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# Neofunctionalism revisited: integration theory and varieties of outcomes in the Eurocrisis

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**ABSTRACT**

The Euro crisis has produced a plethora of new institutions, policies, and projects to reform the Euro Area. This paper offers a theoretical and empirical contribution in the study of the New Economic Governance. By building on insights from classical Neofunctionalism and Liberal Intergovernmentalism, the paper revisits the static component of Philippe Schmitter's 'Neo-Neofunctionalist' framework. Static Neo-Neofunctionalism is then applied as a means to provide a systemic interpretation of crisis-led integration in the Euro crisis. The large majority of episodes of crisis-led integration in the 2011–2016 years is included in the analysis. In assessing Neo-Neofunctionalist expectations on the New Economic Governance, the paper matches analysis of legal documents with the results of a dedicated Expert Survey on the EMU governance fielded in October 2018.

**KEYWORDS**

Eurocrisis;
Neo-neofunctionalism;
Economic Governance;
European Integration;
European Institutions

## 1. Introduction

The Euro crisis has produced several new institutions, policies, and projects to reform the Euro Area. Such a reaction to the Euro crisis was, to some extent, expected and even anticipated: one of the leading approaches to European Integration, Neofunctionalism and related theories, has always postulated that integration advances through crises. Neofunctionalist approaches[1] retain two fundamental areas of interest: the *dynamic* relationship over the long term between chains of crises and integration and the *static* analysis of the outcomes of a given crisis. While the long-term dynamics of integration and crisis is investigated in a dedicated work (Nicoli 2019), this article is concerned with a static analysis of the consequences of the Euro crisis for European integration, as they manifest in the development and/or construction of (new) institutions, policies and procedures.

The theoretical interpretation of the Euro crisis remains disputed. On the one hand, the Euro crisis provided impetus for an intergovernmental overhaul of the EU: after all, the crisis resulted in three new intergovernmental treaties and one treaty amendment; in 41 European Council meetings from 2010 to 2015, on average one each 50 days. However, scholarship on the Euro crisis has gone beyond intergovernmentalism. Contributions to the literature on the applications of grand-theories of European integration to the Euro

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crisis have flourished through (at least) four distinct approaches. For instance, Schimmelfennig (2015a, 2015b, 2018b) provides liberal intergovernmentalist (LI) interpretation of the Euro crisis; Bickerton, Hodson, and Puetter (2015) forge the term 'new' intergovernmentalism (NI) to analyse post-Maastricht period, including the crisis; Bauer and Becker (2014; Niemann and Ioannou (2015) and Schimmelfennig (2018a) provide diverse neofunctionalist (NF) accounts of the Euro crisis; and finally, Fabbrini (2015), Dawson (2015) and Jones et al. (2016) provide various 'hybrid' interpretations of the crisis, cutting across theoretical boundaries. Each of these approaches possess its own strengths and limitations. In light of these, this paper suggests that complementing existing neofunctionalist and hybrid scholarship on the Euro crisis by recovering, and building upon, the original Schmitter's (1970/2002) static analytical framework, improves our understanding of integration as a response to crises. In doing so, this paper first analyses the existing approaches to crisis-led integration. Then, it reconstructs and updates Schmitter's (1970/2002) framework, putting forward a set of hypotheses for each of the relevant forms of spillover. Finally, the paper applies this updated framework by looking at the several institutions, policies and procedures introduced as a reaction to the Euro crisis; to do so, the paper relies both on the analysis of the legal acts adopted to introduce the said policies, and on a dedicated Expert Survey carried out among 100 academics and policy-makers working on the European Monetary Union (EMU) run in October 2018 (Annexes 2–7).

## 2. The standing theoretical interpretations of Euro crisis-led integration: advantages and limitations

To understand the added-value of Schmitter's original NFF framework, it is worth assessing the standing theoretical interpretations of the crisis. Bickerton, Hodson, and Puetter (2015) enshrine their assessment of the Euro crisis in a broader, post-Maastricht trend of integration, labelled 'New Intergovernmentalism' (NI). The authors suggest that today's EU is (generally) characterised by the creation of new (intergovernmental) institutions, rather than supranational upgrading of existing institutions[2]: 'integration take(s) place in the absence of supranationalism' (Bickerton, Hodson, and Puetter 2015, 717). This perspective has been criticised in Schimmelfennig (2015a). In fact, neither liberal intergovernmentalism (LI) nor Neo-neofunctionalism (NNF) exclude the possibility for new intergovernmental institutions to emerge. NNF even labels this modus of integration as 'spill-around' (Schmitter 1970/2002). Secondly, both LI and NNF maintain the possibility for old institutions to evolve, given specific conditions. Thirdly, empirical evidence presented in Jones et al., (2016), Schimmelfennig (2018a) and in this paper show that NI expectations are factually disproved, since multiple institutions were strengthened in their supranational capacity during the Euro crisis. Therefore, insofar supranational institutions have continued to accrue their capabilities (along with newly minted institutions), the main institutional expectation of NI is embedded in both LI and NNF.

Conversely, the LI's interpretation of the crisis is grounded in LI's classical assumptions: (a) exogenous national preferences aggregated by at the government level; (b) interdependence; (c) centrality of intergovernmental bargain. Building on these, Schimmelfennig (2015b) offers an accurate application of LI to the Euro crisis. However, a LI interpretation is insufficient. To start, the assumption of exogeneity of governmental preferences

prevents a dynamic view of integration, since it excludes both learning processes and feedback effects of integration on national preferences. By providing no space for unintended consequences, LI not only considers preference change as completely exogenous but also excludes the emersion of endogenous crises. Therefore, LI can only ensure a static view of crises, while failing to provide a dynamic perspective on integration (as NNF does). This remains a general problem with LI; while this article also offers a static analysis of the crisis-integration dynamics, it does so as a part of broader theoretical approach – NNF – which features a strong dynamic component (Nicoli 2019).

Furthermore, while LI's static assessment of the crisis explains the process of bargaining that led to a certain set of institutions well, its static analysis does not fully account for differences in the existing state of integration across policy domains (which may lead to diverse outcomes, depending on the degree of autonomy that was previously endowed to supranational institutions)[3]. Hence, LI struggles to explain those instances of integration detached from governmental initiative, such as the 'informal' re-interpretation of the European Central Bank (ECB) mandate occurred in 2012, which played a key role in the management of the crisis.[4] LI also struggles to explain those instances of financial support that show limited intergovernmental role, such as the early European Financial Stabilisation Mechanism (EFSM). Third, it underestimates independent national actors, such as national central banks or Constitutional Courts.[5] In sum, LI provides a credible account of intergovernmental negotiations, which lead to a specific type of integration ('spill-around' in NNF, which also includes it), but fails to account for the diversity of reactions to a given crisis as they manifested during the Euro crisis, whilst suffering from a limited time horizon.

Classical neofunctionalist (CNF) analysis, put forward by Vilpisaukas (2013), Bauer and Becker (2014), Ioannou and Niemann (2015) and Schimmelfennig (2018a), addresses these shortcomings only in part. In fact, CNF is ill-suited to study crises that require integration in fields where a treaty-base does not exist yet. Ioannou and Niemann (2015) offer a tripartite understanding of spillovers (*functional, political, cultivated*), but they do not engage with integration outcomes beyond the typical spillover (that is, a form of integration characterised by increases of both autonomy and authority of supranational bodies on a given issue). In contrast, NFF allows for a crisis to generate both different forms of 'spills', *and* (dis)integration in different forms. Schimmelfennig (2018a) engages with a dynamic view of CNF, stressing how the combination of transnational interdependence and the pre-existing supranational capacity is key in determining the (dis)integrative outcome of a crisis. While these are very important factors in determining whether, overall, a crisis results in more, none, or less integration, they cannot – on their own – explain the variations *across* forms of integration. Hence, the CNF perspective is enriched, once it is incorporated in the broader NNF framework.

Finally, Dawson (2015), Fabbrini (2015), and Jones et al. (2016) provide hybrid interpretations of the crisis. The first two, qualify Euro crisis-led integration as hybrid between Intergovernmental and 'Community-Governance' paradigms, whilst providing a descriptive, rather than predictive, account of the Euro crisis. Thus, their assessment needs to be integrated into a formal theorisation. Jones et al. (2016) provide a compelling long-term (dynamic) analysis of crisis-led integration. Building on Historical Institutionalist (HI) accounts as well as on NF and LI approaches, they conclude that integration is 'neofunctionalist' in its long-term dynamics and 'intergovernmentalist' in its static

reaction to crises. While of great interest for dynamic studies of integration, the main two factors considered in the paper – élite minimalism and incompleteness of integration – do not suffice alone, to explain the variety of institutional outcomes observed during the Euro crisis. Once more, NNF can come to the rescue by incorporating these insights in its multidimensional understanding of the conditions and outcomes of crisis-led integration.

## 3. Crisis-led integration in the NNF framework

### 3.1. The assumptions of Neo(neo)functionalism

Neo(neo)functionalism rests on five foundational assumptions, discussed below.

#### 3.1.1. Bounded rationality (Haas 1964, 2004)

Agents as seen as inherently rational, but their rationality is limited in time and scope. Rational actors are subject to all sources of imperfect information, constraining their capacity of anticipating events, leading to unforeseen consequences of decision-making.

#### 3.1.2. Constructed preferences

Both Neo(neo)functionalism and other approaches (such as historical institutionalism) reject the notion of strictly exogenous preferences, which instead may change through distributional feedbacks, socialisation processes and evolution of allegiances and identities (Haas 1958, 1964; Pierson 1996; Christiansen, Jorgensen, and Wiener 1999).

#### 3.1.3. Differentiation on the nature of policies

In Haas (1958), but – more prominently – in Hoffmann (1966) and Schmitter (1970), a differentiation between "low politics" and "high politics" is advanced. While the original Neofunctionalism (à la Haas) viewed the role of national governments as ancillary to the actions of supranational agents and cross-national interest coalitions, NNF considers the national governments to play a larger role in integration concerning high-politics domains, rather than low-politics domains. However, in comparison to the intergovernmentalists, NNF does not exclude the potential for integration of high politics, although it relegates it to the later cycles of integration (Kuhn and Nicoli 2019).[6]

#### 3.1.4. Governments' minimalism

NNF rests on the assumption that national governments will maintain a minimalist integration strategy, in the attempt to resolve any outstanding problems while minimising the loss of national sovereignty at any decisional cycle (Schmitter 1970). Minimalism defines structural bias of national leaders against transfers of sovereignty: in any given moment, national decision-makers will not be willing to transfer powers to supranational institutions unless they have no other option. Again, this assumption cuts across theoretical boundaries: originally proposed by Schmitter (1969, 1970), it is similarly found in classical intergovernmentalists (Keohane 1984), in Historical Institutionalism (Pierson 1996, 135); and by recent mixed approaches to integration (Jones et al., 2016: 1016).

### 3.1.5. Functional synergies

Finally, Neo(neo)functionalism assumes that functional synergies (or policy-interdependencies) may exist between different policy domains; in other words, certain policies are more effective when deployed on the same tier of the multilevel governance. In extreme cases, these synergies go as far as preventing the effective functioning of the policies when these are governed at different levels (for instance, a single market for goods cannot properly work without a common customs union).

This set of assumptions entails three lenses through which NNF analyses the long-term process of integration: *unintended consequences, path-dependency*, and *cycles of integration*. While these are fundamental parts of a full-fledged NNF framework, they pertain to its dynamic component (how crises and integration dynamically relate to each other) rather than to its static one (how institutions adapt to certain crises) which is the object of this article. These dynamic elements of NNF are discussed in further detail in Nicoli (2019), which deals with the dynamic component of the NNF framework.

## 3.2. Outcomes of crisis-led integration

In NNF, the outcomes of a functional crisis can be qualified by looking into the extent integration increases or decreases, and to the extent, new policies are governed with intergovernmental or supranational arrangements (Schmitter 1970). In NNF; crises can induce different reactions: 'spillover', 'spill-around', two forms of 'spill-backs', and 'encapsulation'. Of these, three are particularly relevant in the case of the Euro crisis: spillover is defined as 'the simultaneous increase in both level and scope of common institutions'; spill-around, constitutes the creation of 'specialized (.) but strictly inter-governmental institutions'; disintegrative spill-backs, finally, constitute the simultaneous reduction of both autonomy and scope of common institutions (Schmitter 2002, 32–33). The two remaining outcomes (not discussed in this article) refer to outcomes that are theoretically possible within the NNF framework, but hardly apply to the case at hand. A weak spill-back (or 'retrench', in the original terminology proposed by Schmitter) is a case in which the scope of integration is scaled back, but the supranational nature of the common institutions is reinforced to deal with the remaining common competences. Lastly, in the event of an 'encapsulation', a major crisis is faced with no substantial alterations in neither the governance mechanisms nor the scope of policy integration, de facto putting the crisis-integration dynamics to rest. Considering the important institutional cases which occurred during the Euro crisis, this article focuses on the three main outcomes: spillover, spill-around and strong spill-back.

These possible reactions to a crisis can be visualised as a set of variations on two axes: competences and governance (Figure 1). The setup presented here, provides a generalised and simplified version of the diagram originally proposed by Schmitter (1970, 845). It is worth noting that, while 'spillover', 'spill-around' and 'spill-backs' are juxtaposed ideal-types, in reality, institutional solutions are placed on a *continuum* of possible configurations, as suggested by Börzel (2005). While Figure 1 provides a general conceptual framework, a specific metric for the case of the Euro crisis is introduced in Table 1 in the next section; policies are therefore allocated in Figures 2(a,b) both on the basis of analysis of relevant acts, and on the results of a dedicated Experts survey.

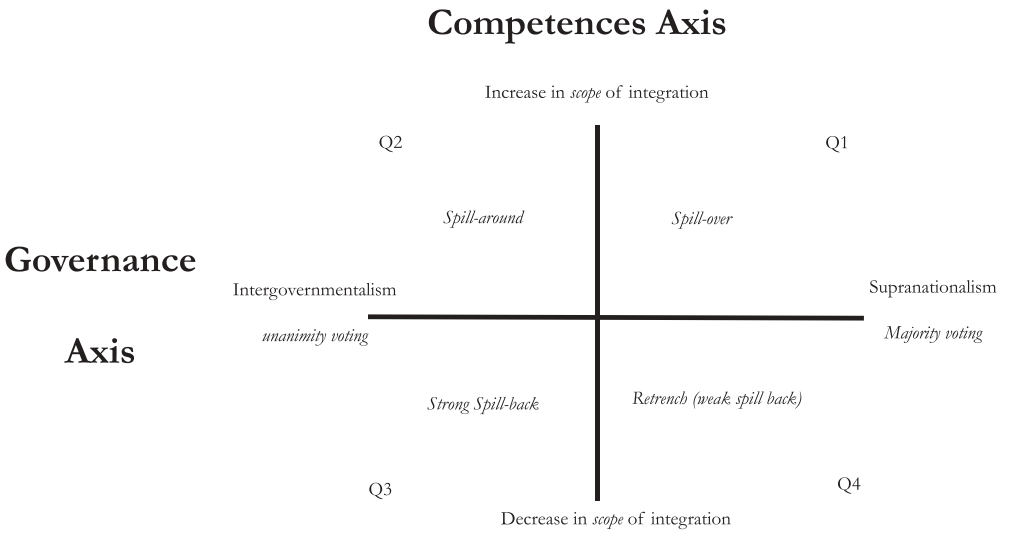


**Figure 1.** Functional outcomes.

In Figure 1, the vertical axis reports an *increase/decrease* in the *scope* of integration (i.e. whether new functions are object of European decisions, or whether previously delegated functions are re-nationalised); the horizontal axis concerns the *increase/decrease* in the level of supranational decision-making (i.e. whether the integrated functions have a supranational or inter-governmental governance structure). For instance if a new policy attributes powers solely to the Commission, it would be qualified as a strong spillover; if the decision-making process is co-decision, it would be closer to the origins, but still in quadrant Q1; if the Council alone would take a decision, but acting by majority voting, this would constitute a weak form of spill-around; if the decision is in the hands of the Council, European Council, or national parliaments under consensus rule, this would clearly fit in the spill-around Q2 quadrant.

Spill-backs, i.e. reduction in the scope of integration, and, possibly, reverting of the dynamics of integration is also a possible outcome in NNF. While all spillbacks result in a decrease in the scope of integration, in some cases they may be accompanied by a simultaneous increase in the national governments' control on the remaining competences (strong spill-back, Q3). In other cases, they may instead be accompanied by an increase in supranational governance on the remaining competences, for example, by empowering the European Parliament ('retrench', Q4).

### 3.3. Factors and mechanisms

Whether a crisis, ultimately, results in a spillover, a spill-arounds, spill-backs or encapsulation depends on multiple factors and their interactions. Before putting forward specific expectations for each of the quadrants of Figure 1, we recall the main factors involved. A first set of factors concerns the horizontal displacement in Figure 1 (between intergovernmental and supranational governance).

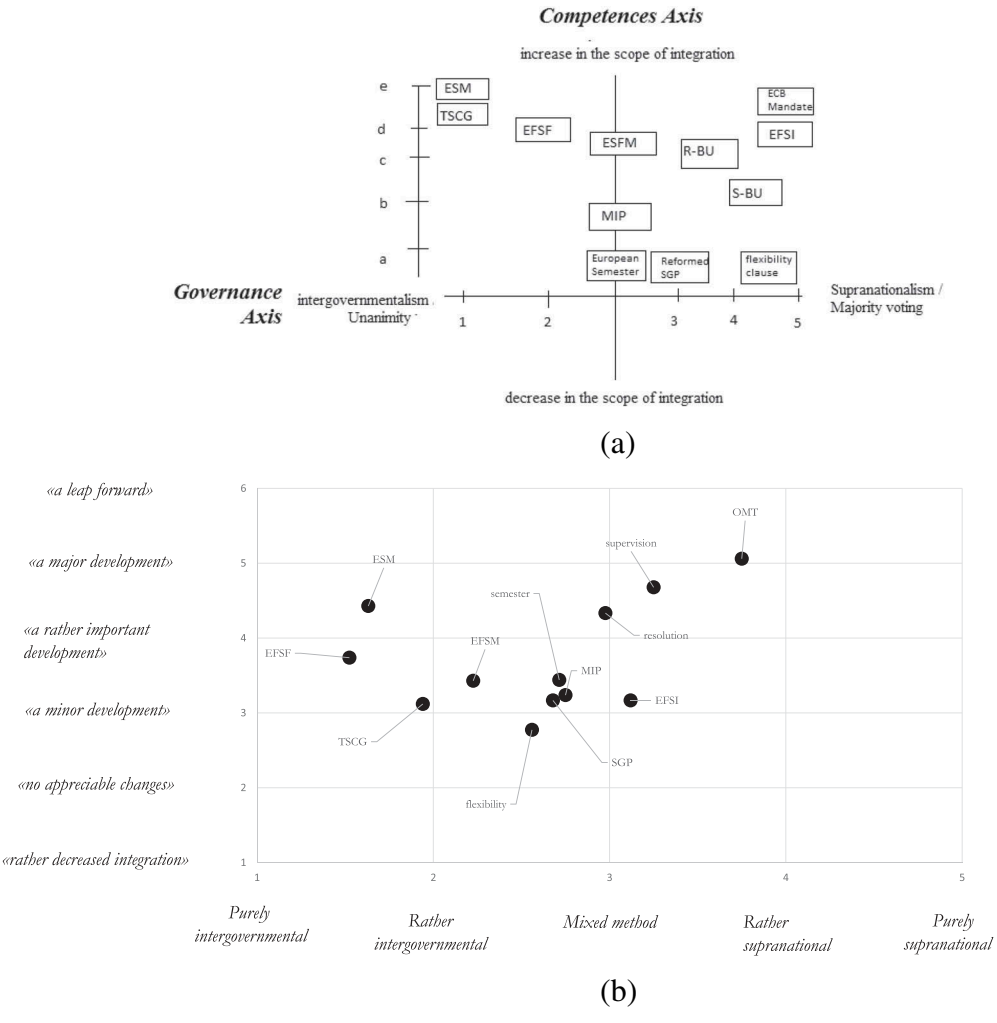


**Figure 2.** (a) Crisis outcomes (based on legislation). (b) Crisis outcomes (based on Experts survey).

### *3.3.1. Nature of the policy*

Since policies are assumed to be diverse in nature, the integration in "high politics" is more likely to happen under the strict oversight of national authorities, rather than in the integration in "low politics", unless other conditions are met.

### *3.3.2. Degree of common identity*

The stronger a sense of common identification or belonging to a common polity in the population, the more likely are supranational institutions to acquire competences in high-politics (and the opposite when there is no sense of shared identity) [7]

### *3.3.3. Governance interdependencies*

Crises associated with mismatches between national decisions (which could in principle, be composed) are more likely to result in intergovernmental coordination instruments,

while crises associated with free-riding or moral-hazard behaviour that lead certain countries to generate externalities on the community are more likely to result in instruments aiming to insulate policy-making.

A second set of factors concerns displacements over the integration/disintegration axis:

### 3.3.4. Degree of pre-existing integration

Due to path-dependency, new policies and institutions are more likely to be introduced in those fields where integration is already developed (Schimmelfennig 2018a).

### 3.3.5. Autonomy of supranational actors

Since national governments are characterised by minimalism, integration is expected to be more far-reaching, the more autonomous are supranational actors in taking decisions in a given field.

### 3.3.6. Policy interdependence

Movements on the integration/disintegration axis are likely to be stronger, the higher the degree of interdependence between policy fields located at different layers of governance; that is, the more dysfunctional is the distance between integrated and non-integrated policies, the more likely is such a distance to be reduced in one direction or the another.

### 3.3.7. Distribution of the costs of non-integration

Movements on the integration/disintegration axis are more likely to happen when the costs of a crisis are distributed evenly among participating countries. Meaning, the larger the number of countries unaffected by a crisis, the less likely is integration to happen, since the status-quo constitutes for those countries a credible way forward.

By combining these factors, we advance specific hypotheses concerning the nature of the outcomes in a given crisis. The remainder of this section discusses the relationships characterising the ideal-types of spillover, spill-around, and disintegrative spill-back;[8] the stronger the relationships hypothesised above, the further away from the centre (in the appropriate quadrant) the relevant policies are expected to be.

**Spillover (quadrant 1)**: While all kinds of spillover imply an increase in competences, we can distinguish three main types of spillover according to qualitatively different governance settings (building on Niemann and Ioannou 2015): a "technocratic spillover" (based on insulation), implies an increase of independent surveillance and supervision powers of supranational actors, a "cultivated spillover", which is grounded in pre-existing autonomy of supranational actors; and a "political spillover" based on co-decision, implying that new powers are managed through a classic Parliament-Executive dynamics, implemented at EU level through the Ordinary Legislative Procedure.

First (mechanism 1.1), technocratic spillovers are likely to appear when governance interdependence is high (that is, there is a need to prevent free-riding, increase supervision and/or achieve insulation, and achieve external monitoring/control of the given competence – for instance, to prevent prisoner-dilemma like situations or ensure compliance – (Majone 1997)). Second (mechanism 1.2.1), if policy interdependence is high, and the policy field concerned is "low-politics", then a spillover is likely. Third (mechanism 1.2.2), if policy interdependence is high, the policy field concerned is "high politics" (or a "fundamental competence of nation states":

Bundesverfassungsgericht 2009, 252) **and** there is a degree of shared identity, then a political spillover is likely. Finally (mechanism 1.3), if policy interdependence is high, and the agencies are sufficiently developed to have the power to re-interpret their mandate in autonomy, then a cultivated spillover is likely.

**Spill-around (quadrant 2)**: Given the "minimalism" inherent to NNF, a "spill-around" would be the default solution when integration in a new field is required to address a given crisis. Building the conditions described in the previous section, the following relationships are advanced: First (mechanism .2.1), if a given competence is, ex ante, mostly under control of national authorities, and governance interdependence is low (that is coordination, rather than insulation, is required) then a spill-around outcome is likely. Second (mechanism .2.2), if policy-interdependence is high, but the competence object of integration is perceived as "high politics" and there is a lack of common identification, then a spill-around is likely, since in absence of a shared identity, Governments (and their Constitutional Courts) would defend national prerogatives by requiring unanimity-voting procedures. Third (mechanism .2.3), if the costs of inaction are particularly large, but unevenly distributed among states, the less-hit states will seek to maintain control over the policy decisions, hence leading to a spill-around.

**spill-backs (quadrant 3)**: First (mechanism 3.1), if the crisis is attributed solely to the mismanagement of a given power/competence of the supranational level, then a spill-back is likely. Second (mechanism .3.2), if policy interdependence is very high (making the status quo unsustainable), but the costs of integration are larger than the costs of disintegration, then spill-back is likely. Finally, (mechanism 3.3), if the Union is in a "lock-up" crisis[9] and the crisis-induced paralysis has completely eroded output legitimacy without a feedback effects on national preferences leading to a shared solution, then a strong spill-back is likely.

These mechanisms cover the main relationships leading to spillovers, spill-arounds and spill-backs; it is possible that other mechanisms leading to these outcomes exist. Regardless, this paper does not aim to provide a comprehensive test for all the many hypotheses of NNF; it aims to assess whether Euro crisis-induced integration fits in the expectations that NNF puts forward. In doing so, Section 4 provides an overview of the main instances of integration, which occurred between 2010 and 2016, by using up to 15 different policies, institutions and procedures. The analysis is based on a two-fold empirical approach: a review of all relevant legal texts, and a dedicated Expert survey run among about 100 policy-makers, academics and think-tankers, many of whom were directly involved in the setting-up of the various instruments of the new economic governance (Annex 2).

## 4. Eurocrisis-induced integration: which kind of outcomes?

### *4.1. Operationalisation*

This section provides an empirical assessment of the main expectations of NNF in the case of the Euro crisis. Table 1 in the online supplement recalls all policies and institutions, which were introduced to address it. The assessment is grounded on analysis of all legislation and acts associated with each of the 13 policies & institutions introduced, and on the dedicated Experts Survey.[10] Experts have been asked to assess (inter-alia) how much, in their opinion, integration was pushed forward (or backward) by each of these changes; what were the most determining factors; and how they would evaluate the governance of these institutions and policies. When looking at legislation, particular attention has been devoted to evaluating formal decisional mechanisms and the (formalised) rationale for the policy (as

contained in the recitals, in the accompanying Commission Communications, and/or in the first articles of the regulations/directives/decisions).

The goal of the analysis is twofold: first, we aim to understand which new policies and institutions fit into the particular quadrants of Figure 1. Second, we aim to see whether our expectations concerning each of the quadrants are respected. Hence, the two axes of Figure 1 are operationalised through qualitative metrics, which are then checked against actual legislation and experts' opinion. Values are scaled accordingly to the degree of expansion in competences, and the kind of governance adopted.

The following policies and institutions are considered: the reformed Stability and Growth Pact (SGP) and the novel Macroeconomic Imbalances Procedure (MIP; the European Semester (ES, in its 2011, 2013 and 2015 versions)); the European Financial Stabilisation Mechanism (EFSM); the European Stability Mechanism (ESM) and its precedent version, the European Financial Stability Facility (EFSF); the European Fund for Strategic Investment (EFSI); the Treaty on Stability, Coordination and Governance (TSCG); the Outright Monetary Transactions programme (OMT) and the implicit ECB mandate change it involves; the Supervisory pillar of the Banking Union (SBU) and the resolution pillar of the Banking Union (RBU); the 2015 flexibility clause. The governance of these institutions as well as the redistributive effects they produce (Annex 4) vary substantially.

Figures 2(a,b) present the overall results on the basis of legislation analysis (Figure 2(a)) and of the dedicated Expert Survey (Figure 2(b); Annex 3). While there are some differences between the two results, the overlap between the two plots is remarkable and supports the intuition that neither the spillover (prime mechanism in CNF), nor the spill-around (prime mechanism in LIG) can (on their own) explain crisis-led integration. The remainder of this paper is dedicated to the investigation of the various instances of spillovers and spill-arounds, discussing our expectations in light of the legislation and the information collected in the Experts Survey.

### 4.2. Instances of spill-around

#### 4.2.1. The EFSM

The earliest case of spill-around is the creation of the EFSM in 2010 (regulation 407/2010). The Fund was set up in the wake of the 2008 global financial crisis and was grounded explicitly in the 'solidarity' clause enshrined in article 122 of the TFEU, with the aim of addressing exceptional circumstances beyond member state control, as stressed in the regulation's recitals. From a legal point of view, the regulation mirrors the mechanism established for non-Eurozone countries in 2002, for balance-of-payment assistance. Consequently, the Commission becomes a borrower on behalf of the member state, resulting in very low interest rates thanks to the implicit guarantee provided by the EU budget. De facto, the EFSM was a vehicle of debt mutualisation: the maximal number of 'Eurobonds' created is set at 60 Billion Euros. Its governance system depends on the Commission and the Council's qualified majority; this qualifies the EFSM as a hybrid institutional form, a very weak instance of spill-around. This is confirmed by the average scores in the Expert Survey, attributing to the EFSM a score of 3.4 on the integration scale (close to 'a minor development') and a score of 2.2 on the governance scale ('rather intergovernmental'). Qualifying the EFSM as a spill-around conforms it with our mechanism 2.2, since debt mutualisation is seen as high politics with important redistributive

consequences (Annex 4). However, since the EFSM had a limited firepower using the Union's own budget and built on existing legal capacity (both articles 122 TFEU and regulation 332/2002), its governance mechanism is closer to co-decision than the EFSF and ESM.

#### 4.2.2. The ESM

A (much stronger) spill-around is constituted by the funds that followed the EFSM: the EFSF and subsequently, the ESM. The creation of the ESM, being a much larger rescue fund with a lending capacity up to 800 Billion Euros, could not be grounded in art. 122. This funding is provided directly by the member states, in the form of paid-in capital and further guarantees. By 2012, the interpretation of the crisis had shifted from being a purely exogenous phenomenon 'outside of member states control', to be the consequence of debt mismanagement in individual countries, which were posing a threat to the Eurozone as such. Article 136, which prohibited central financing of national budgets, had to be amended in 2011 in order to permit bailouts. A dedicated treaty setting up the new mechanism was signed in June 2012 and entered into force in October. From a legal perspective the ESM is purely inter-governmental: there is no governing role for the Commission and all decisions are taken by representatives of the participating member states.[11] The key power entitled to the ESM, namely to provide financial support, is to be taken by consensus of all participants (art. 5.6-ESM, detailed in art. 16.5-ESM). Furthermore, several states have enacted national legislation for ex-ante or ex-post authorisation from their national parliaments, reinforcing – in the latter case – the intergovernmental logic of the instrument (Kreillinger and Larhant 2016). Again, this is in accordance with the Expert Survey results, which assign a score of 4.4 on the integration scale ('a major development') and a score of 1.6 on the governance scale ('purely intergovernmental'). All three spill-around mechanisms are present in the ESM case. As not only fiscal issues are high-politics of strict competence of national authority (mechanisms 2.1 and 2.2); but also the costs of inaction were so asymmetric, that the countries effectively financing the mechanisms could retain a veto power (occasionally, for multiple national institutions), making the ESM the strongest example of spill-around in the Euro crisis.

#### 4.2.3. The European semester

A third case of (weak) spill-around is constituted the progressive establishment of the European Semester of policy coordination, introduced informally by an Ecfin agreement in 2010, codified in December 2011 (amended regulation 1466/97) and reformed again in 2013. The European Semester did not introduce, as such, new instruments, but it provided a much-strengthened coordination of existing tools. The European Semester inherited the practice of economic policy coordination applied in Europe, since the Maastricht Treaty, in particular the 'Broad Economic Policy Guidelines' and the 'employment guidelines' (the main building blocks of the so-called 'open method of coordination[OMC]' introduced to achieve the goals of the Lisbon 2010 Agenda- Deroose, Hodson, and Kuhlmann 2008), the 'national reform programmes' that member states had to deliver as a part of the OMC, and the 'stability plans' delivered according with the SGP. The 2011 reform integrated the guidelines into a single document of economic policy, the Annual Growth Survey (AGS) approved by the European Commission in October each year. In March 2013 the process was strengthened even further, by adding a supervision of the actual implementation of

commitments in budgetary laws, to be submitted to the Commission by October. From a legal perspective, the European Semester is fundamentally a mixed procedure: while the Commission has a limited independent authority through the AGS (which holds no legal value) and through the proposals of recommendations, all acts coordinated through the European Semester either originated in member states, or need to be validated by a majority in the Council. The only relevant exception is the Excessive Deficit Procedure, which is to be discussed in the next section, is an integral part of the Semester but constitutes a case study of its own. Expert assessment is in line with this intuition, scoring 2.7 on the governance axis (close to 'mixed method') and 3.4 on the integration axis ('a minor development'). As a strengthened coordination instrument of policies, which remain, fundamentally, of national competence, the European Semester fits properly in mechanism 2.1.

#### *4.2.4. The macroeconomic imbalances procedure*

Along with the European Semester, a fourth case of weak spill-around is constituted by the creation of the Macroeconomic Imbalances Procedure (MIP) in 2011, grounded in articles 121 and 126 TFEU. From a legal perspective, the procedure allows the Commission to monitor the overall macroeconomic development of member states and eventually propose sanctions against member states failing to address their internal imbalances. Nonetheless, the final decision on sanctioning is entitled to the majority of the Council. Moreover, as the decision is based upon a plurality of indicators (the Macroeconomic Imbalances Scoreboard), the violation of one single parameter is not sufficient to trigger the sanctions. This allows for larger flexibility in the hands of member states, when assessing the Commission's recommendations, making it easy for a coalition of states to turn down a request of sanctioning. The expert survey scores support this assessment, evaluating the MIP governance with a score of 2.8 (just short of 'mixed method') despite the sanctioning power bestowed upon the Commission. Provided that economic policy is a competence of nation states and the treaty provides only for enhanced coordination of national policies, the creation of the MIP fits into mechanism 2.1 as the European Semester, whereby strengthened coordination instruments are deployed to ensure economic convergence of national economies.

### *4.3. Instances of spillover*

In some instances, crisis-led integration has resulted in spillovers, where both the competences of the supranational institutions and their autonomy are expanded.

#### *4.3.1. The ECB mandate 'Reinterpretation'*

A first instance of spillover is constituted by the ECB's reinterpretation of its own mandate through the well-known 26 July 2012 'whatever it takes' speech by the ECB president Mario Draghi; the following setting up of the OMT programme (2 August 2012) and the beginning of the Quantitative Easing in late 2014. The financial effects of the two announcements were sizeable (Altavilla, Giannone, and Lenza 2014) and considerably decreased the interest payments on several member states. While earlier the mandate of the ECB was perceived to be solely to maintain price stability in the Eurozone, the ECB argued that for monetary policy to work, financial fragmentation must be avoided;

financial fragmentation induced by fears of EMU breakup, translated into 'exceptionally high-risk premia hindering the effectiveness of monetary policy' (European Central Bank 2012). Therefore, insofar the countries are willing to act domestically to reduce their risk premia, the ECB protects the irreversibility of the Euro.

From a legal point of view this reasoning – although still grounded in the fundamental ECB mandate of the ECB to conduct monetary policy of the Euro system (art. 282 TFEU) with the aim of maintaining price stability (art. 127 TFEU) – extended this mandate to the preservation of the Euro system itself (without which no Euro system monetary policy is possible)[12]. This produced two side-effects; first, it induced the ECB to take a stance on non-monetary aspects of economic policy; second, it led to a substantial increase in the ECB's public bond holdings, which have redistributive implications (Sinn and Wollmershuser, 2012; De Grauwe and Ji, 2013; Bundesverfassungsgericht 2016). The OMT programme and the QE are only partially within the competences conferred upon the ECB: while a preliminary ruling favorable to the OMT has been released on 14 January 2015 by the ECJ, a decision from the Bundesverfassungsgericht delivered in June 2016 maintains that further conditions must be in place for the OMT to remain within the EVB mandate, thus opening the doors to future challenges from claimants. The expert assessment is uncontroversial regarding the nature of the ECB mandate interpretation, which scores the highest both on the integration and the governance scale, qualifying it as a spillover. Furthermore, the ECB mandate reinterpretation fits into mechanism 1.3, the ECB being a long-standing, independent agency able to redefine its mandate in (relative) autonomy, even when this produces important redistributive effects (see Annex 4) encountering an institutional pushback from powerful domestic institutions (such as the Bundesverfassungsgericht).

#### *4.3.2. The banking union*

A second case of a spillover in the European Banking Union (EBU), which is composed by the supervisory pillar (established through the Single Supervisory Mechanism (SSM)[13]) and the resolution pillar (established through the Single Resolution Mechanism (SRM)[14]). The process leading to the EBU is described in Glöcker, Linder, and Salines (2017) through an historical-institutionalist perspective, emphasising the learning process and the role of non-state actors in shaping policy evolution, and by Epstein and Rhodes (2016) who instead stressed its neofunctionalist nature. Zeitlin (2016) focuses instead on the experimental features of the SSM, especially concerning the consultation with national authorities in the inception of tailor-made solutions for larger banks. Nonetheless, any final decision remains solely in the hands of an ECB appointee.

From a legal perspective, the supervisory pillar of the Banking Union confers upon the ECB the task of supervising large credit institutions at European level. Beforehand, supervision of the banking sector was held at national level; coordination was achieved through three linked institutions introduced in 2010 (the European Banking Authority and the related Insurance and Securities Authorities). However, this constituted an inefficient mechanism of coordination, resulting in uncertainty in supervisory tasks for cross-border lending, and additional risks associated with domestic oversight of banks (often engaged in extensive lending to the public sector itself). The SSM, in other words, was created to address the shortcomings of existing coordination centralising supervisory

tasks[15], fitting well with mechanism 1.1. In accordance, expert assessment qualifies the SSM as a clear spillover, scoring 4.7/6 and 3.3/5 on the integration and governance scale, respectively.

The SRM is the second pillar of the Banking Union. The Board of the SRM it is composed by delegates of both the Commission and the National Resolution Authorities of the Member states (art. 43). The executive of the Board (Chair, vice-chair and four permanent members) is fully appointed by the Commission and approved by the European Parliament and the Council (art.56.6). Despite the relevance of national delegates, the body enjoys *full independence* (art.47); it is accountable to the Commission and the Parliament; most decisions are taken by simple majority (art.52.1). Although the entrance into force of the Single Resolution Fund managed by the SRM is linked to the ratification of an international treaty (the Agreement on the Transfer and Mutualisation of Contributions to the Single Resolution Fund), the Board acquires – once the ratification process is completed – independent powers on the Fund's budget. Furthermore, the rationale for the SRM is to explicitly achieve a better insulation and coordination[16], fitting therefore with mechanism.1.1. On the other hand, the SRM is a clear case of risk-sharing mechanism: we would expect a spill-around rather than a spillover. However, the SRM is a *sui-generis* example of risk-sharing: the public power is exonerated from contributing in the Single Resolution Fund, which is completely set up by contributions of the banking sector. Since no taxation is involved and solidarity is expressed through the banking sector's own contributions, a degree of collective identification is not required to enable this form of risk-sharing.[17] For comparison, 89% of our surveyed experts agree that other elements of the economic governance would have been far more ambitious, if collective European identities were stronger.

### *4.3.3. The EFSI*

Finally, a fourth case of spillover is constituted by the creation of the EFSI. Although the Fund relies on a mix of financial contributions from the member states delivered on a voluntary basis and of a smaller amount of resources drawn from the EU budget, both the inception of the Fund and its structure are of clear functional origins. The Fund was promised by the (then-candidate) Juncker during his campaign to win the European Elections and secure a political nomination to the European Commission Presidency. The Fund's design is to be read in light of the flexible communication discussed below, which states that both initial financing to the Fund (Communication 12/2015:6) and contributions to the co-financing of the projects (ibid: 8) will not be considered in computing deficit and debt threshold for what concerns the SGP requirements. Put simply, channeling their investment plans through the Fund provides member-states with a 'golden rule' for which investment is not computed as deficit for the application of the fiscal rule. Again, the instrument seems to empower national governments, but in fact strengthens the leading role of the Commission, since there is no automaticity between Fund's contributions and disbursements. The managing of the Fund is left to the Steering Board, composed for 75% by EC officials and for 25% by EIB officials. The independence of the Board is emphasized in art. 7.4 of the Regulation, excluding member-states from the management; yet, the EP has little formal role in the Fund. The EFSI constitutes, therefore, a hybrid case of political-technocratic spillover. If we look at its origins, its political nature is evident: it was incepted as a political promise in the first

European Elections featuring a leading candidate, and it was pushed forward despite possibly producing redistributive effects, *because* its legitimation came from a pan-European electoral campaign. However, contrary to the expectation for political spillovers, the resulting governance is not resulting in a parliamentary-executive dynamic (as expected for political spillovers), having a rather technocratic governing structure. This hybrid spillover nature of the EFSI is supported by experts' opinion, that qualifies the EFSI governance as 'mixed-method'.

### 4.4. Controversial cases

In two cases, there is a contradiction between the Expert Survey and the legal analysis.

#### 4.4.1. The SGP reform

The Reform of the Stability and Growth Pact (SGP) is one of the two cases of contrasting results between the legal assessment and the expert survey. While on the basis of legal assessment- the SGP reform clearly qualifies as a spillover, the Expert Survey assessment places it slightly below the MIP and the Semester, both in the integration and governance scales. Originally introduced in 1997, the SGP was modified in 2011, tightening the fiscal adjustment thresholds for Euro Area member states and introducing the Reversed Majority Voting principle on sanctions to break the Council gridlock that had prevented the Commission from taking action in the pre-crisis years. In the new setting introduced in 2011, the Commission acquired a large autonomy vis-à-vis the member states, being granted the automatic approval of decisions on infringement unless member states in the Council succeeds in crafting an opposing majority. This corresponds to the NNG expectation on widening of autonomy of supranational agencies, when there is a need of increased insulation (mechanism 1.1 & 1.3). On the other hand, the Expert Survey results – albeit considering the SGP governance as something more than an intergovernmental institution (2.7) fall short of qualifying the SGP governance as mixed method; the Commission is only marginally considered as more important than governments in the management of the SGP (see Annex 2). Most likely, this is due to the fact that the Commission is *politically* constrained in its action despite the increase in formal powers; as a result, the Commission engages in long bilateral negotiations (as a part of the European Semester process) with the governments of the member states at risk of infringement. While the SGP reform boosted the powers of the Commission in these negotiations, the initiation of an infringement procedure still includes a considerable role for the member state in question.

#### 4.4.2. The flexibility clause

The flexibility clause was introduced in February 2015. Member states can ease their fiscal adjustment path towards the Medium-Term Objective (MTO) as long as, they coordinate their structural reforms' effort with the European Commission (European Commission (2015) Communication 12/2015: 9–14). From a formal perspective, this strengthens the supranational nature of the SGP, since the definition of 'structural reform' is left open in the Communication. Although criteria for eligible reforms are set (the reform must be 'major', with 'long-term positive budgetary effects', and must be 'fully implemented'-ibid.:10), several minor reforms may be aggregated in 'well-designed comprehensive

packages of reforms (.) which reinforce each other's impact through an appropriate choice of policy mix and sequencing of implementation' (ibid: 10). The assessment of all these conditions is left to the sole judgment of the European Commission. The same applies to diction 'long-term positive budgetary effects', whereby it is stated that reforms boosting potential output may be included in the list. The Communication provides such a margin of appreciation for the Commission, to the point of weakening the SGP rules of parts of their cogent power. However, while the rule-based mechanism is weakened in favour of a political assessment of the process of fiscal consolidation, such political discretion is bestowed upon the Commission (rather than on the Member-State).[18] This would suggest that the flexibility clause is a form of spillover, aligning with mechanism.1.1 (need for insulation) and 1.3 (autonomy). Regardless of whether we look at the flexibility clause from a legal perspective or from the point of view of experts, its impact on integration is limited (experts rate it between 'no appreciable changes' and 'a minor development'). However, experts see the flexibility clause, as a rather intergovernmental endeavor (score of 2.6 on the governance axis) since it increases the options available for member states; even if the Commission, rather than the member-states, acquires a new degree of political discretion that was not available before.

## 5. Conclusions

The paper set out to explore the added value of Neo-Neofunctionalism (NNF), as an encompassing theory of crisis-led integration. Building on previous NNF scholarship, it theorises both *spillovers* and *spill-arounds* as possible outcomes of crisis-led integration, depending on a variety of factors and expectations. These expectations are then explored by means of a detailed analysis of legal texts, complemented by dedicated Experts Survey on the New Economic Governance.

Of all episodes of integration occurred in the wake of the Euro crisis, four are typical spillover effects with a prominent role for insulated, supranational institutions: the two pillars of the Banking Union, the EFSI, the OMT/QE of the ECB. Three procedures are weak forms of spill-around, where governments are the ultimate decision-makers through their ministers in the Council, but only in dialogue with the Commission itself and through majority voting: this is the case of the ESFM, the MIP, and the European Semester in general. On the other hand, clear cases of strong spill-arounds are the EFSF/ESM and the TSCG. Finally, two institutional changes (the SGP reform and the Flexibility clause) yield inconsistent results between the expert survey and the assessment of legal texts. While governments have surely played a fundamental and visible role in the decision-making process that led to the creation of many those institutions (with the relevant exception of the OMT and of the EFSI) many of these institutions are forms of spillovers, increasing both the authority and the reach of supranational institutions. Governments could not play any smaller role in the decision-making process, provided that most of the policies object of integration during the crisis were still national competence when the Lisbon Treaty entered into force, and therefore great caution was adopted to avoid cases of 'ultra vires' violations of the EU mandate (Bundesverfassungsgericht 2012).

Overall, the paper shows that NNF can credibly integrate insights from both classical Neofunctionalism and Liberal Intergovernmentalism, producing an overall theory of crisis-led integration encompassing several types and modes of regional build-up in a testable

manner. Furthermore, the theory is open to expectations leading to dis-integration, although such outcomes are not assessed in this paper.

Despite the insights provided, a major limitation of the paper is the lack of analysis on how preferences of individual member states and social groups (both between, and across, national boundaries) have influenced these outcomes. Indeed, the final institutional choice represented in Figure 2(a,b), despite having brought integration forward, differs quite substantially from the majority of designs and plans for Eurozone presented during the crisis years, thus falling short of many policy-makers' expectations. As for December 2018, the gap between the degree of integration effectively achieved and the 'grand' plans for EMU stabilisation is exemplified by the lack of any sort of common fiscal instrument to ease the hardship of internal adjustment. A careful analysis of these preferences would likely attribute to such gap to divergent national positions, suggesting that the theory should be extended, so to explain not only cases of successful integration, but also episodes of integration that failed to take place; these latter, usually excluded by Neofunctionalist scholarship.

## Notes

1. The original Functionalist theory was developed by Mitrany in the interwar period. By classical Neofunctionalism (CNF) we mean the first novel iteration of the theory, proposed by Haas (1958); Haas (1964) and Lindberg (1963). By Neo-Neofunctionalism (NNF) we mean the updated version of the theory, developed in two steps by Schmitter (1970, 2002). The latter provides both a *static* and *dynamic* analysis of crisis-led integration. This paper develops further the static analysis proposed by NNF.
2. According to NI, changes may also occur to existing institutions, but usually, this would (a) strengthen the leading role of intergovernmental bodies, and (b) further qualify the Commission and other supranational bodies as agents and implementers of the intergovernmental agenda (Bickerton et al., 2015).
3. Schimmelfennig (2018b, 24) notes, 'the common EU interest in the Euro and Brexit crises (.) were facilitated by high supranational capacities'.
4. In June 2012 the ECB president, Mario Draghi, indicated that the ECB core mandate of price stability implied a mandate to protect the survival of the Eurozone, even if this is not formally stated in the ECB statute.
5. In fact, the most credible challenge to further integration, including against the 2012 ECB mandate re-interpretation, came from the Bundesverfassungsericht, which is insulated from governmental decisions.
6. Clearly, this is not unique to NNF; the differentiation between high and low politics is a key feature of intergovernmentalist approaches (Hoffmann 1966). In classical intergovernmentalism, integration never takes place in the field of high politics. Differently from classical intergovernmentalists (and closer to Neofunctionalists), New Intergovernmentalists consider that integration may occur also in high politics, under certain conditions. Finally, Historical Institutionalism also maintains that in critical junctures (i.e. moments of supranational constitutional change) national decision-makers maintain a key role in shaping the outcomes of constitutional 'grand-bargains' (Pierson 1996).
7. This is, to a large extent, derived from research done on the interplay between high politics, core state powers, redistribution and the 'no-demos thesis'; see, for instance, Weiler (2001), Zurn (2000), Nicoli (2017b), Kuhn and Nicoli (2019).
8. We do not hypothesize, at this stage, the conditions possibly leading to encapsulation or retrench, due to space constraints and to the fact that they do not apply to the Eurocrisis in particular. Schmitter (1970/2002) provides an initial set of intuitions in this regard.

9. I.e. a situation where the status quo is costly for everyone, but moving outside of it in any direction is costlier of the status quo for a subset of actors strong enough to exert a veto. It is the case, for instance, of most 'trilemma-like' situations.
10. Annex 1 contains an overview of the Survey questions and broad descriptive statistics.
11. In a recent case (*Ledra Advertising*, September 2016) the ECJ recognised the role of the European Commission in the management of the ESM and of the following programmes, de facto bringing the ESM in the European legal sphere despite its original nature of separate international organization (Glinavos 2016).
12. In fact, this reasoning is not dissimilar from the reasoning applied to justify the autonomous expansion of the ECJ competences and introduced the principle of primacy of European Law in the Costa-vs-Enel case in 1964.
13. Regulation 1024/2013.
14. Regulation 806/2014.
15. Recitals 9–12 of regulation 1024/2013.
16. Recitals 2–4, 9–10 of regulation 806/2014.
17. For a discussion of the relationship between European identity and redistribution, see Nicoli (2017b) in this journal.
18. This constitutes a departure from both the wishes of core member-states which were looking for a stronger set of rules and from those of peripheral member-states, which were looking for a repatriation of decision-making power on fiscal issues.

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