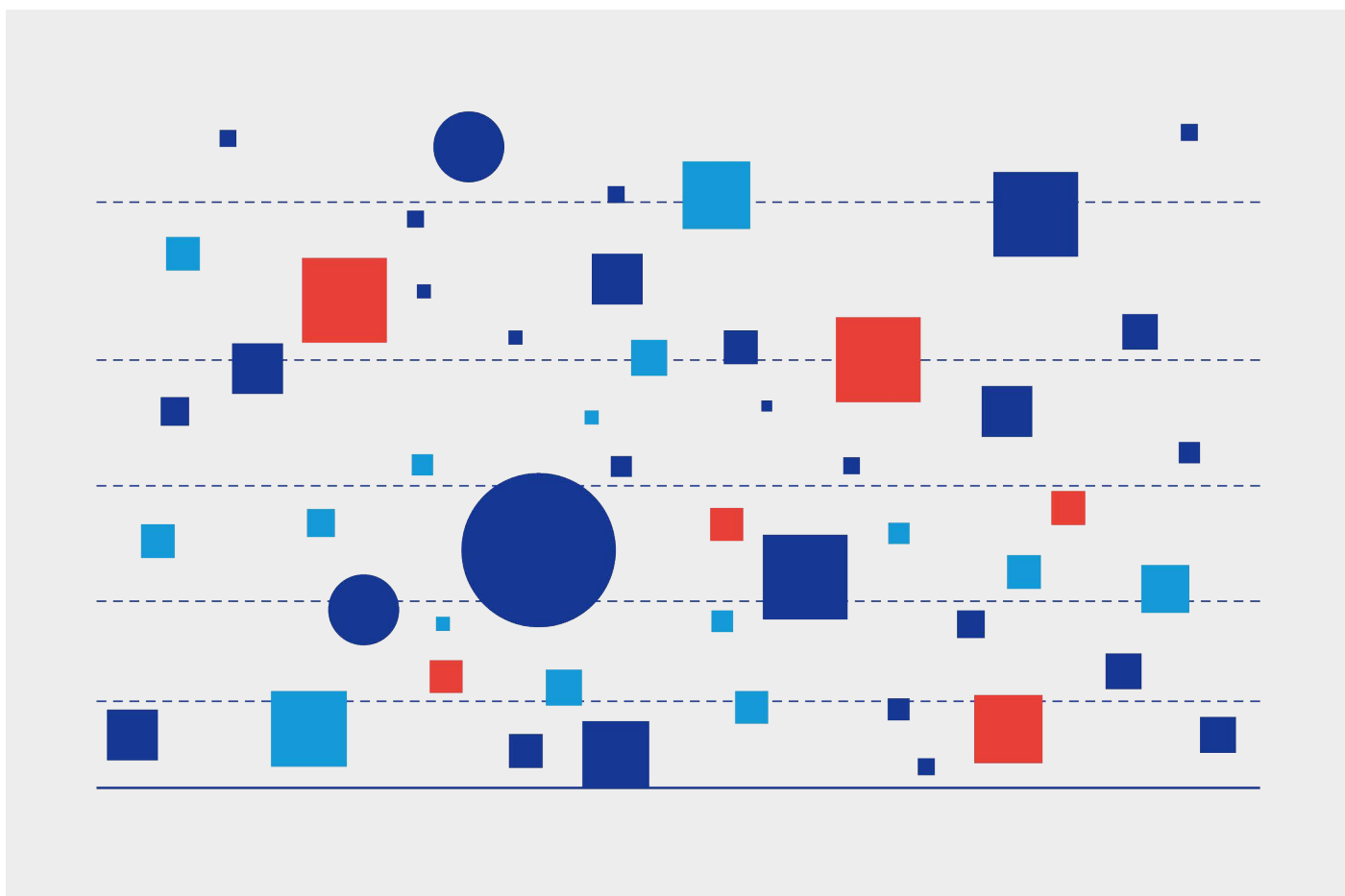
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Problems in domestic preference formation – the case of the European Stability Mechanism

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Abstract

The European Stability Mechanism (ESM) was one of the most important modifications in euro zone economic governance in the context of the euro crisis. New empirical data on interest group and parliamentary activity in selected euro zone countries reveals the problems in domestic preference formation at the time of the creation of the ESM and in more recent debates about its reform. Even though governmental elites have been uncertain of their own legitimacy in relation to ESM-related decision-making and despite notable levels of sceptical public opinion, there is no evidence of substantial and sustained attempts of shaping governmental preferences on part of concerned societal interests. This article probes the hypothesis of new intergovernmentalism that euro crisis decision-making has been marked by problems in domestic preference formation and that these problems can translate into standalone inputs in EU politics. It contributes to research on preference formation in the context of the euro crisis.

Keywords

preferences; euro crisis; EMU; intergovernmentalism; legitimacy; interest groups

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Introduction²

The euro crisis not only revived interest in integration theory (Bickerton et al. 2015a; Niemann and Ioannou 2015; Schimmelfennig 2015) it also triggered closer inspection of the concept of preference formation as witnessed by this special issue and other recent contributions. Most importantly, there is a lack of agreement in the literature as to how far preference formation is a relevant concept, what it means and how it can be researched. In short, it is a problematic concept (Csehi and Puetter 2017). A key element of the discussion on preference formation is whether and how the domestic political setting matters for determining governmental preferences in euro crisis decision-making. The idea that European Union (EU) governments negotiate in Brussels while they are bound by constraints which they face at home is a recurrent theme in EU studies. For instance, press statements by the heads of state and government from different member states, which are given separate press rooms for specific national audiences, regularly contain language which point to the successes of the relevant national representatives to have secured a particularly good deal for their respective country at a European Council meeting. The euro crisis is a particular event in contemporary EU politics, which provided a host of similar examples. When the crisis escalated in 2009 and 2010 with Greece as the first ever euro zone member state facing the prospect of financial collapse, discussion erupted about whether or not the EU, or for that matter the euro zone member countries, should level financial support to individual member states and under what conditions. This issue was left unresolved prior to the euro crisis. The treaties only stipulated, and still do, that neither the Union nor individual member states shall be liable for financial commitments of individual member state governments other than their own (Article 125, Treaty on the Functioning of the EU, Lisbon). The Commission as a supranational administration in lack of own financial resources and authority could not help Greece unilaterally either. It was through agreement among euro zone member states in the eleventh hour that Greece was rescued from default. The decision was to provide an emergency credit line to the crisis-hidden euro zone country, which was based on a package of financial contributions from individual euro zone member states. This model of aggregating separate national financial resources to a common pool based on a unanimous decision was also used when a permanent euro zone rescue mechanism – the European Stability Mechanism (ESM) – started eventually to operate in September 2012. The ESM marks a turning point in euro area economic governance as it links member states through a common assistance

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mechanism which they own as stakeholders. The ESM raises further substantial capital on international financial markets on behalf euro zone member states and some these countries indeed receive credit lines, which come with strict conditionality attached, thus limiting these countries ability to determine their economic policy independent of agreement with the other euro zone countries. The political relevance of the ESM thus is not only determined by its original start-up costs for member states and the resulting financial liabilities, it rather is even more than any other EMU policy control mechanism, such as the excessive deficit procedure or the relevant provisions of the Treaty on Stability, Coordination and Governance (TSCG), the euro zone's hardest hitting control device in relation to member states individual policies. In short, the ESM can be considered to have the potential to trigger substantial politicization. Advocates of macro economic stability may see the ESM as a vital stabilization device, which can protect the euro zone against external shocks and ultimately secures the operation of the European economy. Opponents of financial transfers to member states in difficulty may lament that the ESM removes pressure to pursue reforms and consolidate public finances while making better-off member states liable for potential credit losses. Pensioners and trade unions may oppose hard ESM conditionality which typically involves demands for cutting social expenditures while receiving euro zone assistance. Yet, these societal groups may be also crucially dependent on economic stability. So is the business sector in general and the financial industry in particular, as it owns large amounts of debt from euro zone governments. These dependencies and views may indeed vary between euro zone countries depending on their exposure to the euro crisis.

It thus may be expected that when euro zone governments engaged in decision-making on the creation of the ESM during the peak period of the euro crisis in 2010-2012 and, later, in discussions on the mechanism's further reform in 2017-2018 that their views were pre-determined by powerful domestic lobbies, which positioned themselves for and against the ESM, declared their demands on the overall size of the fund and expressed views against and in favour of ESM conditionality depending on their own domestic and economic interests. Based on new empirical research this article flags the apparent absence of such interventions. Neither interviews with representatives from government nor from interest groups from nine euro zone countries provide evidence for significant interventions from concerned interest groups, notably trade unions, organized business and the financial industry. In a similar vein parliamentary actors despite winning some concessions on involvement and information rights regarding future ESM-related decisions are seen to have had very little impact on specific policy questions. It is rather a general uncertainty about negative feedback from public opinion and

declining electoral support that is an issue for euro zone governments. However, they seek to address this challenge through action which does not amount to deviating from an elite-driven and transnational path of ESM-related decision-making (Csehi and Puetter 2018). This article thus deviates from understandings that when negotiating the ESM, which involved commitments to substantial financial contributions and loan guarantees, member state governments were acting predominantly under constraints, which were set by powerful domestic lobbies, their own parliaments or even public opinion. There is little doubt that the original creation of the ESM sparked political debate and encouraged Eurosceptics to exploit the issue in electoral competition or to even take governments over their decisions on the ESM to the respective constitutional courts. At a theoretical level this article speaks to the hypothesis of new intergovernmentalism (Bickerton et al. 2015b, 2015a) that problems in domestic preference formation are a key feature of post-Maastricht EU governance and enhance the EU's legitimacy problems. By tracing these problems of governmental preference formation in the domestic arena this article validates new intergovernmentalist expectations about euro zone decision-making and contributes to the understanding of the legitimacy challenges facing euro zone decision-making.

The article is divided in four sections. The first section defines the conceptual framework for understanding problems in the formation of governmental preferences on the ESM based on particular domestic inputs into governmental decision-making and highlights the importance of further research. The second section presents the main institutional features of the ESM and highlights the issues in political decision-making surrounding its creation during the peak period of the euro crisis in 2010-2012 and more recent debates in 2017-2018 on its further reform. The third section reviews findings from a series of interview-based in-depth qualitative research on nine euro zone countries regarding the mobilization of interest groups and experiences of influence from parliaments and public opinion on part of executive actors. The fourth section reviews the findings in the light of the main elements of the conceptual framework and offers conclusions.

Problems in domestic preference formation and the reform of the euro area

Preference formation is a key term in EU studies. Yet, not all major integration theories and contemporary research perspectives give explicit weight to it. Arguments on governmental preference formation in the context of the euro crisis have been varied with only a few authors

assigning a degree of importance to the empirical study of domestic preference formation processes while many attributing euro zone decisions to either EU-level interaction and/or structurally determined positions of individually member states (for a detailed discussion of key contributions to this debate cf. Csehi and Puetter 2017). A recent theory that makes explicit claims about the domestic dimension of governmental preference formation is new intergovernmentalism, which expects that “problems in domestic preference formation have become standalone inputs into the European integration process” (Bickerton et al. 2015a: 714). New intergovernmentalism is a theory of post-Maastricht integration which is focused in particular on explaining institutional choices and political dynamics relating to the proliferation of new major areas of EU activity which are governed outside the classic community method, such as economic governance in the context of Economic and Monetary Union (EMU), which is the policy domain to which the ESM belongs. More specifically new intergovernmentalism sets out to explain why the post-Maastricht era is a period of more integration, not less, despite the decline of the model of classic community method integration. Member state governments instead take the lead in day-to-day EU decision-making and take important executive decisions collectively in prominent EU intergovernmental bodies, such as the European Council, the Eurogroup and the Foreign Affairs Council. The absence of legislative decision-making, thus does not prevent integration but increases the pressure for governments to decide by consensus. New intergovernmentalism sees the core executive actors of member states bound together in acts of constant negotiation and communication over reaching collective agreement on key EU policy moves on a day-to-day basis. Consensus is the guiding principle in this process as major areas of EU decision-making depend on the mobilization of decentralized resources on part of individual governments. Crisis decision-making provides ample examples for this (Puetter 2012, 2014).

New intergovernmentalism thus disagrees with liberal intergovernmentalism, which also is seen as a theory which can explain euro crisis decision-making including the creation of the ESM (Rothacher 2015; Schimmelfennig 2015), in three important ways. First, new intergovernmentalism rejects the notion of liberal intergovernmentalism that EU politics are evolving around a process of negotiating limited acts of delegation of power in greater intervals by member states governments. Instead, new intergovernmentalism emphasises the continuity of EU-level intergovernmental negotiations and the transnational dimension of policy formation processes. Second, new intergovernmentalism is sceptical of the idea that behind governmental positions in EU politics remain underlying or ultimate preferences, which in turn reflect a specifically domestic political arena of interest competition and which are determined

prior to EU negotiations on a given policy issue. The idea of such a two-stage process of EU-level intergovernmentalism and a liberal model of the determination of ultimately domestic governmental preferences is the trademark of liberal intergovernmentalism in its original form (Moravcsik 1993). Third, new intergovernmentalism questions the validity of the assumed model of domestic preference formation as regards the understanding of how specific EU policy issues features in domestic politics and how interests of domestic constituencies translate into governmental preferences.

More generally, new intergovernmentalism cautions that the central role of member states' governments in EU politics, which it indeed emphasises, can be equated with the empowerment of particular domestic constituencies. New intergovernmentalism in tandem with postfunctionalism (Hooghe and Marks 2009) considers post-Maastricht EU politics to be characterized by the public politicization of EU issues. This also involves the rise of Eurosceptic sentiments, which in turn are addressed by new political actors. In short, domestic political elites cannot be certain of their own legitimacy when making decisions about Europe, as in the case of the ESM. New intergovernmentalism links this not only to the increasing political salience of EU policies for citizens' daily lives but also to limitations in the articulation of previously powerful societal interests and a broader crisis of representative politics (Bickerton et al. 2015a: 710; Mair 2008). Rather than acting in response to concrete demands or in the light of clearly identifiable electoral rewards domestic politicians make decisions about European integration in relation to which political rewards are uncertain. Governmental preference formation thus can hardly be considered as an insulated domestic process but is heavily influenced by deeply institutionalized processes of elite interaction at the European level (Crespy and Schmidt 2014; Puetter 2014). Moreover, new intergovernmentalism not only sees problems in domestic preference formation which coincide with an EU-level empowerment of governmental elites, it also considers these problems to play out as standalone inputs into EU politics (Bickerton et al. 2015a: 714). This implies that elites who are uncertain of their own legitimacy while being adamant to push on with their own policy preferences opt instead for institutional choices which are aimed at enhancing channels of input and throughput legitimacy (Schmidt 2013) or at highlighting outputs which otherwise have not imposed themselves on concerned constituencies.

Given the macroeconomic importance of the ESM (see the next section) new intergovernmentalism thus should expect those domestic interests which are potentially affected the most by either the creation or absence of the ESM not be specifically involved in determining governmental preferences on the issue. Empirically the study of activities of trade

union, organized business and, within the latter group, specifically organizations representing the financial industry should reveal this attitude of non-engagement. Similarly, parliamentary activity and public opinion should reflect the ESM as an important political issue and in particular also feature negative sentiments towards its creation. Yet, reactions of governmental elites to parliamentary interventions and negative popular sentiments should specifically reflect ways of circumventing or taming such interventions.

These expectations which are investigated in detail in the subsequent sections also relate to broader notions of how input and throughput legitimacy could be generated in the context of EMU economic governance at all. Notwithstanding general critiques of pluralist understandings of governmental preference formation (Smith 1990), which apply specifically to the EMU context because of its particular set of institutional rules and the importance of informal structures of governance, the literature on EMU has discussed a particular model through which governments may respond to societal interests. This model, which dates back to debates on EMU reform at the end of the 1990s (Dyson 2002) was instituted by the 1999 Cologne European Council and institutionalized discussions of organized business and labour on wider issues of the EMU in a new governance format which was referred to as the Macroeconomic Dialogue. The quest for greater societal embeddedness contained a normative underpinning and promised enhanced democratic legitimacy of EMU in return for institutionalizing tripartite dialogue (Smismans 2008). Yet, neither pluralist nor corporatist-style assumptions on legitimacy generation seem to apply in the context of ESM-related EU decision-making.

The article investigates these issues based on a sample of 28 interviews which were conducted in nine euro zone countries among representatives from trade union, organized business, organizations representing the financial industry and government (see Annex I). Interest group representatives were selected from those constituencies, which can be considered to be most likely to offer views on the ESM. Government officials in turn were selected on the basis of their familiarity with ESM related decision-making and potential interventions from interest groups and parliamentary actors. Interview questions were related to the relevance of the ESM as an issue for interest groups, the process of engaging with government and public opinion, the perceived relevance of parliamentary interventions and reactions to public opinion.

The main features of the ESM

The ESM is an institution which was created to assist euro zone member states, which face severe financial problems through the provision of so-called assistance programmes. Each

programme consists of one or several credit lines and a set of binding guidelines on how to adjust domestic economic policy, the so-called conditionality. The ESM was established through an intergovernmental treaty in July 2011 and came into operation in September 2012. Legally the ESM is a fund based in Luxembourg and owned by the member states of the euro zone. The latter provide the baseline paid-in capital of the fund, which in turn is used as the basis for ESM debt issuance at international financial markets. This way the ESM has reached a total nominal capital of around EUR 700 billion, compared to a paid-in capital of around EUR 80 billion. This is more than two-times the size of Germany's and about nine-times of Austria's annual budget in 2017. The ESM is governed by a Board of Governors, which is comprised of finance ministers of the euro zone and shared by the Eurogroup president. Decisions on the provision of credit lines to euro zone member states require unanimous agreement within the Board. In practice, ESM lending is authorized and negotiated in the context of the Eurogroup and so far has been subject to European Council approval in almost all instances. The ESM was preceded by the temporary European Financial Stability Facility (EFSF), which shared most of the institutional features of the former.

The ESM's lending toolkit has six different instruments: loans within a macroeconomic adjustment programme, precautionary credit lines, loans for indirect bank recapitalization, direct recapitalization of institutions, as well as primary and secondary market purchases. The ESM's maximum lending capacity is capped at EUR 500 billion. The Commission has no role in ESM internal decision-making as the EU is not a stakeholder in it. However, the Commission together with the ECB and, up until 2018, also the IMF negotiates and monitors the conditions attached to ESM loans. The ESM is, hence, an issue of great public concern, not just because of its vast size and crucially important task in times of crises but also because of strict conditionalities.

The more recent debate on reforming the ESM goes back to the request of the October 2014 Euro Summit to work on further EMU reform (Euro Summit 2014). The ESM was mentioned as a key element of euro zone reform in the so-called Five Presidents' Report of 2015 (Juncker 2015). German finance minister Wolfgang Schäuble proposed in March 2017 the transformation of the ESM into a so-called European Monetary Fund (EMF) (Euractiv 2017). The initial idea was met with optimism from the French side and the Commission published a proposal in December 2017 (European Commission 2017b). The EMF is also considered to function as a common backstop in the context of the so-called Single Resolution Fund, a key element of Banking Union, which allows the recapitalization of banks in times of crisis. Further modifications of the ESM may not only contain a change in its name but also an

expansion of its capital as well as a change in ESM decision-making, even though both is contested between different governments.

The absence of interest group pressure

Domestic interest group involvement with specific issues relating to the euro crisis is rarely investigated in depth (an exception is Rothacher 2015). This section presents the findings of interviews with euro zone interest group and government representatives on the role that interest groups played in relation to domestic decision-making on the ESM. The focus is on discussion on ESM creation during the years 2010-2012 and on the debate on ESM reform in 2017 and 2018. The presentation of findings is structured around three key questions. The first question is whether and how interest groups are opinionated on the issue of the ESM. Specifically, if they agree or disagree with their respective governments. The second question is: what type of involvement in the policy process do interest groups have? These may include participation in debates, writing position papers, parliamentary discussions, involvement in the preparatory stage, media engagement, or coalition building activities. Taking a deeper look into the type of participation will give us a better idea of the level of importance that interest groups themselves assign to the issue of the ESM. Finally, the third key question is about the ability of interest groups to influence the governments' position on the ESM. Hereby, both the assessment of the government representatives, and self-assessment of the interest groups are taken into account.

The interviews suggest a variety of opinions on the ESM and different levels of agreement with their respective governments. The interest group representatives interviewed in Austria (AT_IG_01, AT_IG_02) show a high level of agreement with the government on the ESM, namely that they do not see a need for further reforms. In a similar vein the interviewees from Spanish and Portuguese interest groups (ES_IG_01, ES_IG_02, PT_IG_01) share their respective government's position, yet this time for deepening the ESM. Such a step would be considered as a pro-European reform, which is appreciated: “if Europe moves forward, that is good for Spain” (ES_IG_02). Mirroring these responses, one Spanish interviewee from the group of governmental officials emphasised that “overall, the government has the same view as the social partners on this: more risk sharing, deeper EMU, and nobody wants sovereign debt restructuring” (ES_GOV_01).

In contrast, an interviewee from an interest group based in Finland, expressed dissatisfaction with the government: “I would say that the government’s official position has been quite conservative. It’s not really reflecting, even in confidential discussions, our

positions” (FI_IG_01). In the Netherlands, the opinions of social partners on the ESM differed so much, in the period when the ESM was created, that it was hard for them to articulate a common position to the government at all, one interviewee from a Dutch interest group flagged (NL_IG_01). However, in the aftermath of the euro crisis up until 2018 the social partners in the Netherlands are considered not to be substantially interested in the discussion on the further reform of the ESM. According to a Dutch government official the government does not have regular contact with them on ESM reform (NL_GOV_01). In Ireland interest groups allegedly showed more interest to contribute to discussions on the ESM during the peak period of the euro crisis when “it was felt that Ireland may need a second bailout and the ESM was the only show in town” than more recently as there is no prospect of another bailout (IR_IG_01).

Interviewees from Slovakian, Slovenian and Estonian interest groups said that the ESM was never an important issue on their agenda. Often it was difficult to discern whether these groups ever had formulated position on the ESM. For example, an Estonian interest group representative explains that “we have had so much going on domestically that our attention hasn’t been on the ESM” (ET_IG_01). Other explanations of why these interest groups chose not to get involved with the issue of ESM are lack of relevance for their membership (SL_IT_01) and lack of expertise (IR_IG_02).

The findings outlined in the previous section suggest that not all interest groups from euro zone countries had adopted a position on the ESM. In those countries in which interest groups were said to have an opinion, not all of them could articulate this opinion collectively and not all were engaged on the issue back in 2010-2012 and more recently. This section looks more specifically at what sort of involvement occurred if any at all. Here interviewees were asked to provide examples for different types of involvement such as the publication of documents, the participation in government-sponsored consultations and public debates, or, the involvement in media and coalition building activities.

With regard to the publication of written documents interviewees from interest groups in the sample did not report the publication of position papers that would present specific and detailed opinions on the issue of ESM creation or, later, reform. Instead whenever the ESM was mentioned in published documents this is done in general terms and with reference to the broader issue of EMU reform (AT_IG_01, AT_IG_02, AT_IG_03, FI_IG_01, ES_IG_01). For example, in Austria, an interest group published a position paper in response to Commission president Juncker's call for discussion on the so-called Future of Europe scenarios (European Commission 2017a). In this paper a small section was devoted to the ESM (AT_IG_01). Another Austrian interest group has only recently included an opinion on the ESM into their

position papers as one interviewee highlights: “A concrete involvement in the founding of the ESM or its reform did not exist until now - our proposals for transforming the ESM into a European Monetary Fund can be found in our most recent position paper.” (AT_IG_03). Similarly, in Finland an interest group has “tried to stick to more general principles and how the EU should function and not go that much into details” (FI_IG_01). Some interviewees explain why the ESM did not feature more prominently in their publications by referring to the technical complexity of the issue (AT_GOV_01), time constraints that prevented them to formulate a more developed argument (AT_GOV_01), and, indeed, general agreement with the government's view on the issue (ES_IG_01).

Only in Finland, from the sample of Member States analysed in this research, were interest group representatives invited to contribute to debates on the ESM in the parliament (FI_IT_01, FI_IT_02, FI_GOV_01). According to a Finnish interest group representative, his/her organization developed its point of view on the ESM in reaction to the government's invitation to contribute to a debate in the Grand Committee of the parliament (FI_IT_01): “We don’t have an official point of view in a sense that we did not discuss this at the very top level, like the board. But we have been asked to comment on the proposals and the Finnish government’s line in public hearings in the Finnish Parliament.” A government representative explains further that in these hearings, which are convened once or twice a year, they explain what is going on in the EU and the interest groups can ask questions (FI_GOV_01). Regarding the preparatory stage such as working groups that prepare the government positions on the ESM, the interest groups were not introduced to the process at this stage (SL_IG_01, FI_GOV_01). Other formal venues in which the ESM was discussed at least sporadically, with the presence of interest groups, were the national tripartite consultative bodies representing employers, trade unions and experts (NL_IG_01, SL_IG_01, ES_IG_01) and the European Economic and Social Committee (ES_IG_01). Yet, these hearings were said to have occurred at points in time when the national governments had already formed their opinions on the ESM.

Participation in public debates is the most frequently mentioned type of advocacy activity in the sample of interviews (ES_IT_02, NL_IT_01, FI_IT_02). However, it is also the most light-weight advocacy effort. For example, according to a Finnish interviewee, his/her interest group’s opinion, which was presented in a debate, was not coordinated at the board level and was thus an unofficial opinion (FI_IT_01). Along similar lines, a Spanish interest group representative said: “in general, yes, we are for more Europe, etc. but there is no resolution of the executive committee about the ESM” (ES_IT_02).

Coalition building among interest groups on the national level and EU-level was said not to have occurred concerning the matter of ESM creation and reform (AT_IG_01, NL_IG_01). Interest group representatives lamented that the media in their countries was not interested in their opinion on the ESM. At the same time, interest groups did not reach out to the media themselves to present their views on the ESM (AT_IG_02, AT_IG_03, ES_IG_01).

What can be concluded from the review above is that involvement of interest groups, and thus their influence, is considered to have been marginal or non-existent in all of the member states which are covered in this research. One of the main reasons mentioned by most interviews was that interest groups which do focus on EU socio-economic governance issues tend to be more interested in the European Semester and its so-called Country Specific Recommendations (CSR) (ES_IG_01, ES_GOV_01). For example, a Spanish interest group representative (ES_IG_01) was primarily concerned about increasing the level of participation of social partners in the European Semester and the design of the CSRs. His/her interest group expresses this view actively to the government in their position papers, the media, and other formal and informal channels. Similarly, in the Netherlands according to a government representative “there are a lot of other issues in which we are involved with trade unions, like the European Semester get-togethers. When it comes to the ESM, it is not in very direct interest of trade unions.” Among the set of core EMU institutional reforms the TSCG was mentioned once (SL_IG_02) as being a important issue than the ESM while others flagged also the importance of reforms outside the domain of fiscal stabilization and referred to the European Pillar of Social Rights (NL_IG_01).

In general, both representatives from interest groups and government in the interview sample rate the leadership which was exercised by executive actor, and specifically the finance ministries as extremely high and see these actors to have been in full control over defining the domestic policy stance on the ESM. The wording “it was a top-down process” was used by interviewees in four different member states independently of each other (SL_IG_01, ET_GOV_01, ES_GOV_01, AT_IG_01). An Austrian interest group representative explained that the Federal Ministry of Finance has been eager not to get too many reactions from other actors outside government: “They [*the ministry*] do things themselves, more or less, and do not ask others how they should do it” (AT_IG_01). In the Netherlands, the finance ministry is also said to have had the most important role, and the process is described as one of an interaction between the civil servants and the ministry, with the political line being set out by the minister (NL_GOV_01). In Slovakia, next to the finance ministry, the foreign ministry is mentioned as closely involved in the process (SK_GOV_01).

To summarise, regarding the issue of the ESM the level of interest and, indeed, influence that interest groups exerted and mobilized in relation to governmental processes of preference formation has been low ever since the peak period of the euro crisis in 2010-2012. Even though the sample includes specifically groups with a focus on socio-economic issues interviews do not suggest that either organized labour or the corporate sector played a specific role in shaping a distinctively domestic position on the issue. Neither corporatist nor pluralistic models of interest competition would find immediate application in the reviewed policy episodes. Instead, the preference formation process is considered to have been elite-driven and technocratic.

The unclear consequences of negative public opinion and parliamentary interventions

This section reviews the question of whether and how party politics and public opinion influenced processes of governmental preference formation. When it comes to the influence of parliaments on governmental preference formation the euro crisis provides only limited evidence of substantial involvement of national parliaments in matters of ESM creation or exchanges of views prior to EU-level intergovernmental agreement on the ESM. In most cases, national parliaments were confronted with negotiation outcomes and their involvement was reduced to a ratification exercise (Puntscher Riekmann and Wydra 2013). This was the case with both the ESM and its short-term predecessor, the temporary rescue facility EFSF. Except for a very limited number of national parliaments and their relevant committees, which enjoyed clear institutional prerogatives to mandate the government on EU negotiations, a great majority of national parliaments in the Eurozone were shut out of meaningful participation in preference formation.³ Even when the formal right of parliamentary actors to participate in the ESM discussions was not violated in the euro crisis period, their actual participation was limited particularly by time constraints and lack of expertise (Csehi and Puetter 2018). Technical complexity and intergovernmental control of the EU economic governance reforms also prevented a greater involvement of citizens more generally (Mariani et al. 2013). Different institutional settings and ratification procedures brought to light the institutional asymmetry between national parliaments on matters of parliamentary scrutiny over bailout negotiations, rescue package approvals and authorizations of contributions to the ESM base capital and credit guarantees (Auel and Höing 2014; Kreilinger 2015).

³ For an overview, see the Country Reports on relevant political debates amidst euro crisis decision-making prepared within the ‘Constitutional Change through Euro Crisis Law’ project at <http://eurocrisislw.eui.eu/about/>.

The severity of the euro crisis as a threat to financial and economic stability and its impact on public finances including financial commitments in relation to the ESM framework and the institution's focus on rescuing other countries undoubtedly triggered increased political attention and parliamentary interest in relation to the ESM during the peak period of the euro crisis in 2010-2012 (AT_GOV_01). Compared to more recent discussions on ESM reform during the years of 2017-2018 debates on the creation of the ESM in 2010-2012 were more strongly politicized due to the initial financial commitments, which were required from individual member states and which needed to be made at time of tight public budgets. The discussion also included controversies about national budgetary sovereignty and the constitutionality of establishing the ESM, which were issues which were picked up by Eurosceptic parties and politicians. Interviewees agree that back in 2010-12 the question of the institutional design of the ESM and the size and allocation of financial contributions received considerable political attention (EE_GOV_1, FI_GOV_1). The ESM also became an issue in the electoral campaigns of some countries such as Finland (FI_GOV_2) and Slovakia (Csehi and Puetter 2018). Despite this, however, opposition parties and parliamentary actors were vastly excluded from defining the contours of the actual ESM Treaty. Contingent on institutional rules and parliamentary traditions, some national parliaments were able to make their support for the ESM conditional on obtaining greater scrutiny powers over future financial decisions in relation to the ESM. Nonetheless, the findings suggest that even the most active parliaments had a negligible say in the decision-making process on the ESM.

Looking at public opinion in general, several government officials in the interview sample rate the influence of public opinion on ESM related decision-making as high. Especially the initial experience of the Greek crisis at the outset of a series of EU interventions to stabilize the euro zone, is considered to have led to a politicization of the ESM debate and brought it to the attention of the general public. This was especially important in smaller member states that were not in financial dire straits, and whose governments and publics were generally more sceptical towards rescue programs (SK_GOV_01, EE_GOV_02, NL_GOV_01). In some cases, this led governments to develop a public discourse aimed at de-escalating tensions surrounding the creation of the ESM and at pre-empting the rise of Euroscepticism: "We have to some extent taken into account the concerns of parliamentary actors and the public, but mostly it creates the pressure to communicate" (EE_GOV_01). Given the heightened media attention for the budgetary implications of the euro crisis, executive actors were wary of potential negative public reactions. Policy-makers are said to have been involved in intensified public communication in response to these concerns (EE_GOV_01, ES_GOV_01, FI_GOV_01). As

one official put it: “It seemed that every time there was a big problem, they [the Eurosceptic parties] were always getting more percentage points. That was one reason why there was so much public debate about these issues” (FI_GOV_01). Defending the ESM in relation to public concerns not only involved defending financial contributions to the new institution but also propagating the acceptance of ESM related conditionality in countries which support from the fund. One Spanish official recalls what he considers were successful efforts to convince the public that establishing the ESM and agreeing on an assistance programme to restructure the banking sector was in the best interest of the Spanish people: “It was made clear that the loan is only for stabilizing the banking sector, and the conditionality is only for the banking sector. It was also made clear that it is about saving depositors, not bankers. This was accepted by the audience [...]” (ES_GOV_01).

In the context of the more recent debates on reforming the ESM in 2017-2018 a prevalent impression amongst the interviewees is that political actors and the public alike have lost interest in the issue as the euro crisis was waning (AT_GOV_01, EE_GOV_01, FI_GOV_01, NL_GOV_01, ES_GOV_01, SK_GOV_01, SI_GOV_01). Having been overtaken by other more pressing issues, such as the migration crisis, the topic is now off the radar of the general public. Besides being overshadowed by other policy issues, the technical character of current discussions on ESM reform is considered not to be conducive to politicizing the issue. Some government officials even consider the reform debate as simply being not controversial enough (AT_GOV_01, EE_GOV_01). As one official put it: “My impression is that political parties in Austria have pretty much lost interest in the ESM. When we created this, they were very interested, and they wanted a lot of rights in connection with the ESM, but once we had the first meeting of the parliamentary ESM sub-committee, they realized that the matters discussed there are not really matters that they can use to either leak to domestic press or to pretend that there is a scandal somewhere where billions are lost” (AT_GOV_01).

However, beyond the discussion on the ESM, executive actors find it necessary in the current circumstances to anticipate popular sentiments on EMU reform more generally and to reassure the public that the will of the people will be respected and preserved. As one high-ranking Estonian official describes it, the memory of euro crisis politicization still haunts decision-makers: “To some extent these [*initial*] challenges influenced the position of the government. When we started out, in the very beginning, the government was quite naïve. In a sense, we were ready to do more than we are ready to do at the moment” (EE_GOV_01). A Dutch official describes a similar pattern in the Netherlands: “People in the Netherlands have become a little bit critical towards what has happened during the crisis. From that perspective

a lot of issues that happened back then still resonate nowadays in the discussions on the future of the ESM. It [*public opinion*] is still very important” (NL_GOV_01). That is why governments in countries which experienced negative public sentiment during the euro crisis approach the discussion on EMU reform with caution. At the same time, there is little empirical evidence of specific engagement with or interest in the content of ESM reform proposals in the context of the 2017-2018 debate amongst societal actors. One reaction to this lack of specific societal inputs into the ESM reform debate can be found in broader claims and reassurances used by policy-makers in their communication to the general public. In a joint statement from March 2018 finance ministers of eight smaller, fiscally conservative countries which are dubbed the ‘new Hanseatic League’⁴ suggest to focus on EMU reform options that have popular backing: “[...] we should focus on initiatives that have public support in Member States. The financial crisis and the subsequent sovereign debt crisis have affected citizens in all Member States. With a view to the future, it is of the essence that we do our utmost to strengthen economic and financial stability and regain public trust. Further deepening of the EMU should stress real value-added, not far-reaching transfers of competence to the European level.” (Sweden 2018). Interestingly, the latest Flash Eurobarometer polling on the euro area endorses worries of this group of finance ministers as results reveal that citizens in the respective countries currently express comparatively little or no appetite for more economic coordination among euro zone governments (Eurobarometer 2017). Whereas, on average, 67 per cent of euro zone citizens think there should be more coordination, this figure is much lower for citizens in Estonia (34 %), Finland (35 %), Ireland (42 %), Lithuania (43 %), the Netherlands (51 %) and Latvia (61 %).

Notwithstanding sporadic calls for referenda on the ESM by marginal political forces and electorally motivated clashes over national responsibilities in the ESM, citizens and their parliamentary representatives were not in the position to contribute to the decision-making processes on the actual design of the ESM in 2010-12. For the current period, none of the interviewees could recall instances where either citizen groups or parliamentarians were involved in the substantial discussions of the ESM reform. This speaks to a very constrained ability to intervene substantially in the national preference formation on the ESM, as an exclusively governmental affair. There is no evidence to suggest that in current context anything changed in that regard. According to interviewees, the discussion on the ESM reform

⁴ The group includes Denmark, Estonia, Finland, Ireland, Latvia, Lithuania, the Netherlands and Sweden.

only gained in technical complexity, however neither existing nor new channels of input legitimacy have been used to aggregate and articulate popular concerns on the ESM reform.

Lesson-drawing and conclusion

The ESM marks a shift in euro zone integration. It connects for the first time euro zone member states through substantial financial commitments both through their roles as stakeholders of the fund and as recipients of ESM programmes. The ESM's nominal capital exceeds more than two-times the annual state budget of the largest euro zone economy. Despite the macroeconomic significance of the ESM neither its creation nor more recent debates on its reform triggered substantial and sustained engagement of interest groups, which can be considered to focus on macroeconomic policy issues, in the nine countries within the sample. Interest groups in particular refrain from developing a broader policy stance on the issue and do not strategically engage in coordinated efforts of influencing governmental actors, which are widely seen to be in control of domestic as well as EU-level preference formation. Time pressure and the technical nature of some of the issues surrounding the original institutional design and later the reform of the ESM may be a key threshold in this context, yet they may not be the only one. Similarly, parliamentary actors even though some of them succeeded in enhancing their formal scrutiny powers in relation to future decision-making did not manage to significantly alter or to determine the institutional architecture of the ESM and its financial base. There is also anecdotal evidence that some of the new mechanisms for parliamentary control of the ESM at the domestic level are of little concern to parliamentary actors later on. In general, the level of politicization which at the time of the creation of the ESM has not been maintained. However, there is ample evidence that governments have been aware of both the potential of the ESM to trigger negative public reactions and the actual manifestations of negative public sentiment.

The findings in this paper confirm the hypothesis of new intergovernmentalism that problems in domestic preference formation are a key element of post-Maastricht EU decision-making, in this case decision-making on the ESM. Governments are in control of the process not only because they have a predominant position in the EU decision-making architecture but also because there is a lack of specific societal input. The findings also confirm expectations by postfunctionalism and new intergovernmentalism that governmental elites are uncertain of their own legitimacy when making decisions about the ESM. Moreover, the findings confirm that problems in domestic preference formation translate into standalone inputs in EU politics. This pertains to inputs which are different from concrete changes in the envisaged policy, in this

case the design of the ESM treaty and potential decisions on its amendment. Policy-makers instead opt for what they refer to as a better explanation of the ESM and options for greater involvement of parliaments in scrutiny procedures relating to future ESM decisions. Moreover, they prefer to issue broad signals of reassurance in cases in which the electorate is seen to be particularly sceptical of the ESM and/or its expansion, as illustrated by the statement of the finance ministers of the Hanseatic League. Again, the statement offers little to no content on specific changes to governmental preferences.

These findings leave research on euro zone politics also with a puzzle in normative terms. Even though governments seem to be eager to consolidate their lead role in EU decision-making and pursue policy options independent of specific societal demands, they are inherently linked to and aware of the potential of their decisions to trigger negative reactions on part of the electoral. Yet, the situation is more complex than that. In the absence of interest group pressure governments also lack the possibility to commit sceptical societal groups to particular decisions on euro zone economic policy. Most importantly, governments, organized business and labour are nowhere close to representing a corporatist-style alignment on macroeconomic stabilization policy. These findings ridicule proposals on strengthening EMU through more participation of social partners, as reinvigorated by the European Commission (2013). This article made a key step in highlighting problems in domestic preference formation in relation to the ESM based on research involving nine euro zone countries. There is no doubt that more in-depth research on societal involvement or non-engagement is needed, so to make more far-ranging conclusions about the euro zone as a whole and EU politics in general. Moreover, further research efforts need to focus on the apparent, yet rarely researched occurrence of standalone inputs in EU politics, which seek to address legitimacy concerns beyond actual adaptations to policy formation processes.

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Appendix

Table 1. Interview codes and information

Interviewee Code	Member State	Type of Organization	Technique	Date of interview
AT_GOV_01	Austria	Governmental: Finance	In person	5/8/2018
AT_IG_01	Austria	Interest Group: Business	In person	5/9/2018
AT_IG_02	Austria	Interest Group: Business	In person	5/9/2018
AT_IG_03	Austria	Interest Group: Employees	In person	5/10/2018
AT_IG_04	Austria	Interest Group: Employers	By e-mail	5/15/2018
EE_GOV_01	Estonia	Governmental: Finance	In person	5/23/2018
EE_GOV_02	Estonia	Governmental: Finance	In person	5/23/2018
EE_IG_01	Estonia	Interest Group: Employers	In person	5/25/2018
EE_IG_02	Estonia	Interest Group: Finance	By e-mail	5/2/2018
EE_IG_03	Estonia	Interest Group: Business	By e-mail	5/15/2018
FI_GOV_01	Finland	Governmental: Finance	In person	5/15/2018
FI_IG_01	Finland	Interest Group: Employees	In person	5/11/2018
FI_IG_02	Finland	Interest Group: Business	In person	5/14/2018
IE_IG_01	Ireland	Interest Group: Employees	In person	5/22/2018
IE_IG_02	Ireland	Interest Group: Business	By e-mail	4/30/2018
NL_GOV_01	Netherlands	Governmental: Finance	In person	5/16/2018
NL_IG_01	Netherlands	Interest Group: Employer and Trade U.	In person	5/18/2018
PT_GOV_01	Portugal	Governmental: Finance	In person	5/28/2018
PT_IG_01	Portugal	Interest Group: Finance	In person	5/18/2018
PT_IG_02	Portugal	Interest Group: Business	By e-mail	5/30/2018
SK_GOV_01	Slovakia	Governmental: Finance	By Phone	5/23/2018
SK_IG_01	Slovakia	Interest Group: Finance	By Phone	5/17/2018
SI_GOV_01	Slovenia	Governmental: Finance	In person	5/17/2018
SI_IG_01	Slovenia	Interest Group: Business	In person	5/14/2018
SI_IG_02	Slovenia	Interest Group: Employees	In person	5/14/2018
ES_GOV_01	Spain	Governmental: Finance	In person	6/5/2018
ES_IG_01	Spain	Interest Group: Employer and Trade U.	In person	6/6/2018
ES_IG_01	Spain	Interest Group: Employees	In person	6/8/2018

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