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DECLARATION

This work has not been previously submitted in whole, or in part, for the award of any degree. It is my own work. Each significant contribution to, and quotation in, this dissertation from the work, or works, of other people has been attributed, and has been cited and referenced.

Signature: **Date:**

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ABBREVIATIONS

AEI	–	Archive of European Integration
CEB	–	Central European Bank
EC	–	European Council
Ecofin	–	The Council of Economic and Financial Affairs
ECJ	–	European Court of Justice
ECU	–	European Currency Unit
EFF	–	Extended Fund Facility

EFSF	–	European Financial Stability Fund
EMCF	–	European Monetary Cooperation Fund
EMS	–	European Monetary System
EMU	–	Economic and Monetary Union
EP	–	European Parliament
ERM	–	Exchange Rate Mechanism
ESM	–	European Stability Mechanism
EU	–	European Union
GDP	–	Gross Domestic Product
IMF	–	International Monetary Fund
LTRO	–	Long Term Refinancing Operation
OMT	–	Outright Monetary Transactions
SBA	–	Stand-By Arrangement
SGP	–	Stability and Growth Pact
TSCG	–	Treaty on Stability, Coordination and Governance

CHAPTER 1

Introduction

Motivation

The soaring national debts on the European continent, is a cause for concern for member states in the European Union (EU). Due to the rapid growth and integration within the EU and the inadequate 'strengthening of its political and economic institutions' (Cameron 2010, 2), a serious and troubling dilemma, with member states seizing 'the traditional powers of national sovereignty' from the EU has been revealed through the Eurozone crisis, and the European experiment in political unification is waning. The project of European integration as observed by Kupchan (2010, 1), is undergoing a setback because the Eurozone crisis has deep running causes which do not seem to be resolved soon.

The fundamental principle of the EU is willingness to pool sovereignty and function within effective shared institutions. The numerous major challenges which the EU face could possibly pose a threat to the entire European project and needs to be addressed with urgency and determination as the Eurozone crisis might have several implications for integration and the EU in the future. Pavlakis (2013, 1) emphasises the importance of European integration going forward and the reactions to the financial crisis which could affect the desire of EU member states wanting to be involved with one another. Archick (2016, 1) reports, that the regulation of laws and the adoption of common policies on many growing issues has been pursued by member states throughout the years. It would be informative to determine the reaction of the EU to the ongoing crisis as there is a possibility that the crisis will reveal the ineffectiveness of the concept of ‘European solidarity’. The process of European integration and research on European governance sheds light on how the Eurozone crisis has challenged the validity of the intergovernmental constitution of the Lisbon Treaty and affords an assessment to the capability of the intergovernmental EU’s crisis management (Fabbrini 2014a, 1).

A sequence of binding treaties formed the EU and the mechanisms of European integration, has been revolving around the influential theories of supranationalism and intergovernmentalism. The EU has characteristics of both a supranational body which features in specific areas with sovereignty shared because regions choose to integrate when it seems beneficial, whilst the EU institutions maintain executive authority, and an intergovernmental organization where cooperation stems from consensus in the other areas. Debates between these two theories have become more diverse resulting in them no longer being observed as opposites but towards addressing the overlap, which could result from the crisis and affect the future of the EU with focus on attracting interest in the model of European integration (Schout & Wolff 2010, 1).

To fully understand the EU and the state’s role in EU matters, theory is essential and the difference between supranationalism and intergovernmentalism is fundamental in EU theories. The intergovernmental method is based on the voluntary coordination of the government that is why intergovernmentalism has been viewed as a baseline theory against which other theories are compared (Wiener and Diez 2009, 67). Nevertheless, the EU integration processes, the coordination and essential institutional competence in the EU are disquieting as noted by Cameron (2010, 3) because the EU institutional structure and responses to the crisis deem an inquiry into the intergovernmental decision making method. This crisis presented four different dilemmas namely the veto, enforcement, compliance and the legitimacy dilemma (Mazzetti 2014, 6).

These dilemmas steered national governments and European institutions towards introducing major reforms to manage the crisis, thereby using the intergovernmental decision-making process to prevent the same from happening in the future. The euro crisis is an institutional crisis indicating that the range and direction of politics had not been aligned with the political problems in Europe. If the EU failed to act on the new challenges which resulted during the crisis through reform, then it justifies the concern expressed as to whether the European institutions have the capacity to perform these transformations. These new rules and procedures in support of economic governance gave rise to political questions concerning the future of the European Union in reports documented by Mazzetti (2014, 12, 14).

In a workshop presentation Weiler (2012, 31) it pointed to the increasing role of the intergovernmental method which responded to the crisis, and the change the EU and the EMU had enforced. With information gleaned from literature, the intention is to evaluate the tension generated by the Eurozone crisis and the enforcement of austerity measures as opposed to stimulating growth which cast doubts on the unity within the EU. The Euro crisis encouraged the assessment of crisis management and prevention competences of the intergovernmental as well as EU decision-making which presents an opportunity to assess the range and regulations of decentralised decision-making and comprehend how economic and financial interdependence can initiate and restrict European integration.

The intergovernmental decision-making system as institutionalized in the Lisbon Treaty presented an opportunity to be evaluated because the quality of the democracy in the EU had been affected and the unfinished process of integration became evident as the Euro crisis altered the structure of the EU. The EU is a unique representation of cooperation among sovereign states in a political and economic partnership. It presented the purpose and intent for this research to assess the situation in the face of the problems uncovered due to the crisis in the European Monetary Union (EMU). A review of the discussions regarding debt ridden Greece necessitated consideration as it produced issues concerning EU agreements, whilst evaluating the tension generated by the Eurozone crisis.

An evaluation was undertaken to recognise joint decision-making concerning the integration issue area with emphasis on the approaches towards the process of European integration. As there is no final account of the crisis and its implications for the development of the European integration process, we can and should know how the financial crisis influences European integration at EU level, therefore special attention was given to fiscal constraints in conducting effective joint crisis management at the EU level (Lazarou 2011, 6). That is why the Eurozone crisis incites an interest to explore and understand the questions on how this experience has affected European integration from 2010 to 2015.

Contributions

With the EU still facing several challenges due to the economic crisis threatening the process of European integration, tension between supranationalism and intergovernmantalism has been there throughout European integration. As one of the earlier theories of regional integration, supranationalism is distinguished both in its sophistication and ambition including the amount of criticism it has attracted. The distinction between supranational and intergovernmental procedures, are their difference, although they are connected in the operation of the EU, this does not change in their separate concepts (Leuffen, Rittberger and Schimmelfennig 2013, 62). An evaluation and exploration of the theories, intergovernmental and supranational, in a single case study attempts to answer the question raised regarding the crisis' impact because the European integration project has already been perceived as the system by which member states amplify their political and economic power (Archick 2017, 4).

The reason as to how and why European integration has continuously been at the focus of research is because the economic crisis offered an opportunity to reassess how the grand theories function when there is a crisis. National communities and what they believe of each other is a major factor in assessing the level of integration and the effect of the financial crisis on the European project (Schimmelfennig, Leuffen and Rittberger 2014, 16) The eruption of the crisis supported the increase of intergovernmentalism which compelled the EU institutions to a rapid response, revealing how the euro crisis had weakened and exposed the EU intergovernmental decision-making system's inability to promote crisis management and implement 'accountable policies' as it depended heavily on the supranational institutions 'technocratic and judicial intervention' to present convincing assurance for crisis prevention (Fabbrini 2014, 10).

Hence, the system of economic governance set up during the euro crisis in the period 2010 to 2012 originated in intergovernmental reasoning and decisions were made 'through and within intergovernmental institutional framework'. The EU had developed politically as a model for regional integration but the financial crisis demonstrated that there had not been sufficient progress in constructing a common economic policy (Lazarou 2011, 2).

The Eurozone emerged in 1999 when the euro was launched and refers to the nineteen EU member states and the six non-EU members that have accepted the euro currency union as the third stage of the European Economic and Monetary Union (EMU). The euro, the single currency of the EU, united the largest trade alliance in the world and created one of the world's strongest currencies. Due to the crisis, Europe has lost some credibility and will need time to recover. Integration success is mostly divided into an elite and mass perspective whilst some scholars regard European integration as being an elite-driven process (Clarke 2012). But the driving factor of integration is interdependence in both intergovernmentalism and supranationalism.

The EU is regarded as the foundation of European stability and prosperity. That is why this research explored the portrayal of the financial and political crisis in the EU. Massive and unsustainable deficits and public debt had been accumulated by certain Eurozone member states economies, leading to the Eurozone's capability being threatened, and setting off a sovereign debt crisis. The Eurozone crisis produced a significant challenge to European integration, thereby testing the powers and structures of the EU, the Eurozone and posed a threat to the common currency. Within the EU the economic disparities caused tension and added to the policy divisions between member states, causing observers to insist that the Greek crisis had generated an extensive amount of animosity and distrust amongst the member states of the EU which could jeopardise the 'core EU principle of solidarity' (Archick 2017,7).

Greece as a case study on the sovereign debt crisis is an ideal choice because it has internationally become synonymous with the Eurozone crisis. The financial insolvency of Greece was a determining factor for rethinking the EU intergovernmental arrangement. Pavlakis (2013, 11, 12) writes that Greece has stimulated interest, as well as the involvement of the international community due to its changed position since joining the Eurozone and after announcing the country's financial concerns. Lui (2011b) states that Greece beacame a victim which gave in to the euro debt trap and yielded to the temptation of structured finance.

Challenges

The EU is currently experiencing numerous political and economic pressures with the Greek debt crisis and the constant issues regarding the Eurozone being the most prominent. Many EU supporters are anxious about the future of the EU and for the first time, since the formation of the EU there is growing concern that several features of integration might be discontinued or withdrawn. The new challenges to European integration and the EU institutional structure brought on by the Eurozone crisis had caused the European integration project, which has been progressing effectively for some decades to face a possible sustainability test because economic integration has progressed faster than political integration (Dabrowski 2010, 52).

The complex process of European integration has differing theories to explain integration and the relations between integration theories are open to evaluation. The Lisbon Treaty determines the EU agenda and most of the progress shaping the development and direction considered by the EU as the numerous engagements in the EU are undertaken on the intergovernmental level or by member states who make unilateral decisions. There is confusion over the direction European integration is taking because the economic crisis has resulted in economic governance being on the agenda. (Schout and Wolff 2010,3).

Bickerton, Hodson and Puetter (2015, 705) indicated that a description of the measures taken during the economic crisis based on the intergovernmental and supranational logic and decision-making systems for dealing with the Eurozone crisis, showed their inability to offer effective and legitimate resolutions to the crisis. The EU has been severely handicapped by the Eurozone's weak central institutions and the insufficient regulation of its financial markets with the result that integration has been a difficult process due to the setbacks and crises. (Kupchan 2010, 14). New dimensions have been added to the European integration theories, intergovernmentalism and supranationalism with the institutions and member states being acknowledged as linked but the linkage requires specification.

The Eurozone crisis has no fundamental solutions without a fiscal union, therefore, the suggestion that a definate mandate and authority coordinating the monetary and fiscal policies for a supranational institution seem necessary to maintain the economic health of the eurozone. The expectation of a common currency ensuring financial stability has been demolished by ‘deregulated market forces’ in the first recession the Eurozone experienced since the inception of the euro (Lui 2011). Therefore the possibility of the EU project heading for a downfall being deemed credible due to the outcome of the actions and inactions of all EU member states (Majone 2011, 26). The activity within the EU has increased to an exceptional level. Although the fundamental constitutional structures of the EU have maintained their stability, most governments in the Eurozone are unable to survive politically for years with open-ended fiscal austerity in a recession. It would be interesting to examine how this effects the European integration process with no long-term structures on hand.

National governments are afforded a commanding role and decision-making power by the intergovernmentalist theory in the processs of European integration, thus, the theory alleges that policy areas in the integration process are defined and the terms controlled by national governments (Fabbrini 2014, 3). The conditional agreement reached by Germany and France in 2011 on the reform of the Lisbon Treaty of 2009 governing the constitutional basis of the EU, proposed a change in the intergovernmental structure of the treaty towards supranationalism reducing the sovereign authority of EU member states regarding the fiscal policy.

The crisis was perceived as a confirmation of the dominance ‘acquired by the European Council in the post-Maastricht era’ (Dehousse 2015, 5) therefore, the expectation that the global financial crisis would direct Europe towards more supranationalism which has not yet materialised (Bickerton, Hodson and Puetter 2015, 704). The intergovernmental approach has been favoured in the Treaty of Lisbon which implies that the EU is to some extent an intergovernmental organization and has reinforced the decision-making powers of the Council whilst limiting the competences of the Commission, the European Parliament and the European Court of Justice (Smulders and Eisele 2012, 10).

Supranationalism has been modified and qualified through treaty changes because politics is important. But organisations are just as important as institutions in the performance of administrative tasks at different levels to support EU policies in policy formulation and implementation. The issue of the EU gaining more power to be sufficient has been questioned and concerns have been raised as to whether the member states interests should come before those of the EU considering that this would cause a global reduction to the member states (Euroculturer 2016). This raised the question as to which direction the EU is taking as there are fundamental changes within the EU leading to an enquiry of the member states relation to the Commission.

There has been interest in how European integration is contested, where and by whom, but less attention has been given to the way the economic crisis has altered the integration process. Upon entering the Eurozone, individual member states have been deprived of the opportunity to solve their sovereign debt problems because they do not have sovereign authority over their common currency, the euro. This denominated sovereign debt, and has become a matter of concern because there has been no discussion regarding the reasons why there was no acceptable solution put in place to avoid the euro crisis, before the time in question. It was difficult reaching a policy consensus to the crisis among the Eurozone member, and it had been the focus because the economic and public finance problems of Eurozone member states are not similar. Therefore, various contradictions to political incentives in different member states has risen regarding richer economies political aspects in opposition to those of poorer economies. Institutional changes as well as those in the agencies and networks prompted the supranational-intergovernmental changes in the setup of the EU (Schout and Wolff 2010, 7 & 8). The Lisbon Treaty is regarded as a beacon of hope that would provide the motivation for further deepening of the EU but the resistance to achieve ratification and the impact of the financial crisis has exposed the disinterest for further institutional changes (Cameron 2010, 3).

Organization of the Thesis

The paper is organized as follows:

Whilst dual decision-making has been instituted by the Lisbon Treaty, supranational regarding the policies of the single market and intergovernmental regarding economic and financial policies, it demonstrates that the Eurozone crisis has called into question the latter and revealed several enforcement problems in the EMU. The research will introduce the motivation, intentions and the research questions. A theoretical framework will be presented and allow for a re-assessment of the strength of the integration theories within a more current context, based on the intergovernmental and supranational logic and decision-making systems for dealing with the Eurozone crisis and its influence on European integration.

The utilization of process-tracing methods will unpack the effect of the Eurozone crisis as the independent variable on European integration as its dependent variable, with EU decision-making as an intervening variable. Reference to the various sources and data collection process which had been applied to expand on the measures taken during the period 2010-2015 will be set out. An evaluation on the response of the EU to the Eurozone's debt crisis and the Greek role therein will be conducted, to identify the basic complications of collective action that the intergovernmental and supranational framework could not resolve. The research intends to demonstrate how the Eurozone crisis had influenced European integration and aspire to assist in explaining the political reaction to the intergovernmental decisions. Finally, the conclusion will return to the challenges and theories laid out in the introduction with relation to the general process of European integration and how the ongoing Eurozone crisis has affected preferences.

CHAPTER 2

Theoretical and Conceptual Framework

Schimmelfennig (2015, 179) describes integration as periods that render an explanation for the motivation initiated by ‘international interdependence into collective institutional outcomes’. The history of European integration has not been effortless, because of bargaining, difference of opinion and the struggle for power amongst the EU member states regarding the decision to further integrate (Lazarou 2011, 12). The main competitors of intergration theory have been supranationalism and intergovernmentalism with emphasis placed on the formation of an international organisation and the transformative potential of it growing into an emerging organisation (Leuffen, Rittberger and Schimmelfennig 2013, 62).

When EU integration is being considered, theoretical separation continues between intergovernmetalism and supranationalism, as these are two classical approaches to European integration with both still evolving and alternating support for each other as they relate to the EU and its systems with opposing methods, although both have major limitations. Taking into consideration the motivations, assumptions, and limitations of the European strategy, the Eurozone with its present crisis resulted from this strategy and its limits (Spolaore 2013,1). These two main integration theories, supranationalism and intergovernmentalism have been selected because for more than half a century these two theories were instrumental in clarifying European integration.

Inspiration for the integration theory stems from Jean Monnet, who influenced and supported European unity and is considered as one of the founding fathers of the EU. He had integrated policy functions in certain areas in expectation of more integration to lead to the forming of an ever-closer union. This strategy was to assign specific 'functions' to supranational institutions in anticipation of increased institutional integration. The idea was to move certain policy functions to the supranational level while leaving others at the national level, expecting to build-up pressure for increased integration through progressive and adverse procedures. However, the Eurozone crisis indicated limits to that approach (Spolaore 2013, 8) and the EU's economic aspirations overshadowed the political and social objectives of the EU indicating that European integration was complicated.

Differing in concepts and results, basically opposites, these power dynamics have been up and down throughout the history of European integration interchanging support for both theories. Both theories seem to hold very convincing explanatory power, designed to describe, clarify and predict the process of EU integration. Even under heavy criticism adjustments and at times discarded, these theories hold important theoretical integration disputes. In literature such as that of Colletaz (2013), the terms intergovernmental and supranational often have different meanings. Therefore, this research will attempt to provide an understanding of the two theories and their explanations to bring awareness as to how the Eurozone crisis has shaped the EU integration process.

Theories Background

The theory intergovernmentalism has its foundations in the academic Stanley Hoffman. His interpretation of intergovernmentalism states that governments are the principle actors and sees the increase of European integration shaped by the interests and bargaining of EU member states, thereby strengthening the role of the member states (Bergman 2013, 6). Intergovernmentalism is regarded as state-centered and integration as European cooperation with sovereignty of the state just altered and not replaced (Rossman 2010, 3). The importance of member states in the development of creating EU regulations is also stressed. Member states cooperate but do not renounce their decision-making right in an intergovernmental organisation even though intergovernmentalism entails domestic politics that define national preferences which include the maintaining of sovereignty, national security and state influence. States continue to be dominant in the development of European integration (Bickerton, Hodson and Puetter 2015, 705).

Ernst Haas is the father of neofunctionalism, which had a major role in the 'ideology and practice' of European integration. In his book *The Uniting of Europe* from 1958 he elaborated on neofunctionalism and focused on the European integration project. The supporters of functionalism consider European integration to be promoted by elites and interest groups that 'transcends national boundaries'. Adjustments in the attitudes and actions of governments, political parties, non-governmental organisations, specifically trade unions and corporates, formed the basis of the spill-over theory developed by Haas. The insights of other founders of integration theory such as Karl Deutsch's 'influential research on communication theory and political integration' (Spolaore 2013, 8 & 9), Leon Lindberg, Nye and Schmitter have contributed towards the model of neofunctionalism through a series of reformulations and qualifications regarding the integrational decision-making process and have also been acknowledged.

In the 1990s neofunctionalism reappeared as supranationalism simultaneously with the increase in European integration. Supranationalism is the idea of a dynamic and progressive integration process which surpasses its geopolitical bases as an outcome of 'endogenous interdependencies, spillovers and path-dependencies' (Schimmelfennig 2014, 321). Neo-functionalism concentrated on the 'supranational elements of integration', supranationalism comprises of participating states giving up power or influence to an institution that transcends national borders and governments (Rossman 2010,3). The EU member states, due to their membership in the EU have agreed to transfer several powers and functions to EU institutions. Supranationalism purports that decision-making has been transferred to supranational bodies such as the Commission and the Parliament which consist of advocates of the European dream (Schonard 2017).

The main driving factor of the two major integration theories is said to be interdependence. Rowlatt (2014, 3) attempted to prove that the two grand theories supranationalism and intergovernmentalism, which dominated the integration field, and are depicted as presenting opposing accounts for the integration process are mutually inclusive, illustrating two simultaneous integration processes. To understand integration, given the different interpretations, the relations between the two theories, intergovernmentalism and supranationalism, should be approached as a concept because this raised questions concerning the presentations on EU integration due to the confusion about the direction the EU is taking.

The writings of Schout & Wolff (2010, 3) already pointed to the move of an ‘ever closer union’ that involves the interrelation of the two theories ‘across policy areas’ to be recognised as a concept in several areas and noted that this acknowledgement was missing in EU integration literature. EU governments are finding it difficult to deal with the profound crisis affecting the history of the organisation. The sovereign debt challenges in the Eurozone has emphasised the ongoing debates regarding the nature and range of European integration as there is an emerging divide of the EU, ‘the Eurozone core with increasingly differentiated peripheries’ in terms of the level of integration. (Schweiger and Magone 2014, 261).

This leads to another collective term that covers most methods of European integration, differentiated integration, which is generally described as a kind of integration strategy to resolve the diversity within the EU and permit various members states to practice certain public policies fitting ‘different procedural and institutional arrangements’ (Koenig 2015, 4).

Differentiated integration has become an important part of European integration because differentiation is a fundamental and permanent feature of the EU, and has been discussed and practised in the EU for over thirty years. The concept of differentiation denotes to a situation where a specified common policy or strategy is agreed upon and implemented by not all the EU member states (Webber 2012, 4). The number of EU member states has increased and the competences of the EU have widened, with some member states on occasion being exempted from joining their allies in new fields of integration. This concludes that member states are not required to participate in every integration project and it allows member states to implement European policies in their own time.

Differentiation has a territorial aspect because some states or regions do not participate in integration and the sectoral aspect relates to ‘specific policies and rules’ as noted by Holzinger and Schimmelfennig (2012, 296). Differentiated integration indicates the outcome of this pressure as further EU integration took place in certain areas between states who were prepared to advance while other EU member states chose not to. The Danish opted-out limiting the internal differentiation of the Common Security and Defence Policy of the European Union (CSDP). Internal differentiation is created by supranational integration due to 'high policy interdependence and asymmetric politicization across member states'. External differentiation stem from non-members who are unable to join due to EU membership being a highly politicized, opt-in selection in 'highly interdependent but weakly politicized policy areas'. Systems of differentiated integration are characterized by vertical and horizontal differentiation and are a polity that displays variance across policy areas and across space, while maintaining an institutional core (Schimmelfennig, Leuffen and Rittberger 2014, 6 & 12).

Intergovernmentalism

Intergovernmentalism is defined in political science as a theory of regional integration which regards states and national governments as the main components for integration (Moga 2009, 800). It attributes integration to the interests of state governments to preserve and increase their autonomy and efficiency. Integration outcomes are shaped by the intergovernmental constellation of preferences and bargaining power, and governments remain in control of the integration process. The intergovernmental theory claims to be capable to clarify periods of radical change in the EU due to the converging governmental preferences and those of inactivity because of differing national interests (Hatton 2011).

Intergovernmentalism is policy decision-making with national interests taken into consideration and adapted because attention is on the nation state rather than the EU. The importance of maintaining sovereignty has decreased due to the Quality Majority Vote (QMV) which indicated a 'twin speed' Europe. This voting method was introduced to stabilize legitimacy and efficiency and possibly decrease collective Council decisions being taken which often outvoted individual member states and groups. It is defined as an idea that different parts of the EU should integrate at different levels and pace depending on the political situation in each individual country (EU 2017).

To explain the politics of coping with the Eurozone crisis, the frameworks of intergovernmentalism, national preferences, bargaining power and institutional choices are designed to 'commit euro area countries credibly to the currency union' (Schimmelfennig 2015, 177*)*. Intergovernmentalists contend that nation states only participate in multilateral cooperation to achieve economic and security advantages when they are unable to yield results from unilateral policy decisions. Hence, EU integration progressed where there were guaranteed results for all involved such as the Common Market and came to a halt when national interests were directly violated in the case of the Empty Chair crisis. The 'empty chair' crisis occurred when the financing of the common agricultural policy proposal could not be agreed upon by France who regarded the proposal as an 'unacceptable renunciation of sovereignty'. The French Government then recalled the French Permanent Representative in Brussels and its seat in the Council of Ministers remained vacant, a first since the enforcement of the Treaty of Rome in 1958. The crisis was later resolved due to the 1966 Luxembourg compromise which implemented unanimity voting when major interests were at stake (EC4 2015).

National Preferences

Intergovernmentalism presents a reasonable account of national preferences in the euro crisis, because the Eurozone states all approved developing economic integration to cope with the actual and possible negative interdependence generated by the debt crisis. Government preferences on European integration are 'national and issue-specific' as the monetary union had integrated various states in pursuit of different growth strategies. A powerful interdependence in the Eurozone and the economic situations of the member states, as well as the collective preference to maintain the euro, combined with varying options as to the allocation of adjustment costs resulted in national preferences (Schimmelfennig 2015, 179 - 182).

Although considered the perfect representation of national preferences, referendums have become a persistent feature of European treaty-making which either delay or derail intergovernmental agreements. This almost implies that national governments are pursuing an EU agenda instead of a state agenda and have agreed to treaties which have no public support. This is the chance voters get to ratify European decisions through a referendum and referendums are only used in a few countries to enforce treaty changes (Schimmelfennig, Leuffen and Rittberger 2013, 46). Integration is mostly ensued by governments to acquire trade benefits for manufacturers, depending on the operating and economic limitations. Cooperation in the interest of collective advantage, as well as coercion to increase and globalize the international economy because specific integration preferences are developed from the market gains of influential commercial manufacturers.

Interstate Bargaining

The role of the EU institutions and their involvement in the integration process is not appreciated although intergovernmentalism provides a reasonably specific account to policy-making within the community. There are restrictions to the analytical and explanatory powers justifying self-interest and bargaining which created a situation of hard intergovernmental bargaining while debates encouraged cooperation to prevent the failure of the Eurozone and reinforce the credibility of the member states' responsibilities. (Campici 2014, 6).

The most relevant negotiation processes in European integration are depicted by intergovernmentalism as processes of intergovernmental bargaining with regards to the distribution of gains for corporation. With low transaction costs, information is abundant and equally circulated across states through institutions to enable intergovernmental negotiations to produce reliable and efficient outcomes. The control of the integration process continues to rest with governments and these do not require supranational organisations like the Commission to assist them in acquiring practical and effective arrangements. Hence, states do not give the EU more power than they deem necessary to deliver constant intergovernmental support (Leuffen, Rittberger and Schimmelfennig 2013, 49).

Institutional Choices

Institutional choice is determined by governments as well as their interest in one another regarding the expected compliance to the attained basic arrangements. EU governments do not require supranational organisations to specify their preferences nor present them with information required to obtain effective functional arrangements or formulate the regulations of distribution, and having to depend on supranational actors to resolve the monitoring and sanctioning challenges. These organisations are channels and representatives of the governments and not independent actors, because when issues of coordination arise and agreement on a common standard is sought there is no reason to individually leave when the requirement is in position (Leuffen, Rittberger and Schimmelfennig 2013, 50).

There are no difficulties with implementation because governments delegate decisions to supranational or collective decision-making organisations with the reduction of transaction costs in mind. Although intergovernmentalism claims that the member states will maintain important influence over EU decision-making, especially through the Council which consists of member states representatives. The procedures and results of integration in the Eurozone crisis are best explained through national economic preferences, integovernmental bargains and functional dynamics as suggested by Schimmelfennig (2014, 327).

Critique – Intergovernmentalism

There are variations of intergovernmentalism but it still takes the lead in academic debates on European integration. It provides a practical standard model and logical structure as well as depicting the original phases of integration but finds it difficult to capture the internal dynamics which form later stages of integration. Intergovernmentalism also fails to explain the mass-level and identity-driven procedures which create horizontal differentiation. An analysis of the Eurozone crisis shows that intergovernmentalism does not always translate to the possibility of a collective action to individual challenges. Intergovernmentalism as a decision-making structure centred on 'voluntary policy coordination' attempted to resolve the problems arising from existential crises - such as the euro crisis (Fabbrini, 2014, 2).

Supranationalism

EU interests on policy decisions are taken into consideration in supranationalism. States surrender sovereignty to supranational institutions (the Commission) which is regarded as a move towards deeper integration. The veto vote 'retention/red card system' of sixteen countries weakened this. The emphasis on national issues and the loss of sovereignty suggests that the influence will come from an intergovernmental structure such as the European Council (Wyatt 2016). Supranationalism exists as an authority beyond that of the nation state and has the power to enforce its will on the nation state. This is one of the most influential theories of European integration and is politically thought to be a process whereby state integration weakens national sovereignty through the creation of a system with 'authority beyond national state governments' (Scheidt 2012, 6).

In the 1990s neofunctionalism reappeared as supranationalism simultaneously with the increase in European integration. Supranationalism is the idea of a dynamic and progressive integration process which surpasses its geopolitical bases as an outcome of 'endogenous interdependencies, spill-overs and path-dependencies' (Schimmelfennig 2014, 327). Supranational EU institutions are important in the EU structure because they wield great power which has been democratically allotted by participating member states. As notable actors, national governments are restrained by interest groups and institutions as these are 'unintentionally powerful and entrepreneurial' due to their supranational nature (Campici 2014, 4).

The supranational organisation's right to decision-making rests with the common institutions while the national governments can only operate on collective rulings made within the structure of policy. In neofunctionalism the existence of a supranational body brings about changes in social actors behaviours and expectations with specific functions delegated and best accomplished at a European level than at national level, and that greater integration can succeed if the functions at the European level are to become more appealing. Whereas in supranationalism the concept of ‘spill-over’ occurs when the initial objectives of a supranational policy cannot succeed without expanding supranational policy-making to other related sectors (Sweet 2012, 9).

Supranationalism explains integration as a response to transnational interactions which generates a demand for international rules and is supported by supranational organizations. The initial integration strengthened interdependence which varied across policies, states and time and supranational capacity that created ‘spill-overs,’ which occur due to integration in an area being a requirement of integration in a related policy area (oneuropenow 2011), thus generating momentum for further integration. The ongoing ‘spill-over’ dynamic of integration expressed by the supranational theory continues under conditions of low politicization because high politicization often causes a process which affects states differentially by interdependence (Schimmelfennig, Leuffen and Rittberger 2014, 13). These spill-overs result in demand for additional integration. Supranationalism is the existence of an authority that is higher than that of the nation-state and capable of imposing its will on it.

Functional Spill-over

Functional spill-over in EU integration transpired when the integration of coal and steel required the integration of additional areas, which needed the integration of entire economies, and is apparent in the adoption of the Treaty of Rome in 1957 when the European Economic Community (EEC) was formed (oneuropenow 2011). Functional spill-over is based on economics, with areas in an economy being so interdependent that it is impossible to treat them in isolation. These results from the various policy sectors being connected whilst the process presumes that there will be a demand for further integration if there are increases from the outcomes of integration in the policy sector. Niemann and Ioannou (2015, 206) analysed the significance of functional spill-over, because the economic crisis triggered functional spill-over argumentation which rapidly became the main political discourse throughout many national governments and EU institutions.

Political Spill-over

European integration can come about and cause a political spill-over when the expectations and activities of interest groups, bureaucrats and domestic political actors create a new supranational level of decision-making because of the crisis, which could be beneficial to the actors. When the elites in member states look to the supranational level for solutions to their internal difficulties, that is when political spill-over occurs because they view supranational solutions as being better than national level resolutions which results in the elites then channelling their activities, expectations and loyalties to the core which then calls for more integration. Realizing that their political aims can materialize at a supranational level instead of a national level will encourage the actors to form transnational coalitions which could influence governments and pressure them to ‘advance the process of integration’ (Leuffen, Rittberger and Schimmelfennig 2013, 70).

Institutional Spill-over

The activities of the EU’s supranational actors in the direction of integration can trigger institutional spill-over which is referring to as ‘links between different policy sectors and directing attention to potential positive externalities of further integration’. This makes governments of EU member states aware of their ‘common interests and opportunities for cooperation’ with a view to integration (Leuffen, Rittberger and Schimmelfennig 2013, 70-71). The potential role for intergration by supranational institutions are clearly shared and substantial action towards further integration is preferred by the supranational institutions such the Commission (EC), the European Parliament (EP) and the European Central Bank (ECB). So generally the process for further integration during the crisis took place due to the degree of involvement by these supranational institutions (Niemann and Ioannou 2015, 212). The realisation of transnational coalitions is supported by supranational actors through the Commission, assisting the EU member state governments find their common interests and prospects for effective cooperation. Recently supranational evaluations acquired and enhanced the concept of spill-over as the main process to increasing integration.

Major new steps of technocratic supranational integration had been created by the crisis. From a supranational perspective integration during the euro crisis can be explained based on path dependency, endogenous preference variation and functional spill over. The reaction of the Eurozone to the crisis was the introduction of ‘unprecedented collective liabilities, significantly reducing state autonomy in budgetary policy, a core area of sovereignty and centralizing financial market supervision’. Therefore, supranational delegation and enforcement are mainly to be expected in areas of fiscal discipline, which commits the indebted countries (Schimmelfennig 2014, 326-327).

Critique – Supranationalism

Hoffman refused to regard supranationalism as a natural process leading to integration due to economic interests, and that states would still be controlling the process of EU integration. Neofunctionalism is flawed according to intergovernmentalists, because of the assumption that integration in low politics (economic) will trigger integration in high politics (sovereignty). It has also been assumed that the delegation of sovereignty would be declined and national interest is maintained and encouraged by nation states (Scheidt 2012,4). The neo-functionalist theory puts form over content, substitutes procedure for substance, sacrifices direction for motion and was more about the process of integration and not the situation in which it was taking place (Rossman 2010, 3). It had been cited that in 1975, as evidence of the uselessness of the framework the father of neofunctionalism Haas, renounced and discarded his own theory. The process of European integration is not completely explained by supranationalism and it also does not differentiate ‘between low politics pertaining to domestic issues and high politics. It also cannot explain the objections of de Gaulle to the voting methods in the Council in 1965 which caused the ‘empty chair crisis’ (The French Government recalled the French Permanent Representative in Brussels and its seat in the Council of Ministers remained vacant) (oneuropenow 2011).

As a reaction to the Eurozone crisis the institutional preference of states might weaken or pursue a political approach because states depend on the power, transparency and certainty of their sovereignty. Intergovernmentalists regard the bargaining power of supranational organization as low and lacking the power to bargain successfully with member states. Therefore, the control of the European integration process remains with the states, with preference to economic policies. EU governments are not in favour or in need of supranational organizations defining their preferences, but they do rely on supranational actors to act as the negotiaters and channels for problem-solving. Hence, intergovernmentalism as well as supranationalism is confronted with the Eurozone crisis and the effect it has on the process of European integration. Differentiation is another development in European integration that integration theories have largely neglected in the past.

Differentiated Integration

This is not a new phenomenon in the EU because the concept of differentiated integration goes back to the implementation of the Treaty of Maastricht (1993). There are many studies on differentiated integration which emphasise the phenomenon or assess its advantages without providing a precise theory because the focus has mainly been on a few cases of treaty based differentiation such as the European Monetary Union (EMU) and Schengen (Holzinger and Schimmelfennig 2012, 303). Differentiated integration also proposes a solution to negotiation deadlock by permitting the EU member states to cooperate at various levels of integration corresponding with their preferences and competencies while diversity is reduced through exemptions and exclusions and facilitates agreement on extended integration (Winzen and Schimmelfennig 2015, 2).

Many resolutions to facilitate EU member states with their various concerns and competences have been visualised, anticipating the advancement for deeper integration at separate speeds. States continue to be the main elements of study in terms of political challenges regarding participation in differentiated integration, its limitation and appropriate procedures, designation and the allocation of competences or cooperation. The existing EU member states impose differentiation on impoverished new member states due to their fear of financial shortcomings and management capability. European integration has increased the power of national governments whilst allowing less influence of democratic politics.

Schimmelfennig (2016, 3) writes from a different perspective starting with the 'deepening and widening of the EU is accompanied by the process of differentiation'. This occurs when EU states develop separately concerning a range of objectives encompassing common policies and procedure. It entails the acceptance of various formal and informal methods within the EU treaty structure which consists of different privileges and responsibilities approved by the relevant actors, and communicate a comprehensible approach regarding the integration process. Deepening makes provision for EU member states choosing to have more integration to proceed while those resisting or are incapable to expand, integration can continue as before for a while. Widening refers to states not requiring full membership but request a lower grade of membership which grants partial involvement in the integrated policies lacking full integration (Schimmelfennig 2016, 6).

The EU, as a system of differentiated integration is an institution with different policies across policy areas and space that maintains an institutional core. It is described by both variation in levels of centralization (vertical differentiation) and variation in territorial extension (horizontal differentiation) across policy areas.

Vertical differentiation implies that the policy areas have been integrated at different speeds and have reached different levels of centralization.

Level of Centralization is the dimension where the 'variation between the state with its authority and centralised governance capacity and the anarchical and decentralised international organisation is located'. An identical 'level of integration across all member states considered the standard and proclaimed goal of these negotiations'. The pace of integration is negotiable with the result that differentiated integration has become an important 'feature of political order' for the EU (Winzen and Schimmelfennig 2015, 3).

Horizontal differentiation is associated with the territorial dimension and indicates that many integrated policies are ‘neither uniformly nor exclusively valid in the EU’s member states’. Functional scope ‘varies between authority over a single issue and authority over the entire range of policies. The state with policy competence and the functionally international organisation differ on this dimension. Territorial extension means ‘the authority of a polity can be limited geographically to a single political territory or encompass several territories up to the entire world. Here also the state and the international organisation are at opposite extremes (Schimmelfennig, Leuffen and Rittberger 2013,8-9) .

When EU member states have found difficulties in moving forward together, they have often used differentiated integration as a way to overcome stalled negotiations or to negotiate a new agreement after failing to ratify EU treaties. Differentiated integration is the rule rather than the exception in the EU, but has more often been used as a last resort than as a well-structured plan for building a more flexible Europe. Renowned economists have since the beginning of the European Community rejected the idea that economic integration requires far-reaching coordination of national laws and regulations (Morillas 2017).

Differentiated integration has become an important feature of European integration. Therefore, if Eurozone governance deepens, governance of the EU needs to be readjusted because differentiated disintegration is a threat to the EU due to the Eurozone crisis and it is best to prevent it with continued differentiated integration (Schmidt 2015, 53). Differentiated integration is an indication of the outcome of this pressure, as further EU integration took place in certain areas between states that were prepared to advance while other EU member states chose not to. The Eurozone and the managing of the crisis proved this. Differentiated integration from an intergovernmental perspective is explained by interdependence differences and cooperation problems, state preferences, bargaining power, domestic ratification constraints and autonomy costs and benefits (Leuffen, Rittberger and Schimmelfennig 2013, 54).

CHAPTER 3

Research Design

The research is very current and relevant, and this chapter will outline the research design to respond to the research question : ***What impact does the Economic Crisis have on European Integration***? The research is grounded in integration theories. Therefore, to understand the foundations, scope and validity of the theories which form the structures and processes of the EU, Intergovernmentalism and Supranationalism are the theories selected to assist in understanding European integration. These theories determine the concept of integration, define an understanding of integration and provide reasons why integration takes place. The writings of Wiener and Diez (2009) provided an overview of these theories in the field of European integration.

A deductive method was deemed appropriate in order to generate observations and findings, because of the existing theoretical frameworks used to conduct and analyse this topic. By using the theoretical framework deductively, the deductive reasoning method intends to confirm the theory examination and analysis to the question of supranationalism and intergovernmentalism being the contenders when considering the implications of the economic crisis and the impact it has on European integration. Regardless of the limitations to the generalising of the results, this type of study is ideal to look at the sequence of events and the reactions of the EU, which resulted in specific outcomes rather than paying attention only on the outcome. Hence, this method is especially important when processes are assessed together with process tracing.

To comprehend complex social phenomena, case study is one of the most used methods in qualitative research and a unique form of social enquiry to retain the holistic and meaningful characteristics of real-life events, such as organisational processes (Yin 2003, 2). Case selection has been guided by Van Evera (1997,78) and the case study research on the sovereign debt crisis in Greece, and its effect on the Eurozone as well as European integration proved to be a useful approach for doing research on the EU which is complex and multifaceted.

The Eurozone crisis began as a debt crisis in the weaker regions of the euro system and was mostly centred on events in Greece, where the cost of financing government debt had risen. Greece admitted that its debts had reached a very high volume (Popescu 2012, 89). Therefore, a single case study that best exemplified the euro crisis is ***the Greek sovereign debt crisis.*** It was examined because the case study analysis intensified the focus of this research. It presented a case specific expectation of the reactions to the economic crisis and was empirically examined to observe interactions. The incorporation of practical examples which favour accuracy over opportunity added credibility by grounding the undertaken research.

Denzin and Lincoln (1998, 1-3) affirm that qualitative research enhances the understanding of social processes, phenomena and activities with focus on significance and comprehension instead of quantification. Therefore, the chosen methodology was a qualitative approach to unpack the EU's response to the crisis as well as examine the research question: ***What impact does the Economic Crisis have on European Integration?*** This should provide awareness of the processes and furnish comprehensive details of perspectives and accounts. Why the qualitative research method was adopted is because this form of research entails the estimation of issues, find answers to questions and understand the reaction of the EU to the crisis and the process of European integration. It includes explanations of the important decision phases made by the intergovernmental and supranational structures of the EU during the Eurozone crisis as well as the impact it had on European integration during 2010 – 2015, the timeline selected for examination (Spencer, Ritchie and Dillon 2003, 3).

The origin of the Eurozone crisis was traced back to the governing structures of Europe's institutions, pointing to the European sovereign debt crisis as being a European crisis because the decline of the euro is economical as well as political. The European sovereign debt crisis was foreseeable due to the political union not complementing the economic union which eventually led to the economic imbalances creating an economic crisis and later a political crisis. A few crucial episodes at the height of the Eurozone crisis between 2010 and 2015 answers the 'how' question with the use of qualitative data sources (King, Keohane and Verba 1994, 28).

The decisions and resolutions for the period of 2010 – 2015, with respect to the economic crisis and the impact it had on the process of European integration was tracked in this research and it extracted all the observable implications of the theories especially those regarding the dependent variable. These also accounted for outcomes by identifying and exploring the mechanisms that generated them. It detailed times, place and attempts to locate and trace the processes that generated the outcome of interest which was integration (Bennett and George 1997, 222).

Variables

The **Economic crisis** constitutes the *independent variable* in this research, as the crisis indicated the difficulty member states in the Eurozone encountered to meet their debt payments which had accumulated over decades. Portugal, Ireland, Italy, Greece and Spain (PIIGS) are member states within the EU who at different levels were not capable of generating sufficient economic growth to service their obligations towards their bond-holders guarantees. This had far-reaching consequences for the entire EU (Kenny 2016).

The crisis also impacted on the *intervening variable*, the **EU decision-making** process which included actors such as the Commission with their interests, perceptions and rules as the EU and its policies are responsible for European integration. The pre-crisis institutional framework considerably advanced under all main policy areas of the EMU which occurred due to changes such as spill-over in supranationalism, and more national preferences being negotiated through the EU by intergovernmentalism.

The *dependent variable* is **European integration**, a process which either partially or completely leads to the integration of states in Europe, but the crisis has increased the pressure on the EU with regards to the degree of European integration.

Process Tracing

Explaining-outcome process tracing, was used in this research to trace the response of the EU to the Eurozone crisis. The afore-mentioned process tracing approach is the most common form of process tracing and is often used to provide historical explanations as termed by Clayton Roberts. Roberts also urged the involvement of 'minute instructive account tracing to the point where events to be explained are microscopic and the covering laws correspondingly more certain' (Bennett and Checkel 2012, 9). However, this research was not a detailed description of a sequence of events but gave attention to the sequences of independent, dependent and intervening variables whilst drawing on the theories of intergovernmentalism and supranationalism to justify the actions that influence the outcome of the dependent variable namely European integration.

Process tracing allowed for many observations within the case study of Greece pertaining to the economic crisis and its impact on the dependent variable, European integration. This is an important factor due to the reality that many instances could have led to European integration (Van Evera 1997, 64). Through process tracing an understanding of a series of decision-making procedures were clarified and a more complex understanding of the economic crisis' impact on European integration can be realised (Waldner 2012,68).

Process tracing is utilized to generate stronger causal process, because it is a method understood as a process to identify and explore the intervening causal process, which is the causal chain and causal mechanism between the independent variable (the economic crisis) and (European integration) the dependent variable. It was also used to understand the larger historical context that phenomena exist within, because it is difficult to understand phenomena from one or two variables and so process tracing allows for an understanding of the 'intervening causal process' (George and Bennett 2005, 206).

With the focus on one case study, namely the sovereign Greek debt crisis and how it impacts on European integration, causality is ascertained through process-tracing. This method was applied to examine if the theories justify and explain the effects of the economic crisis on European integration. The EU decision-making and response to the crisis for European integration during the period of 2010-2015 was investigated through this method as it allows for an outline of a detailed description relating to the decision-making processes of EU member states. This includes an analysis of the intervening years which was particularly relevant as new information came to light. George and Bennett (2005, 206) remarked, that in a world marked by multiple interaction effects, process tracing is well suited for theory assessment.

The empirical data was evaluated with the theoretical approaches taken into consideration to present various perspectives of the research question. The literature which was utilised entailed articles that explored and evaluated the possible outcome of the crisis with regards to the reforms already initiated by the EU and how they impacted on the Eurozone member states. There existed challenges towards the realization of the proposed amendments to assist Eurozone member states during the crisis, and the research explored the motives for the introduction and construction of the amendments against the integration concepts provided by the theories of Supranationalism and Intergovernmentalism.

Data

This research was conducted as a desktop research in a qualitative paradigm, primarily using existing data as the proposed methodology was suitable for achieving the stated objective. It did not involve interacting with others on an academic level but required a systematic collection of the relevant literature to gain an understanding of underlying reasons, opinions, and motivations concerning the research question concerning the economic crisis’ impact on EU integration.

Reliance on webpages administered by the official website of the European Union, in relation to the operations of the EU institutions was necessary to examine data, because these sites provided insight into the procedures that the EU institutions represented as their response to the crisis. My understanding of European integration theories developed from relevant literature, most importantly books from authors such as Leuffen, Rittberger and Schimmelfennig and many more. The various theories explained to what degree the economic crisis impacted on the integration of the EU. These authors covered theoretical aspects of the variations within the EU, while other authors defined the nature of the crisis and how it influenced European integration.

European integration is more of a multi-dimensional process of combined adaptation by all those involved and not a single-dimensional process of national and member states adaptation towards the concept of Union. Historical information was mainly obtained from books and journals to ensure a diverse and comprehensive outline. I therefore sought to use a variety of secondary sources which included summaries of formal EU treaty articles, declarations and official statements to give explanatory power on how the EU economic crisis resulted in integration changes.

The EU is a supranational political institution which contains many aspects that were affected by the crisis. Various online sources were used, especially those pertaining to specific information related to the crisis. News sources dedicated to the crisis, reporting political and economic issues as they unfolded were sourced. Websites such as BBC News, Reuters and online news journals provided insights into the situations of the debt-ridden member states and the responses of the EU during the crisis as well as its impact on European integration. In expanding from the relevant literature, the organizational EU crisis is a complex and evolving concept. The speeches made by the supranational bodies regarding the Eurozone crisis and their resolutions were interpreted through a set of structures based on the general explanations already provided in the extensive document repository.

CHAPTER 4

Empirical Research

Governments in the EU found it difficult to come to terms with the overwhelming crisis which was unique in the history of the EU, because it continuously impacted on European integration. Due to the sovereign debt problems in the Eurozone, (a collective name for the EU member states using a common single currency). The crisis caused tensions to rise regarding the Eurozone and the common currency, the euro (Kenny 2016). The economic crisis highlighted discussions regarding the nature and scope of European integration and the role of Europe in the global arena in resolving the crisis and challenges (Schweiger and Magone 2014, 259).

The media frequently characterise the EU as a remote, more or less distant authority which make decisions and impose them on member states, but fail to mention the influence the member states have in the EU decision-making process (Colletaz 2013). National politics is important as it still influences EU level decisions and problems, since a new reality had emerged owing to the crisis. The financial crisis had caused the intergovernmental structure ushered in by the Lisbon Treaty, to intensify and the Greek economic failure proved that the EU intergovernmental arrangements had to be reconsidered (BBC 2010).

EU integration is a 'manifestation of intergovernmentalism' when the focus is on the combined economic interests from various member states as pointed out by Schimmelfennig (2015, 178*)*, and crisis management negotiations are dominated by dynamics which provoke continued spillovers. Taking into account that negotiations are the bargaining tools between member states in their pursuit of national goals during times of crises, the crisis had enormous political consequences which were severely experienced in the affected EU nations. There was the drive towards austerity or cutting of expenses to decrease the imbalance between revenue and expenditure, but this only led to demonstrations and the expulsion of ruling parties in some southern EU countries.

The EU is an economic and political organisation with definite institutional procedures established on the separation of 'power to contain and neutralize the asymmetries between different member states and to equally represent the interests of the citizens' (Schimmelfennig, Leuffen and Rittberger 2014, 16). Kenny (2017) highlights the intention of the EU instituted stringent systems to have a firm hold on public debt and deficits, as well as limit member state spending. The Eurozone member states share a common central bank the ECB, and monetary policy but do not have a shared fiscal policy. This means that member states maintain control when it involves decisions on national spending and taxation subject to issues designed to sustain fiscal discipline. Powerful national governments defending their respective national preferences steered institutional change during the Eurozone crisis, and national interests were influenced by authoritative national actors, for instance governmental parties, central banks, organized economic interest groups and major banks.

The euro offered several possible advantages to Eurozone member states with stable economic policies, but rapid financing facilities were created to assist the Eurozone member states which were facing financial difficulties (Morillas 2017). When individual Eurozone member states started experiencing difficulties in financing their debts it led to EU member states putting confidence-building measures in place and mechanisms to resolve the root causes of its limitations. Nationally, the crisis caused tensions to rise between Eurozone member states, such as the financially stable Germany and the debt-ridden Greece. Germany wanted higher taxes and lower spending measures to be implemented in the debt-ridden economies which proved problematic as it translated into low growth leading to lower tax revenues. Consequently, the recovery strategies of the EU had been implemented through maintaining the economic stability of member states and the development of economic governance within the EU (Yurtsevera 2011, 687).

The Economic Crisis and Greek Sovereign Debt

Interdependence is not only remarkably strong in the Eurozone, but also beyond the Eurozone. It did not come about deliberately but was the main reason for uniting Europe. It combined the economies and societies, strengthened the ties between nationals and past enemies to realise political objectives such as peace and prosperity on the European continent. The creation of the euro lead to the inability of members in the Eurozone to apply monetary and exchange rate policy instruments to respond to fluctuations in economic conditions. Therefore, for this research to evaluate the impact of the economic crisis on European integration, Greece was an ideal choice as a case study. Since Greece adopted the euro, the currency used by members of the Eurozone, its place in the Eurozone has drastically changed as it has been linked to the crisis which subsequently spread to other Eurozone member states. This raised concerns regarding the structure and capability of the Eurozone, which is perceived as the EU's chief integration project (Schimmelfennig 2015, 177).

As the twelfth member of monetary union Greece was admitted in 2001 despite all governments being aware of the Greek financial statistics unreliability. The European Council decided that Athens had met the 'convergence criteria' which required and included controls on inflation rates, deficit, debt, exchange rates and interest rates (Voss 2011), and could therefore become a member of the Eurozone. Ten years later the Greek sovereign debt crisis brought the limitations of governance of Greece and the EU to the fore when the Greek Minister George Papandreou announced that the previous government failed to provide accurate numbers pertaining to the economic health of Greece.

What started as a sovereign debt crisis in Greece in 2009-2010 escalated into the Eurozone crisis. The Greek government acquired enormous loans from the international capital markets during the past decade to settle their budget and trade deficits. This exposed Greece to changes in investor confidence causing investors to become anxious about the Greek governments high debt during the global economic crisis. The consequences being that, markets demanded higher interest for Greek bonds, which increased the borrowing costs for Greece. Fears grew that Greece would default and there were speculations that Greece might leave the euro which impacted on the confidence in the euro and the solidarity of the Eurozone (Popescu 2012, 89) .

The weight of the Greek shortfall came at a time when the EU was unprepared and it exposed the country's debt as being enormous, surpassing the entire economy of the Greek people. In Greece the government had relatively weak control over public expenditure as well as difficulties in raising tax revenue and tax evasion was widespread amongst the main areas (Featherstone 2011, 196). The financial markets emphasised the possibility of Greece defaulting on its foreign debt due to declining credibility which led to Greece being treated as a protectorate of the EU. In 2010 Greece unveiled a Stability and Growth Program, a directive which stipulated realistic reforms to address the origins of the prevailing challenges in the Greek economy (EC1 2010).

The Stability and Growth Program entails regulations intended to ensure that EU member states pursue reliable public spending and manage their economic policies. The European Commission endorsed the Greek Stability and Growth Program and urged the Greek people to decrease their wage costs. The Greek government's intention was to reduce the budget gap from 12.7 percent in 2009 to 2.8 percent by 2012 to align the deficit with the convergence criteria which comprised of strict pre-requisite economic controls as charted in the Maastricht Treaty (Taylor 2011, 4). This led to the first EU summit where the EU leaders met and pledged to financially assist Greece although there were no specifics, but including the IMF was to be part of the agreement because investors were marketing Greek assets. These controls were to protect the economic stability of the other Eurozone member states who were also using the euro as the common currency (Commission 2017).

With no provision in the Maastricht Treaty for special crisis management , although the Eurosystem expected that the precautionary guidelines would suffice, it was unprepared to manage the crisis resulting from a lack of capacity for immediate response, policy discretion and centralized action. Negotiations between Athens and the troika, which comprised of ECB, IMF and the EC representatives, revealed that the troika officials planned to utilize the services of outsiders to manage the Greek fifty-billion-euro privatization program, as well as employing the services of international experts to collect taxes as Greece seemed incapable of doing so (Majone 2012, 20).

The member states in the Eurozone came to the rescue with one hundred and forty-four point seven billion euros through the European Financial Stability Facility (EFSF), a rescue fund that was launched in 2010, which could not prevent the ‘no bailout’ clause from being circumvented. This action was defended by the clauses in the Treaty referring to the impact of natural disasters and ‘exceptional occurrences’ (Article 100 92) and the loan enabled Greece to refinance itself, including an arrangement with financial investors for a reduction of nearly two hundred billion euros in Greek debt (Ray 2011).

Austerity Measures

TINA

There **I**s **N**o **A**lternative

Is austerity not a necessary price to pay in order to redress the disequilibria in the Eurozone? Issue is not whether the periphery had to engage in austerity or not. They had to (although they should have been allowed more time). The issue is whether for the Eurozone as a whole a more symmetric adjustment may not have improved the unfavourable trade-off between budget balance and economic growth in the periphery. (De Grauwe 2015)

Let us begin by noting that austerity measures cause social unrest and undermine the functioning of democratic politics as argued by Armingeon and Baccaro (2012, 256), because the elected national policy-makers actually lose their ability to decide amongst alternative policy options. Fiscal austerity can bring financial relief as a continuous long-term cure, but the financial/economic crisis is posing a challenge both economically and politically. Austerity had become the basis of arrangements for reducing debt as a condition imposed on debtor states to curb an increase on debts. Major tensions developed because of the austerity measures and financial discipline, including the demand for EU economic growth to uphold the payments acquired by debt. These were required by the principal institutions of the EU, such as the Commission, the ECB and the Fiscal Compact which was outlined by the Eurozone Head of States or governments on the 9th December 2011, (ECB 2012).

The Eurozone’s economic circumstances had social and political implications on the member states adopting the EU/IMF strategies, as the costs also led to changes in government. The Greek public debt caused the euro crisis to resurface and to focus on refinancing Greece. Greece’s deception to join the Eurozone was considered a source of the economic crisis in Europe. Tax evasion is widespread among the upper-middle class and rich in Greece, with the top bracket households and businesses being responsible for eighty percent of the total outstanding revenue owed to the Greek government. Wage cost reductions were suggested in Greece which resulted in the first and second austerity packages, but the Greek population protested and rejected the austerity measures. Riots and protests took place in Athens which shocked Greece and other Eurozone members in the end (Voss 2011).

Greek austerity has been defined as an increase of fifty percent in male suicides, twenty-five percent decrease in real wages in five years and more than a quarter million families unable to afford electricity (Gopal 2015). Austerity measures caused demonstrations in the streets of Greece because the program consisted of increased taxes, decreased wages, and reductions in public spending (Pavlakis 2013, 6). Unemployment in Greece reached eighty percent with unimaginable sights such as bread lines, picking through thrash for food and malnourished children at the clinics, which were staffed by volunteers as the public health system had collapsed (Chrysopoulos 2017).

The severe austerity measures in Greece led to the many suicides, a retired pharmacist ended his life a short distance from the Greek parliament as an act of protest due to the deepening pension cuts. Anti-austerity measure groups seized the opportunity to make this act a symbol of opposition for the austerity measures implemented by the Greek government (Smith 2012). As the Greek crisis deepened the social structure was beginning to show signs of collapse which left an estimated twenty thousand Greeks homeless during 2012 in the capital Athens. Due to ongoing reductions in government wages and pensions, which led to poverty in many Greek municipalities, the offices of the then labour minister Yiannis Vroutsis were stormed by anti-austerity protesters which led to some being arrested. Part of the solution to meet the challenges Greece is facing economically, is to generate revenue by attacking corruption and tax evasion, this action is supported by Syriza as well as its creditors.

For many years, the major political parties in Greece accepted the demands of the Troika, which resulted in the snap elections in Greece abandoning the major parties and supporting anti-austerity and ultra-nationalist candidates, handing the New Democracy party - a pro-bailout party a slim victory (Reuters 2012). Greece experienced capital flight; due to fear of a possible return to the former Greek currency the drachma. When the Greek parliament was dissolved in 2014 there was no successor for President Karolos Papoulias. This led to the next snap elections being dominated by anti-austerity parties which elected ‘Syriza’ (an acronym meaning ‘Coalition of the Radical Left’) with Alexis Tsipras as prime minister (Stone 2015).

For the Greek nation Syriza represented real hope to rise out of the economic crisis. Alexis Tsipras, together with his colleague Yanis Varoufakis challenged the austerity measures in Greece and promised to renegotiate the bailout terms with Greece's creditors, but he barely found support beyond Greece (Press 2015). Alexis Tsipras requested an extension from the troika, as a national referendum in Greece was to be held to ascertain the bailout terms. The proposal was rejected by the Eurogroup, a collective term for an informal body comprising of Eurozone finance ministers, while the Greek banks faced the refusal of the ECB to increase the emergency cash flow. One of the troika institutions, the European Commission, who oversee the austerity and bailout programs tried to block the Greek anti-poverty program. The new government in Greece was cautioned that under the terms of the bailout, the Greek anti-poverty bill, which was put forward by Syriza to provide free electricity and food stamps for impoverished households, Athens had to seek approval as it would violate the compromise deal signed by finance minister Yanis Varoufakis on the 20th February 2015 in Brussels. Here is an extract of the statement from the European Council website page.

The Greek authorities have expressed their strong commitment to a broader and deeper structural reform process aimed at durably improving growth and employment prospects, ensuring stability and resilience of the financial sector and enhancing social fairness. The authorities commit to implementing long overdue reforms to tackle corruption and tax evasion, and improving the efficiency of the public sector. (EC5 2015)

Greece officially defaulted and the Eurozone experienced the possibility of a Greek exit later dubbed 'Grexit'. Economists speculated that the only solution for Greece's economy to grow and can manage the existing debts, was to withdraw from the Eurozone. All governments, including Syriza dismissed the thought of a departure from the euro as a policy choice. Therefore, if Berlin (German government) had refused to financially assist and yield to Syriza's demands, the funding for Greece would have been discontinued, and cause the country's financial system breakdown, forcing an exit from the euro (Wright 2013, 16). Pavlakis (2013, 13) noted that consent is a major aspect of the political process, given the nature of democratic political systems, politicians had to convince the population of the importance of bailout funds.

The Greek population rallied behind Alexis Tsipras and voted against the troika's bailout terms at the negotiations, which followed a framework for an eighty-six billion Euros bailout package, which was agreed upon. Alexis Tsipras received no support from his party for the new austerity measures although the IMF criticized its troika partners about the terms imposed on Greece, as it stated that only debt-relief measures could make the Greek debt bearable (Rankin 2015). The European sovereign debt crisis is truly a European crisis and not just a crisis for the Greeks to resolve.

Due to the financial crisis, the nation of Greece was faced with either selecting and accepting the IMF restrictions or to temporarily withdraw from global trade. The population in Greece did not appreciate the supranational bank, the IMF, as the IMF acts as a bank of last resort. Therefore, the decision and request for assistance was voluntary and the penalties were accepted as the result of the borrowing nation's voluntary decision.

Article 125 TFEU, states that there was the 'no bail-out' clause in EMU treaty:

Article 125

The Union shall not be liable for or assume the commitments of central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of any Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project. A Member State shall not be liable for or assume the commitments of central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of another Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project. (EU 2010, 102)

Article 104 (125) provided no bailout of states in financial difficulty and for an 'excessive deficit procedure', but also gave 'no legal basis for the expulsion of an errant state, provided nothing beyond general policy guidelines by way of policy co-ordination and offered no further instruments to deal with moral hazard issues' of non-compliant member states. The Council of Economic and Financial Affairs (Ecofin) and the European Council (EC), were platforms where indecision was dramatized when the ECB passed the point of no return to buy the Eurozone bonds which the markets discarded. The fiscal rules were rejected as it could not be enforced without former political integration. Although there was an imbalance of rules and instruments, it was 'a political compromise that would remain' (Featherstone 2011, 194 & 202).

This was to ensure that the repaying of public debt remains a national responsibility and averts risky payments resulting from poor fiscal policies from spilling over to member states. It encourages cautious fiscal policies at the national level (Rossman 2010, 24). The bailout fund and the new precedent set, despite the "no bailout clause," Article 125 of the Treaty on the Functioning of the European Union were some of the issues argued about causing an 'institutional deepening of integration'. Polling data indicated a lack of interest for further integration pinning the blame on the crisis, and Germany cautiously agreed to render financial assistance to member states in contrast to previously being unwilling to cooperate on EU integration endeavours as noted by Pavlakis (2013, 22).

The EU member states and the IMF managed to provide a bailout in 2010 with the goal to bring national demand in line with the national supply volume through an extensive fiscal adjustment. This was also to improve competitiveness by implementing structural reforms in public administration and the labour markets for potential long-term economic growth (IMF 2010, 12 & 13) . The Greek bailout negotiations to assess the effect of financial assistance in the Eurozone was based on three adjustment programs.The Eurogroup agreed on the first program for Greece on the second of May in 2010. Bilateral loans (Greek Loan Facility-GLF) for a total of €80 billion were pooled by the European Commission which was to be issued between May 2010 and June 2013. The agreed financial assistance by the Eurozone member states was to be added to the IMF loan of €30 billion which was promised as a stand-by arrangement (SBA) (Moschella 2017, 13).

The second bailout of one hundred and thirty bilion euros was to assist the Greek private debtors and the Greek banks. The Troika had required Greece to comply to three requests before the bailout was to be received. Firstly, an agreement was to be finalized with all private holders of government bonds to accept a fifty percent haircut (Kaiser 2012) - a term which referes to the markdown amount on Greek debt that debtor banks have agreed to accept in order to reduce the Greek financial crisis, secondly, Greece needed to implement another demanding austerity package to decrease its budget deficit and finally the majority of Greek politicians had to sign an agreement pledging ongoing support for the new austerity packages beyond 2012. A spokesman for the EC, one of the institutions that negotiated the rescue terms stated that the Eurogroup was left with the decision to approve the conditions for the second bailout program to be executed.

The EC and the ECB made a positive assessment of the sustainability of Greece's public debt and financial needs. In a statement the Eurogroup welcomed the agreement they reached with the government in Athens on policies constituting the basis for the additional program and identified the necessary structural expenditure reductions of € 325 million to meet their financial demands in 2012 (ESM 2012). Instead of the bilateral loans, this program was funded by the EFSF, a temporary crisis solution mechanism created in June 2010 by Eurozone member states to provide financial assistance to debt-ridden Eurozone member states, and is financed through bonds and various debt mechanisms on capital markets (EC1 2010).

Financing from the IMF shifted from SBA to an EFF which lengthened the repayment period (EC2 2012, 5). A bailout agreement was signed off by the Greek government under the then prime minister Lucas Papademos and the EC on behalf of the Eurogroup, the ECB and the IMF - after the assessment of the progress regarding the key objectives. This resulted in the Greek economy gradually showing growth and a slight decrease in unemployment during 2014, as well as the ability to generate revenue from being included in market participation anew (ESM 2012).

When a new government came into power in Greece through a snap election at the beginning of 2015. The reform program was suspended because the new government disagreed with creditors on the reforms which the previous administration had guaranteed, causing Greece to decend into recession once again. This consequently led to Greece missing the IMF debt repayments as there was no revenue to service the debt. The situation in Greece was distressing as the Greek population were only allowed to withdraw a limited amount of cash from their bank accounts in order to stop a bank run whilst the stock exchange in Athens was closed (ESM 2012). The Eurozone member states and the IMF have been giving financial support to Greece since May 2010 to assist the country in coping with the financial difficulties and economic challenges it faced. This economic adjustment program or financial assistance, consisted of temporary mechanisms in the troika structure. The first two programs were delivered, with the second assistance program ending in June 2015. The third program was dispensed after intense negotiations at the last minute through the ESM framework in August 2015.

SOURCE: Authors own - 585652

EU response to the Debt Crisis

EU member states sychronise their national economic policies to be unified when faced with economic and financial challenges, Hence, all EU member states form part of the EMU which is the basis for economic cooperation, intended for the promotion of job creation and sustainable growth including the cordination of responses to global economic challenges (EU Web 2017). The EMU represents an important stage in the integration of EU economies and is enshrined in the Treaty on European Union – the Maastricht Treaty. The EMU’s shortcomings were exposed through the Eurozone crisis prompting additional integration of economic policies, and certain tendencies became apparent as a new reality. These included the weakening of the alliance between France and Germany and the ongoing transfer of ‘decision-making power from the EU institutions back to the national governments of the member states’ as expressed in an introduction by Barysch (2010, 1).

The Eurozone crisis afforded an opportunity for integration activists in the various member states, and this was realised when it examined national preference development on EMU institutional reforms in response to the crisis (Degner 2015, 5). To keep the Eurozone together a sequence of useful steps characterized the EU response to the euro crisis. The reputation and financial stability of member states within the Eurozone were threatened when subsequently, the debt levels of other Eurozone member state were found to be unsustainable. To prevent the Eurozone member states that were at risk of defaulting, large bailouts were required and national governments were encouraged to respond with fiscal austerity measures. This measure was also suggested to protect the position of the Eurozone on the global stage as a dependable currency union, and the EU as a unified supranational organisation (Taylor 2011, 4).

Greece’s problems shocked the Eurozone member states and the stability of the monetary union as it needed abundant international support, which was provided as conditional financial assistance from the IMF, ECB and the EC- known as the troika. Bickerton (2015) noted that the EU cannot safeguard itself from the challenges encountered by faction regimes presently across Europe, because these disputes were now a structural part of the European integration process. As concerns intensified and a new chapter was being added to the history of European integration in early 2010, a series of financial support measures were implemented with the goal of ensuring financial stability throughout Europe.

During the period of 2010 – 2015 numerous measures were put forward in the form of new policies adopted to respond to the crisis. The fiscal mismanagement in Athens placed the EU economy in an exposed global situation causing the market crisis to explode. The financial crisis had caused the intergovernmental structure ushered in by the Lisbon Treaty to weaken and the Greek economic failure proved that the EU intergovernmental arrangements had to be reconsidered (BBC 2010). Therefore, when the economic crisis reached Europe there was no anticipated recovery from the crisis and the risk of EU member states defaulting on their debts. This resulted in the French and the German governments being pressurized for a solution to prevent a financial collapse (Georgiou 2010).

For the EU member states affected by the economic crisis, Economic Adjustment Programs were agreed upon which ushered in the EFSM and EFSF.

> The European Financial Stability Facility (EFSF) was created as a temporary crisis resolution mechanism by the euro area Member States in June 2010. Assistance was financed by the EFSF through the issuance of EFSF bonds and other debt instruments on capital markets. The EFSF does not provide any further financial assistance, as this task is now performed solely by the ESM. Nevertheless, the EFSF continues to operate to: receive loan repayments from beneficiary countries; make interest and principal payments to holders of EFSF bonds; roll over outstanding EFSF bonds (Finance 2014).

The EFSF represented a rescue fund of five hundred billion Euros from EMU members; this was amassing of state funds to provide this financial umbrella which was designed as a temporary solution to financial problems within the EU. This was the largest financial assistance fund in the world created by European countries working together with the EC, the IMF and the ECB (Ray 2011). The EFSF was to render assistance to governments requiring economic adjustment programs, to strengthen weak economies and attend to deep-seated economic difficulties within the EU. This materialized despite controversies among the supranational agents of the EC and debates with representatives within the EMU, because decisions were made to provide financial assistance to indebted Eurozone member states without consideration for the basic regulations set out in the existing Lisbon Treaty (Scheidt 2012, 3).

There were exceptions; this intergovernmental treaty is enshrined in the new 'Treaty on Stability, Coordination and Governance in the Economic and Monetary Union. The new Fiscal Compact was introduced as a new stricter version of the Stability and Growth Pact. It was agreed upon at the EU summit on the 30th January 2012 and signed on the 2nd March 2012 by the Heads of EU member states with two exclusions the United Kingdom and the Czech Republic (Council 2012). The new Fiscal Compact moved towards a fiscal union with the objective to intensify the economic governance structure in the Eurozone which addressed the limitations of the Stability and Growth Pact. The agreement contained elements such as a balanced budget rule (debt break) which included an automatic correction mechanism, strengthening of the excessive deficit procedure, a numerical target for debt reduction for member states and reporting on public debt insurance plans were signed by EU members in 2012 (ECB1 2012). The Fiscal Compact is only one element among many terms of austerity, but was not responsible for the fiscal policy and austerity decisions in the Eurozone (Dullien 2012). An integovernmental contract, the fiscal compact indicated a shifting from the traditional community method of supranational integration to a more advantageous differentiated form of intergovernmental policy management among groupings in member states (Schweiger 2014, 293).

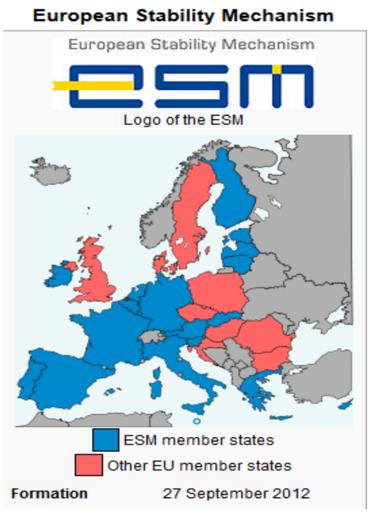
Pisani-Ferry (2011) reported that greater regulation of the financial sector was suggested by the EU Commission in response to the debt crisis and stricter controls on evaluating bureaus and a financial transaction tax were being considered. Nevertheless, the president of the ECB Jean-Claude Trichet extended less restrictive collateral rules to qualify an EMU country's bonds eligible for use as ECB collateral; this was a contribution towards solving the crisis. The ECB also lowered interest rates and provided cheap loans of more than one trillion euro to maintain money flows between European banks (Voss 2011, 6). These were remarkable achievements for European integration, due to the scale, possibility and pace with which the new mechanisms were adopted and implemented.

When the sovereign debt portion of the crisis was at its peak, the writings of Leblond and Grossman (2011, 414) reflected critically on the achievements relating to supranational financial regulation and supervision. Thus, to ensure that the economy remains competitive on an international level and succeed in upholding the EU's political authority, economic integration is essential for Europe. Given that the Eurozone and probably the EU would be consumed if the crisis persisted without an allocation of governing and economic rule. The complicated EU crisis has alerted European leaders to make decisions pertaining to the future of EU institutions which prompted the European finance ministers to announce the creation of the ESM.

European Stability Mechanism

In 2010 the EFSF and the EFSM were fused into the ESM. The ESM was ushered in to replace the EFSF as a permanent instrument and the ESM was based on the EFSF to provide financial assistance to member states in the Eurozone under strict conditions according to the rules of the EFSF. The structure of the European financial management was revamped and the SGP, which consists of a set of rules designed to ensure that countries in the European Union pursue sound public finances and coordinate their fiscal policies, was complemented by the ESM. This brought about an official arrangement being reinforced to reduce limitations of financial management within the EU in the future (ECB3 2011).

ARTICLE 3



Purpose

The purpose of the ESM shall be to mobilise funding and provide stability support under strict conditionality, appropriate to the financial assistance instrument chosen, to the benefit of ESM Members which are experiencing, or are threatened by, severe financing problems, if indispensable to safeguard the financial stability of the euro area and of its Member States. For this purpose, the ESM shall be entitled to raise funds by issuing financial instruments or by entering financial or other agreements or arrangements with ESM Members, financial institutions or other third parties. (ESM 2011)

Source: Euro-Med.dk

The need for a permanent crisis mechanism was agreed upon at the European Council meeting of the 24 – 25 March 2011 to maintain the financial stability of the Eurozone. To enable the ESM effectiveness, the European Council endorsed an adapted version of the ESM treaty containing revisions. Likewise, the amendment of Article 136 of the Treaty on the Functioning of the European Union (TFEU) incorporated the probability of establishing the ESM under EU law.

EUROPEAN COUNCIL DECISION of 25 March 2011
amending Article 136 of the Treaty on the Functioning of the European Union with regard to a stability mechanism for Member States whose currency is the euro (2011/199/EU

The stability mechanism will provide the necessary tool for dealing with such cases of risk to the financial stability of the euro area as a whole as have been experienced in 2010, and hence help preserve the economic and financial stability of the Union itself. At its meeting of 16 and 17 December 2010, the European Council agreed that, as this mechanism is designed to safeguard the financial stability of the euro area as whole, Article 122(2) of the TFEU will no longer be needed for such purposes. The Heads of State or Government therefore agreed that it should not be used for such purposes (EU 2011).

When the Fiscal Compact and the ESM came into force as international treaties, The Fiscal Stability Treaty, known as the new Fiscal Compact became a differentiated integration project to be later included in EU law. Article 16 of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG), stipulates that within five years at most of the date of entry into force, 'the necessary steps' would be taken to incorporate the substance of the Treaty into the EU legal framework (EP 2015). A fiscal stability union was proposed to increase integration in the Eurozone economies and added penalties were suggested for states going beyond the stipulated shortfall limit. This was possible and required changing an existing EU treaty protocol which required unanimous approval from all EU leaders, a very high hurdle. Unfortunately, it was foiled by the veto of British Prime Minister David Cameron. The other EU members pursued treaty changes which then required referenda or approval from parliaments at national level (Ray 2011).

The German finance minister, Wolfgang Schäuble sent an open letter to the leadership of the ECB, the IMF and his Eurozone peers stating that ‘Any additional financial support for Greece had to involve a fair burden of sharing between taxpayers and private investors’ (News 2011). Jean-Claude Juncker, head of the Eurozone finance ministers (Eurogroup) backed the German proposal for a ‘soft restructuring’ of the Greek debt (White 2011). The German Chancellor, Angela Merkel agreed to work with the ECB to resolve the Greek sovereign debt crisis, a reversal from her previous reserve. Eurozone members approved a new bailout mechanism as well the enlargement of the EFSF, which prompted the EFSF CEO, Klaus Regling, to seek support from China for the expansion, but attained no agreement with the Chinese. Mario Draghi, the ECB president stated that if the governments of EU member states implemented serious fiscal controls the European bond purchase program was to be expanded by the ECB (Voss 2011, 9-12).

The turning point in the crisis came when the ECB President Mario Draghi remarked in July 2012 at the Global Investment Conference in London that there was another message: ‘I want to tell you within our mandate, the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough’ (ECB2 2012). Later that year, to overcome Germany’s fear over inflation ECB President Mario Draghi announced that the ECB had introduced a new program of ‘open-ended, unlimited buying of distressed government bonds’ to stabilise the weak euro. The idea was to introduce Eurobonds with a joint guarantee from the Eurozone member states, to raise money collectively to reduce the rising costs of individual borrowing for member states with declining credit ratings. It was accompanied by strict terms for initiating the purchasing of bonds and applying pressure on the political leaders within the Eurozone to seek assistance, participate in austerity programs, and approve immediate bailouts for governments experiencing difficulties before the ECB steps in.

Outright Monetary Transactions

The new bond-buying arrangement was named the Outright Monetary Transactions (OMT); it is ‘the Euro system’s outright transactions in secondary sovereign bond markets with the aim of safeguarding an appropriate monetary policy transmission and the singleness of the monetary policy’ (ECB5 2012). This meant that the ECB would intervene in the secondary markets to purchase the debts of governments with high bond yields that present a risk to the standard conduct of monetary policy throughout the Eurozone. ECB President Mario Draghi chose to ignore the disapproval from the German Bundesbank, (Germany is the strongest and highest rated economy in the Eurozone) as the only vote against the ECB’s new policy. He was backed by the ECB's 23-strong governing council to the pledge he made in London that the central bank would do ‘whatever it takes’ to save the euro. His statement did not bring about a solution to the Eurozone crisis but encouraged investors in buying bonds off the regions smaller nations (Traynor 2012).

The argument of the Bundesbank was that ‘a bond-buying program would be tantamount to direct financing of governments which is prescribed by the ECB’s statutes’. ECB President Mario Draghi cited reasons for waiving the ECB’s senior creditor status, stating that the bond-buying would be limited to short-term debt (Traynor 2012). A central role in the management of the Euro crisis was administered by Germany and the German Bundestag which is the national parliament in Germany, with Frankfurt taking major short-term measures (Vilpišauskas 2013 368). Barysch (2010, 1) reckoned that the decision-making power was shifting from Brussels back to the EU member states, not to mention the unprecedented side-lining of the EC by Berlin. Germany usually supported the EC and the EP, but had now taken the lead in the shift towards more intergovernmentalism. As an example, the actions of the German chancellor Angela Merkel, when seeking a European solution to a problem, she communicated with EU capitals directly instead of going directly to Brussels,

The then president of the European Council Herman van Rompuy also echoed reassurance in a speech given by him during a visit in Stockholm, Sweden in 2012, relating to the EU’s response to the Eurozone crisis by saying ‘much was and is at stake during the sovereign debt crisis of the past two years. When Eurozone leaders make known that they will do whatever is required to maintain the financial stability of the Eurozone (as we did several times at summits), it is very simple: we mean it! In the Eurozone, we are together for better and for worse. Safeguarding the stability of the Eurozone has been the overriding objective’ (Van Rompuy 2012).

The high level of interdependence and spill-overs in the Eurozone member states were exposed by the Eurozone crisis which confirmed that national budgetary policies were of mutual concern and required progressive action towards an integrated budgetary structure (EC3 2014). This prompted four presidents, namely Herman van Rompuy from Belgium - the European Council, in close collaboration with José Manuel Barroso from Portugal - the EC, Jean-Claude Juncker from Luxembourg - the Eurogroup and Mario Draghi from Italy - the ECB, to issue a report stating their intention to develop a vision for the future of the EMU, with a view to contributing to growth, jobs and stability (Van Rompuy, et al. 2012, 8).

Building on the previously mentioned ‘Four Presidents Report’, another report was prepared by five Presidents of the EU at the end of 2012 namely, Jean-Claude Juncker of the EC, in close cooperation with Donald Tusk - Euro Summit, Jeroen Dijsselbloem - Eurogroup, Mario Draghi - ECB and Martin Schultz of the EP. They stressed that progress had to take place within the EU, and presented clear orientation for long-term measures. Firstly, towards a genuine economic union, where economies have the structural features to grow within the Monetary Union. Secondly, a financial union that assures the integrity of the currency across the Monetary Union and boosts risk-sharing with the private sector. Thirdly, a Fiscal union that provides financial sustainability and economic stability and lastly a Political union which can deliver the above-mentioned by way of ‘genuine democratic accountability, legitimacy and institutional strengthening’ (Juncker, et al. 2012, 4).

The Washington-based Pew Research Centre reported in a study that many Europeans claimed integration had weakened their economies and queried the EU membership. Many economists and academics also regarded the euro, which was introduced to Europeans as a single currency, as flawed as it lacks the structural foundation to operate as a common currency within seventeen economies (PRC 2012). Also, the uncertainty, if support would be rendered from the Eurozone member states, the ECB and EU institutions during the crisis. The absence of supranational economic institutions severely hindered the Eurozone crisis’ response, due to the non-existence of a central bank within the Eurozone to act as lender of last resort (De Grauwe 2011, 10). Eventhough there was no clear alternative to the euro; the EU leaders were considering approaches in deepening integration within the Eurozone, and refocus towards a fiscal union to supplement monetary union. Taking note that there has been a decline in support for European integration throughout the EU since the beginning of the economic crisis, but not many Europeans want to discard the euro.

The predictions made by analysts seem to materialize, because the continent had experienced a decade of economic unproductivity, low growth and high unemployment which weakened Europe and increased political tensions regarding the future of the Eurozone and the EU. The analysists had anticipated that Europe would probably consider fiscal and political integration, and that the common European currency would collapse. Wright (2013, 7) contended that this had not yet taken place but a resolution to the looming ‘euro crisis and the challenges to European integration’ might be the determining factor in the future of Europe. Observations and the writings of Archick (2016, 5) show how the EU has strengthened the Eurozone structure and enhanced the fiscal discipline over the past years, causing EU member states and their leaders to be steadfast in their commitment to the EU project.

The crises management and prevention capabilities of the intergovernmental EU were assessed during the euro crisis and proved to be unsatisfactory as mentioned in the research undertaken by Fabbrini (2013, 1 & 2). To support his argument regarding the decisions taken by the intergovernmental EU, he refers to the dramatic reconstruction of the intergovernmental system of economic governance in Europe with specific focus on the Eurozone by the heads of state and government of the EU member states, who feared the collapse of the euro. The euro crisis has shown that the intergovernmental EU has not only had difficulty in taking timely decisions for crisis management, but it also had to rely increasingly on the technocratic and judicial intervention of the supranational institutions to make credible commitments for crisis prevention.

Institutional changes

These included an increase in supranational functions associated with the rescue packages that resulted from the measures and actions taken as the crisis unfolded. A plan was formulated by the European Council for moving Europe 'towards a genuine economic and monetary union' by means of integrated financial, budgetary and economic policy structures, whilst safeguarding democratic responsibility. Volkery (2012) reported that at a Eurozone summit on the 29th June 2012, EU leaders who convened for a meeting in Brussels was dominated by the Spanish Prime Minister Mariano Rajoy and the Italian Prime Minister Mario Monti. After intense negotiations, it was proposed that the ESM would obtain permission to provide direct aid to banks in the future. The Eurozone summit statement noted that 'it is imperative to break the vicious circle between banks and sovereigns'. Therefore, paving the way to create a Eurozone banking union, and invest the ECB with supervisory powers while Germany's Federal Constitutional Court authorized the ratification of the ESM.

The recession had plagued the Eurozone for many months in 2013, but emerged from it with a zero-point three percent GDP growth. The news was received with caution as there still existed unstable government finances, high unemployment rates and an uneven growth distribution throughout the Euro zone. The financial threat of the euro downfall eventually led to the approval of new radical legislative measures which followed the processes of the Lisbon Treaty and the two new intergovernmental treaties (ESM and the Fiscal Compact). These were set up outside the Lisbon Treaty, the EU legal framework based on a European Council decision to amend TFEU Art.136. The new treaty (ESM), had been established and enforced in 2013 among the Eurozone members with its own institutions and recognition as an intergovernmental organisation under public international law (Fabbrini 2013,1&14). Extensive negotiations resulted in Eurozone leaders agreeing not to subject countries acquiring loans from the ESM to Troika oversight.

In a speech by Praet (2013), a member of the Executive Board of the ECB, he outlined in detail the monetary policy response of the ECB to the crisis by saying: 'Monetary policy is therefore only a crisis mitigation tool, and it is important to keep this fact in mind and not to expect too much from the central bank in terms of crisis resolution. In addition, monetary policy is surrounded by two goalposts: the overarching objective of price stability and the independence of the central bank'. Therefore, the OTM program was only to be activated where the beneficiary state had endorsed the conditions attached to the EU/IMF loan. The EU policy had a direct impact which visibly and negatively affected the wellbeing of the citizens of member states. This resulted from the austerity measures enforced on the indebted Eurozone countries as part of the rescue package of the EU/IMF. The rescue conditions entailed cutbacks in wages and pensions, tax increments and public expenditure and investments which affected all member states in the Eurozone.

The EMU had tried to combine intergovernmental cooperation in economic, fiscal and budgetary policies with the centralization of monetary policy in the ECB. To encourage lending, in June 2014 the ECB cut its deposit rate below zero percent and did so again in September. This was a first in the banking sector that a leading central bank 'charged depositors a fee for holding cash beyond legally mandated reserves' (Ray 2011). There was potential for renewed growth due to the decrease in oil prices, although the Ukraine conflict and the sanctions against Russia triggered economic uncertainty, which put the Eurozone's recovery at risk because of the weak economic numbers of France and Germany at year-end. At a meeting of the ECB Governing Council in December 2014, the ECB President Mario Draghi indicated that much more would be needed to accelerate the economy (ECB4 2014).

However, the financial crisis strengthened the intergovernmental regime that the Lisbon Treaty had formalized in the EMU. Because 'a decision-making system for restructuring the institutional and policy's response to the financial instability' existed when Greece started to experience the crisis. The policy-making process was executed by the European Council and the ECOFIN Council, the Commission was side-lined and the EP was made inactive. The efforts of the Councils were unable to control or stop the crisis even though the decisions were taken through the supranational constitution and comprised of regulations and directives which were approved through the ordinary/co-decision procedure. Treaties that had been set up, were not sufficient to satisfy the financial markets and many of the decisions surfaced too late to respond to the financial pressure and were deemed as illegal by those affected. Thus, the expectation of a steady merge of the intergovernmental union into a supranational union as well as European integration had come to a standstill due to the crisis (Fabbrini 2014, 6 & 7).

The ECB President Mario Draghi announced the creation of a trillion-euro quantitative easing program to increase Eurozone growth, but the bond purchasing proposal was contested by Germany. The German government raised concerns regarding risk sharing and that spendthrift states could take advantage, and it could allow Eurozone member state to ease off on economic reforms. The threat of a decrease, and decline in the euro allowed the currency to rise above the challenge, resulting in Switzerland terminating its attachment to the euro as the Swiss authorities found it unsustainable per a report by (Ray 2011). Analysts suggested that the anticipated policy shift in the ECB brought it about. There has been major institutional activity at the EU and Eurozone level due to the crisis, and with the involvement of the ECB the ensuing institutions provided a way out at the peak of the crisis. European integration has made significant progress as these institutions speedily adopted and implemented the necessary mechanisms, and contemplate to continue to deliver an improved structure for the prevention and control of future crises (Ioannou, Leblond and Niemann 2015, 164).

In response to the Eurozone crisis the EU was seeking transformation and ways to reform internal and external governance, as the intergovernmental EU was unable to assure that decision-making processes would be operational. There were expectations that the global financial crisis would 'edge Europe towards further supranationalism', but had not yet been realised. The Fiscal Compact and the ESM Treaty are the two intergovernmental treaties which resulted from the crisis and had authorized the Commission to a degree in one case and not in the other. Likewise, the plans of the EU for the banking union, where the member states assigned new competences for financial supervision to the ECB, but made sure that the Commission's authority over banking resolution was constrained. The Commission had been deprived of ambition since Maastricht and was seeking to cultivate a closer working relationship with the Eurogroup –the Eurozone finance ministers who conduct informal meetings. An exchange of views on how national economic policies could be modified to meet shared policy challenges is an important function of the Eurogroup, and the Commission has the capability to render support to many forms of decision-making through embracing the Lisbon Strategy (Bickerton, Hodson and Puetter 2015, 704 & 713).

Consequently, the crisis prompted the EU to implement several governance reforms and put together a series of institutional mechanisms to help resolve the crisis and prevent others in the future. Many of these mechanisms came before the 'Four Presidents' Report was published. As such, they form part of the building blocks identified in the report on which future steps would be built (Ioannou, Leblond and Niemann 2015, 157). An example is the ESM, which enabled the release of thirteen billion euros to Greece to assist the Greek government in meeting its debt obligations. The decision's intention was apparent as it was to make sure that Greece paid its debts and in addition reactivate the financial sector of Greece for the country to regain a healthy economy.

European Integration and the Future of Europe

Throughout the global financial crisis the EU contributed towards the financial system through stability mechanism programs to settle financial resource shortfalls (Yurtsevera 2011, 692). Not addressing structural matters in the EU monetary system was one of the criticisms regarding the measures taken in response to the crisis according to Popescu (2012, 93) who suggested that the processes were delay tactics to enable the adoption of fundamental changes in governance by the EU leaders. The Eurozone crisis is a manifestation of the difficulties encountered when trying to attain a balance between economic integration, nation-state interests, and the politics of democracy as stated by Crum (2013, 614). Although intergovernmentalism is veiwed as being able to combine through pooling national sovereignties in intergovernmental institutions with deepening the integration process, what emerged from the euro crisis was integrated national states intruding in the economic policies of member states, which is unique in federal political systems.

The EU continues to muddle through, as it is currently doing without any major treaty changes or decision making reforms. Integration and common policies are still being pursued, but under difficult conditions. As suggested by many and reported by (Archick 2017, 18), that the crisis had brought to the fore the realisation that there exists an established two-speed EU with integrated groups of core and periphery countries. These nation states can decide in which EU policies they want to participate, for example the Eurozone membership or Schengen just to name a few.

CHAPTER 5

Conclusion

This research sought to explain and illustrate the impact the economic crisis had on European integration, whilst allowing for the evaluation of the strength of these two theories, supranationalism and intergovernmenalism during the crisis. Maastricht and the succeeding Lisbon Treaty afforded the EU with a dual method of decision-making, one supranational and the other intergovernmental. Intergovernmentalism was ‘assisted to a grow’ during the crisis period, at the cost of the community method but the crisis forced the EU institutions to undertake rapid action against it, which revealed the limitations of the decision-making structure and the complications in supporting and applying reliable policies. This led to member state regimes and EU institutions generating major reforms which did not only take on the traditional form of EU law as directives and regulations, but also the structure of legal instruments such as international treaties, for example the ESM and Fiscal Compact (Mazzetti 2014,1).

The crisis challenged the institutional system of the EU which sets out an agenda every ten years to be completed within a decade. With the economy being affected by the crisis, the EU 2020 strategy had ascertained that economic governance should be the major goal due to the state of the economy. In her writings Lazarou (2011) indicated that the crisis has shown that only through political unity will economic governance be achieved. This questioned the policy-making capabilities of the intergovernmental EU as the introduction of the new rules and procedures highlighted the concern regarding economic governance for the future of Europe. Revealing the incomplete process of integration, the response to the crisis has altered the Constitutional balance on which the EU's stability was hinged. Fabbrini (2013,1) stated that the economic failure of Greece led to the reassessment of the EU intergovernmental arrangement which had been formed during the past two decades. This arrangement was based on a centralised monetary policy, the ECB and decentralised financial, fiscal and budgetary policies, the member states.

The euro was to represent the progress towards the political unification of Europe, but the monetary union has instead divided the EU into groups. There are the Eurozone opt-out member states, such as the UK and Denmark - de jure, recognised by official law and Sweden de facto, holding a specified position in fact, even if not legally authorised, as well as the EU member states who are waiting to be admitted to the Eurozone (Majone 2012, 11). The crisis has made a strong impact on the EU institutional system and it affects the lives of many EU citizens through the Fiscal Compact, because it stipulates rules that bind budget discipline at national level. The two treaties, the Fiscal Impact and ESM, arose from challenging issues such as the unfinished integration process as well as the limitations of the EU institutional system. The financial crisis brought these to the fore in Europe due to the political and economic integration process still being incomplete. There are limited provisions on the coordination and convergence of the economic policies of the member states and governance in the Eurozone covered in the fiscal compact. Hence, as Baratta (2012, 31) suggested, the need for mature governance of the Eurozone would increase democratic responsibility, and that would be the challenge for stages of economic integration in the future.

In an ongoing recession, many states in the Eurozone will not be able to politically survive the continued open-ended fiscal austerity. It was thought that Europe's response to the crisis would entail the creation of euro bonds, a banking union, a fiscal union and new political institutions guaranteeing democratic legitamacy. The Eurozone would then have a finance ministry and the necessary instruments to determine fiscal and financial policy that would make the Eurozone resemble a formal state. This never materialised, but European leaders were pressing for deeper integration in the area of a banking union. This raised concerns and was deemed inadequate as it does not deal with the existing debt, and holds responsibilty to resolve failed banks at the national level (Wright 2013, 9).

The evaluation of possible advantages through purchasing long-term Capital securities, and the degree to which it impacts on EU integration's longstanding structural solutions, are vague. The consequences thereof is that EU politicians are being driven by national politics not to yield to calls for converging fiscal union for Eurozone member states, or the issuing of euro bonds backed by the credit of the Eurozone as a fiscal union. Little thought has been given to the manner in which the discord had altered the integration process. The Commission had been directing its energy at projects involving some new assigning of powers to the supranational level. This supported many of the new planned forms of decision-making by accepting the Lisbon Strategy and pursuing an operational relationship with the Eurogroup (Hodson 2013, 195).

The EU was regarded as a model for regional integration but currently serves as a warning that will decrease and not encourage integration and cooperation globally. Europe's economic difficulties might also prevent the rest of the world from putting the financial crisis to rest (Wright 2013, 21). Through observation it seems that member states are withdrawing towards limiting and nationalistic intentions of interest. Some member states experienced, and are still experiencing a renewal of extreme right-wing nationalist parties and movements which disagree to further spill-overs. Some even promoted absolute departure from both the Eurozone and the EU due to the policies of the ECB which had been perceived as structures for enforcing austerity. The consequences of the crisis will still be experienced in time to come as it is not over yet but it could be turned around by means of an unprecedented delegation of competences to the Commission, the ECB and the ECJ, as the change will be the reason behind the supranational institutions use of powers (Schmitter 2011, 2 & 7).

EU integration reflections and procedures

Integration had been taking place without supranationalism by means of new institutions designed to focus on the powers and activities of national governments and representatives, which points to more intergovernmentalism. This form of EU integration is a creation within its own time and is not the same distinctive form which was developed in the post-Maastricht period (Bickerton, Hodson and Puetter 2015, 705). This was evident in the institutional framework laid out in the Lisbon Treaty's intergovernmental decision making procedure, because integration advances as a result of voluntary coordination. The intergovernmental EU did not require the participation of the EP (Fabbrini 2014a, 2). It was apparent in the manner in which European leaders, on the level of member states and European institutions excluded the EP in the management of the crisis, as there was no mention of the EP functioning in the treaties and policies adopted to combat the crisis (Shito 2014).

This represented a challenge as integration had been regarded as transfers of competences from national capitals towards supranational EU institutions, but this degree of integration has been wide-spread and unmatched as states remain key to the EU integration account. However, they are not head-strong nationstates of the traditional intergovernmental theory of Hoffman (1995). The formation of permanent decision-making insitutions which represent the coordinated interests of national governments within the institutional system of the EU, is relevant as stated in the article by Shito (2014) on the Euro crisis and the suitability of the European institutional framework. Still, the intergovernmental decision-making system curbed the political decisions of EU member states, through the introduction of automatic legal measures as well as the intergovernmental institutions reliance on the ECJ or the EC or the ECB to maintain and align the contracting parties with the goals of the Lisbon Treaty (Fabbrini 2014a, 5).

The ECB provided inexpensive credit which rescued the banking sectors as well as the economies of the countries affected by the crisis from failure that also profited other Eurozone member states because the downfall would have had a negative impact on the monetary union (Wijffelaars and Loman 2015, 3)**.** The role of the ECB was very important in response to the crisis due to the limited access to external financial sources and fiscal transfers, because external assistance only materialised through market pressure. The promise of the ECB to act as lender of last resort for countries and governments necessitated the return of market access. Due to the lack of supranational economic institutions, the response to the Eurozone crisis was hampered and there was uncertainty as to the amount of support from other Eurozone members, the ECB and the other European institutions towards the crisis countries since the Eurozone initially had no central bank to act as lender of last resort for sovereigns (De Grauwe 2011, 11 & 12).

The origin of the crisis stems from the structures governing Europe's institutions which made the European sovereign debt crisis a European crisis, and the collapse of the euro not only economic but also political**.** Due to specific fields in the economic policies being essential to national sovereignty, the integrity of the EU was challenged by the extraordinary crisis in the Eurozone. Therefore, if all the functions were to be performed by designated institutions it would affect the ability of member states to hold on to this segment of power. The EMU was intended to complement the institutional framework of the EU, but when the crisis deepened and the execution of functions decreased, it became clear that it was no longer suitable (Majone 2014, 1222).

The current economic crisis had been regarded as just another event driving towards the politicization in Europe which appears after crucial events and the onsets of the integration process. This crisis had a high possibility of creating a continued politicization of the EU within national politics throughout the region, making it a vital component in the history of European integration. Therefore, treaty reforms and enlargement rounds are levels of integration that provide important details of disputes which stress the tensions caused by integration (Hutter and Kerscher 2014 , 268). The interruptions in the European integration process cannot be explained by the theories of integration due to the gap that caused member states to lose control of the integration process, which connects with the Neo-functionalist logic of spill-over, that of unexpected outcomes, as either the member states or the institutions of the EU are only receiving one-sided attention which result in failure (oneuropenow 2011).

Clarity surfaced regarding the stability of the Euro and the Eurozone, as national policies within the EMU member states had no country willing to agree to the policies and institutions that would have allowed the Eurozone to implement preventative measures to elude the difficulties it faced since 2010. The EU policymakers and national-level politicians in the EMU member states are still faced with questions regarding the imbalances and domestic political barriers concerning further integration as well as the constancy and expectations of the Euro. This poses a political query and not an economic one, as to whether the national and international hurdles of cooperation can be conquered by the EU policymakers as there are no technical obstacles to hinder the implementation of policy or institutional resolutions for the crisis or the imbalances within the monetary union**.**

When the EU finally reflected on the political outcome of the Eurozone crisis it faced a new reality because the dynamics of the past European project was unable to drive future integration. The idea of a democratic Europe was surrendering to political supremacy by larger states despite waning alliance of countries such as France and Germany, which are regarded as the driving forces of European integration (Barysch 2010,1). Although the Commission attempted to recover and benefit through the submission of a proposal for economic governance and the creation of taxes, to avoid reliance on national government transfers to finance the EU Central budget, the fact remains that whilst Europe is still plagued with the crisis and the taxpayers money is being put at risk by EU governments to save the euro, the national capitals will want to hold on to decision-making power.

New stronger procedures to control the public debt and deficits, as well as curbing the spending of countries had to be introduced as a long-term response to the crisis by the EU. Due to the limited yearly structural deficits of zero-point five percent of the GDP, a new fiscal treaty was signed to strengthen confidence as the crisis revealed that a debt filled economy is unsustainable. Hence, the Commission had to ensure that confines on debts and deficits were employed and that the other European economies were not put at risk by the national budgets. Therefore, greater commitment, shared responsibility, solidarity and new institutions made it possible for Europe to rise out of the economic crisis with an understanding as to the cause of the crisis and the way Europe responded.

Recently, the idea that all EU member states are equal has lost credibility, and for the EU to remain functional some shortcomings have to be addressed. It can function with benevolent governments and strong institutions if the smaller countries are also heard and the EU Commission is not side-lined, because it participates in the construct of the EU policy agenda and influences decisions on secondary legislation (Barysch 2010, 5). However, integovernmentalism proved that depending on the Commission for the supervision and implementation of policies to form credible commitments is a limited solution to the crisis and supranationalism is no better at crisis management or prevention (Schito 2014).

EU Response Impact

The European response to the crisis may not have been what was expected but it had been effective. To reach the minimal level of further integration, Europe needs improvements on limitations, regulation of the banks, increased fiscal coordination and reserves to assist struggling countries within the EU, and not a perfect union (Wright 2013, 11). The individual EU member states will have to participate in strucural reforms if growth is to be restored. The current finance minister of Germany, Wolfgang Schäuble, observed that the fiscal and structural repair work had paid off and laid the foundations for suitable growth in the Eurozone, but it has been noted that the leaders in Europe proclaim European solidarity but act nationalistically (Schäuble 2013).

The world has changed, so have the theories and the understanding of European integration, therefore debates around these theories are important to understand the development and setbacks of the EU. The euro is the valid currency in nineteen EU member states and appears to be the strongest symbol of EU integration, although integration in the EU fluctuates throughout policies and countries (EU Web 2017). It illustrates the extent to which the increased responsibilities, competences and members have advanced alongside differentiation around areas and countries of concern. The intergovernmental decision making procedure consists of continued discussions which emphasises disagreements regarding the policies of the different member states.

As a by-product of enlargement, there are theoretical accounts which anticipates that European integration will continue to be differentiated. This can be seen in areas that the EU has modified, for example the negotiation of monetary policies that affected state sovereignty and powers. These were bound to meet up against the various interests and disapproval as well as resistance from societies and governments intent on maintaining their identity and sovereignty. EU member states can come to an intergovernmental cooperation agreement effortlessly while supranational centralization imposes restrictions on the sovereignty of member states.

The crisis triggered off an increase in Eurozone integration through the many last minute agreements but the solutions did not persist. Differences and instabilities that developed in Eurozone countries, because of inadequate safety measures, surfaced and the advantages linked to the euro received little acknowledgement and shared responsibility. The crisis also made it necessary for new instruments to be developed, especially the financial assistance programmes which were administered by a decision-making process and did not contribute to future collective accountability for policies regarding the Eurozone. This is still apparent and reflects on economic activity and employment while the political response had been problematic due to several factors. The EU is highly differentiated therefore in reality differentiated integration continues to be subject to political disputes because treaty revisions and enlargements were followed by opt-outs in policy areas such as monetary union.

The EU’s way forward

Many resolutions to facilitate EU member states with their various concerns and competences have been visualised, anticipating the advancement for deeper integration at separate speeds. For an extended period-of-time differentiated integration had been a major topic of policy debates as it offered an option to the choice that relates to the existing situation, and full membership or constant integration of the EU. This is not a new phenomenon in the EU because the concept of differentiated integration dates to the implementation of the Treaty of Maastricht (1993). Winzen and Schimmelfennig (2015, 5) in their section, logics of differentiation in European integration, explains based on their data, that the growing diversity and divisiveness of the EU created differentiated integration, which is an institutional response. Differentiated integration also proposes a solution to negotiation deadlock by permitting the EU member states to cooperate at various levels of integration, corresponding with their preferences and competencies, while diversity is reduced through exemptions and exclusions and facilitates agreement on extended integration.

States continue to be the main elements of study in terms of political challenges regarding participation in differentiated integration, its limitation and appropriate procedures, designation and the allocation of competences or cooperation. Therefore, the assessment of national preferences concerning EU integration should concentrate on party level first because ‘the idea that the policies of governments are affected by the policies of the parties that comprise them, is at the heart of the theory of representative democracy’ (Leruth 2015, 819). The member states with deep-seated national identities will attempt to prevent deeper integration by obtaining differentiation in treaty reform, especially those pertaining to the integration of the main state control. Same as with enlargement where the existing EU member states impose differentiation on impoverished new member states due to their fear of financial shortcomings and management capability.

Differentiated Integration

EU member states used differentiated integration when difficulties arose in proceedings to overcome stalled discussions or to settle a new agreement when the ratification of treaties failed as noted by Morillas (2017). ‘Differentiated Integration’ is a generic and natural term used ‘to denote variations in the application of European policies or variations in the level and intensity of participation in European policy regimes’ (Majone 2012, 14). Differentiated integration is regarded as the rule rather than the exception in the EU, however, it has functioned more as a last resort than an organised proposal towards creating an adaptable Europe. It is generally defined as an example of integration attempting to resolve diversity in the EU that acknowledges the various groups of member states practicing a selection of public policies with distinctive procedural and institutional measures (Koenig 2015, 4).

As Cianciara (2014), stated that differentiation is an essential and enduring characteristic of the EU which might become permanent and a mainstream feature of the European integration process, if interdependence continues to increase. The recent crisis has exposed the politicization of integration and the burdens of interdependence are to continue deepening and dividing amongst the Eurozone member states and the remaining member states of the EU, spreading into new integrated adjacent policies, i.e. banking regulation.

The extent, to which differentiated integration surfaced in response to the Eurozone debt crisis, destabilised the long-term consistency and eventually its capability as an important regional organisation, which developed into a crucial issue pertaining to the future of the EU. Despite the current uncertainty as to the development of the EU in the future, there have been suggestions that the established community procedure will slowly phase out, although it was geared to steadily deepen combined policy coordination. The EU has introduced a more flexible approach, in the form of differentiated integration, as it will possibly be leaning towards supporting the intergovernmental coordination of national policies together with the assistance of improved administrative resources at the institutional level of the EU (Schweiger and Magone 2014, 263-64).

There exists the possibility that as a final consequence of the global financial crisis, differentiation will be acknowledged as having the potential to offer a practical future perspective for the EU. Intergovernmentalist view differentiated integration as the solution to the crisis for the demanding standard integration, this means that integrating policies at different stages of centralization creates opportunities, and member states co-operation among each other allow them to expand independently at their required stage of integration. Differentiated integration is being accentuated as the phenomenon because of the continued influence of EU member states either in preference or in opposition to more supranationalism (Schimmelfennig 2015, 177).

The EMU crisis has highlighted the importance of recognising the basic criteria to assess any activity; among them is policy-making by process or results. It has seldom been noted that the decisions and policymaking at EU level were primarily evaluated in terms of process such as institutional developments, volume of legislation, expansion of competences, scale of operations, decision-making procedures, ‘governance’ and many more rather than the definite outcome. For instance, the Commission White Paper on European Governance states that the good governance principles are mostly affected by the method of decision making and not with the subsequent resolution or policy to be implemented (Smith 2012, 275 & Majone 2012, 4).

Through the writings of Schmidt (2012, 1) we learnt that the EU is a multi-speed free border union with a highly differentiated membership in many EU policy communities, for example the Eurozone. The EU’s flexibility will grow to be weightier when the Eurozone proceeds instituitionally. Through the highly differentiated national forms of capitalism as well as the increased inequalities between states in Europe with some subjected to Troika control it is obvious that governance of the EU political economy is not direct. The ‘exit threats’ that the EU is experiencing makes the differention debates extremely politicised (Koenig 2015, 3).

Mentioned in the current phases of the Five Presidents’ Report is the necessity of establishing more centralised structures and supranational policies to create an operational economic union . Characterised by a series of rational actions to maintain the Eurozone, the proposals were not intended to alter the bases of the austerity programs or the presence of a monetary union devoid of qualified economic and fiscal capacity (Juncker, et al. 2012, 6-8). Divisions had advanced across the EU due to the crisis and it revealed that the Lisbon Treaty was the final attempt at engaging the logic of deeper integration because member states were divided when it came to the aspiration of expanding Europe (Morillas 2017). EU member states are found to be pursuing different procedures regarding fiscal consolidation, debt mutualisation and the ultimate structure of the Economic and Monetary Union.

After eight years the Eurozone crisis still shows no sign of ending, which reflects negatively on the EU member states and its institutions. As a principal justification for the existance of the EMU, it was to enable the member states to collectively find solutions to challenges they were unable to address seperately. Alas, due to the economic crisis, member states experienced power struggles which aggravated the impact of the financial distress. The EU institutions increased involvement in the economic policy of member states throughout the crisis, has affected the views of EU nationals regarding their own governments responsibilities for economic results, and have partially transferred the responsibility to the EU. It has been detected among the European community that the trust in institutions as well as democracy has declined during the crisis. Hobolt and De Vries (2016, 504) examined the EU's response to the crisis and reported that disintegration dynamics are apparent in many national landscapes, and is fuelling Euroscepticism which is (the notion that integration weakens the nation state therefore the desire to slow, halt or reverse integration within the EU), populism and political dissatisfaction.

The obvious response of Europe to the disturbing situations should be that discipline and solidarity between the member states will contribute to a safer Eurozone, which has become a challenge for the balance between Germany and the rest of the Eurozone. I agree with Cameron (2010, 3), who reckoned that a single European voice is required in all forms of global economic governance. This is not an easy task, as most of the EU member states only show interest in their own seats or shared constituencies in the international financial institutions. The EU has been unable to reinforce its political institutions with the speed and power required for integration. Hence, European Capitals maintain their national sovereignty and hesitate to surrender power to Brussels whilst Germany and France are not in agreement on the issue of economic governance. New members from Central and Eastern Europe are not very interested in the political integration of Europe, because having lost their national sovereignty during the Soviet reign; their focus now is on national values. Thus, the support from these member states for a political union, even after becoming a member of the Eurozone, is not to be expected (Majone 2012, 10).

There are possibiities of finally achieving an economic union, and economic integration without political integration is possible if politics and economics are separate entities. At present the EU is involved in redistributing many policies and it poses a challenge to keep economics and politics apart. Whether spillovers or political actions bring about political union, that could be a way of reducing crisis risks

(Shito 2014). Consequently, rather than advancing towards political union the EMU has made differentiated integration necessary. The latest and evident challenge for the EU is the British departure known as ‘Brexit’ because the crisis within the EU stems from the political economy of monetary integration, specifically, in the creation of a common currency with disputes as to the control thereof. Britain’s departure from the EU has made it a project which enlarges and shrinks simultaneously; whilst it deepens integration in certain policy areas it also risks disintegration in others. These conflicts have driven the EU into this historical crisis and are linked to powerful national interests and specific special interests of influencial groups with strong financial backing. The only way out for the EU will be the reconciliation of the various national and group interests which will have to be accepted by most of the EU member states and people, unfortunately this resolution has not yet been sighted (Walter 2017, 17).

At present, Europeans are reinforcing the ‘current system of cooperation among sovereign states within a supranational organization’ (Spolaore 2013, 141). Some of the Eurozone problems, but not all had been overcome by the European institutions commitments which achieved more than the system of unilateral policies. There is a risk that after Brexit, EU disintegration will increase and Eurosceptic movements will expand throughout the EU. This development should move EU leaders to recognise the confines of the intergovernmental union, as the present intergovernmental reasoning supports member states preferences to secure their national interests which generate governance challenges in the EU.

The lack of unity in the European project and the revealing deficiencies of differentiated integration have been noted. Therefore, the EU needs to introduce a strategic vision to beat the vacuum, but with elections taking place in the Netherlands, France and Germany during 2017, treaty reform discussions which are deemed a weighty process should commence immediately once the elections are over. This is to establish an adaptable form of differentiated integration as a standard rather than the exception in European integration, as it is ready to reflect on how flexibility and differentiation can be combined in the EU after Brexit.

‘Whatever the outcome of the crisis, the EU will remain without rival the most ambitious and successful example of voluntary international cooperation in world history’ (Moravcsik 2012, 69).

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