Regime and Learning Shifts in Fiscal Policy Coordination under Economic and Monetary Union

Submitted by Jonathan C. Kamkhaji to the University of Exeter as a thesis for the degree of Doctor of Philosophy in Politics In July 2017

I certify that all material in this thesis which is not my own work has been identified and that no material has previously been submitted and approved for the award of a degree by this or any other University.

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Abstract

This thesis analyses twenty years of fiscal policy coordination under Economic and Monetary Union (EMU) – its genesis, implementation courses and changes. It does so by resorting to the construct of learning as an ontological trait of policy making and employing modes of policy learning (intended as distinct causal mechanisms) to operationalise this ontology for the sake of empirical investigation. To this end, a “policy learning measuring instrument” has been constructed allowing for the categorisation of each case study in terms of their prevalent mode of learning and then for the testing of mode-specific expected implications. From a methodological point of view, the thesis relies on theory-testing process tracing and evidentiary eclecticism to verify mode-specific observable implications.

Throughout its history, the supranational coordination of fiscal policies under EMU has been characterised by three distinct regimes. The first one was substantiated by the fiscal criteria of Stage II of EMU (in force during the period of 1994-1998). The prevalent mode of learning under this regime was hierarchical. In terms of outcomes, that mode led to instrumental learning that sustained the process of convergence. The launch of the euro and the adoption of the Stability and Growth Pact (SGP) substantiated a new fiscal policy coordination regime that lasted until 2010. Under the SGP, learning took place as a by-product of bargaining and reinforced strategic and opportunistic implementation. The financial crisis of 2007/2008 led to a de facto abeyance of the SGP and to its overhaul from 2010. Within this episode of policy change two case studies were distilled, one of emergency-driven, intracrisis management and one of long term, institutional change. While the first case was explained through a mechanism of contingent learning, the second one was crucially found to be driven by epistemic forces.

The findings arising out of this study are conversant with different strands of the literature and, in particular, seek to contribute to the political economy of the E(M)U and to integration theories at large.

Acknowledgments

Over the last six years I've heard many colleagues arguing that the PhD is a solitary endeavour. According to my experience, it is not. Indeed, this thesis would not have existed without the crucial contribution (academic and human) of a large number of people. It's impossible for me to acknowledge all of them, hence I will stick to my inner circle of relatives, colleagues and friends.

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Abbreviations

BEPGs: Broad Economic Policy Guidelines

CTBOIS: Close-to-the-balance-or-in-surplus

DG Ecfin: Directorate‑General for Economic and Financial Affairs

ECB: European Central Bank

Ecofin: Economic and Financial Affairs Council

EDP: Excessive Deficit Procedure

EFC: Economic and Financial Committee

EFSF: European Financial Stability Facility

EMI: European Monetary Institute

EMU: Economic and Monetary Union

ESM: European Stability Mechanism

EU: European Union

GDP: gross domestic product

LI: Liberal intergovernmentalism

MTO: Mid-Term Objective

NF: Neo-functionalism

SGP: Stability and Growth Pact

TEU: Treaty on the European Union

Chapter 1. Scope, motivations and research design of the thesis

1.1 Introduction: Economic and Monetary Union and fiscal policy

Economic and Monetary Union (EMU), intended as the set of institutional arrangements governing the differential delegation of powers to the European Union (EU) in a number of economic policy domains, represents a high-stakes experiment in sovereignty pooling that took and is still taking place "in a province of public policy that has traditionally been closely guarded by national politicians" (Hodson 2015, p. 158). Such province, broadly labelled as "the macroeconomy" (*ibid*.), includes vital policy areas (sometimes labelled as core state powers - Genschel and Jachtenfuchs 2015) such as monetary policy, banking and financial supervision, budgetary, macroeconomic and structural policies. EMU is hence not merely a monetary union, but a coherent set of regimes for the supranational coordination of economic policy making. Within EMU's complex and multi-layered architecture, originally designed in the context of the Maastricht Treaty (TEU 1992) and then progressively adjusted and reviewed through new treaties, treaties' amendments and *ad-hoc* regulations, each policy area is subject to different governance arrangements.

In more detail, the decision to integrate national monetary policies by delegating them to a unified actor represents the very core of Maastricht ideational convergence and the *raison d'être* of EMU (McNamara 1998; Dyson and Featherstone 1999). Against this background, for other economic policy areas that are highly interdependent and whose sound functioning is hence also essential for the correct working of the monetary union, different hybrid frameworks of supranational governance have been devised, all aimed at *coordinating* rather than fully *integrating* these domains. Namely, fiscal and budgetary policies have been governed through a series of regimes mixing "hard coordination with sanctions" and soft rules and tools, while macroeconomic and structural policies have been largely managed through "soft coordination by guiding rules" (Collignon 2004, p. 916), at least until recent changes occurred in the area of the monitoring of macroeconomic imbalances. The complex institutional architecture sketched above, whereby supranationally integrated policy areas (i.e. monetary policy) coexist with decentralised (hard and soft) coordination regimes is rightly considered as a “pioneering attempt at policy coordination among national governments” (Hodson 2015, p. 158).

Dismissed by some observers as basically useless - if not damaging (see, for instance, Tabellini 2003) - a rule-based framework for the coordination of domestic fiscal and budgetary policies meant to guarantee their sound conduct and in turn avoid negative spillovers stemming from unilateral action has instead been a pivotal aspect of EMU’s framework and has proved essential (though not always effective) to preserve the sustainability of the common currency and internalise potential and actual externalities (Detken et al. 2004; Morris et al. 2006; Schuknecht et al. 2011). As the recent sovereign debt crisis has plastically and clearly shown, having EMU also greatly increased the level of economic interdependence among its member states (and hence risks of asymmetric imbalances and shocks), the absence or malfunctioning of a credible regime able to discipline the conduct of domestic fiscal policies can indeed threaten the whole EMU and EU construction.

This doctoral thesis consists of a learning-informed, diachronic account of fiscal policy coordination (its regimes, their implementation and reform) under EMU. Starting in 1994 in the context of Stage II of the Maastricht convergence process that would have led to the adoption of the common currency by eleven countries in 2001, the coordination of national fiscal policies via a series of rule-based policy regimes based on multilateral monitoring has represented one of the most complex and contested policy domains of EMU and the whole EU. Moreover, this area of EMU has recently witnessed impressive changes due to the financial and sovereign debt crises. All these considerations make fiscal policy coordination a central theme of investigation for EU integration and EMU scholars and international political economists. Hence, against the background of the delegation of monetary sovereignty implied by EMU, the central object of analysis of this thesis is the functioning and evolution of supranational fiscal policy coordination.

In detail, the aim of this thesis is to investigate and explain the implementation and change of the different regimes of fiscal policy coordination that gradually emerged under Economic and Monetary Union (EMU) through the analytical lens of modes of policy learning. From the empirical/temporal point of view, the study consists of a diachronic account covering roughly twenty years, that is, since the inception of fiscal policy coordination in the context of Stage II of EMU convergence process (1994) until recent events (i.e.: the entrance into force of the so-called Two-Pack Rules in May 2013).

In the course of its relatively young (yet turbulent) history, the coordination of domestic fiscal and budgetary policies under EMU has been regulated through different institutional arrangements. For the sake of distilling a number of distinct and self-contained empirical case studies, the different institutional arrangements that have governed the coordination of decentralised fiscal policies among EMU member states are considered in the remainder of the thesis as full-blown policy regimes. According to the classic definition of Krasner, “regimes are set of implicit or explicit principles, norms, rules, and decision-making procedures around which actors’ expectations converge in a given area of international relations” (Krasner 1982, p. 2).

This parsimonious definition, if applied to the different typologies of coordination that gradually emerged under EMU in the realm of fiscal policy, allows treating each of them as individual (though interconnected) case studies. Conversely, a holistic approach to EMU whereby a single multi-layered policy architecture is the key object of analysis, although useful, would not allow full appreciation of the specific nature of the collective action problems triggered by decentralised fiscal policies, the different features of the regimes gradually devised to address these problems and their shifts over time.[1]

Before delving into these regimes and into the analytical framework employed to investigate them, it is important to better elucidate the rationale for their creation, that is, to answer the following question: Why are policy coordination regimes needed within the integrationist architecture of EMU? To simplify an issue that will be central in the following analysis, there are two main drivers of the establishment of policy coordination regimes within EMU:

1. The unification of monetary policy under a centralised supranational authority that governs a common currency brings about a collective action problem

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[1] In this light, in the context of my investigation, EMU is the background whereupon different regimes of fiscal policy coordination have emerged. Taking the background seriously allows for a better contextualization of these regimes, yet the latter are considered in my investigation as independent case studies equated to international policy regimes defined in more general terms by Krasner and International Relations scholars.

specifically related to the conduct of decentralised domestic economic policies in general and fiscal and budgetary policies in particular. The latter in fact have the potential, when run inconsistently, to generate negative spillovers that jeopardise the sound and neutral conduct of monetary policy.

2. The textbook recipe to internalise such spillovers (that accrue as negative externalities stemming from unilateral action) is centralisation/full integration (Oates 1999). Nonetheless, centralisation is feasible and beneficial only inasmuch that the preferences of the decentralised actors are homogeneous and time-consistent (Tabellini 2003; Collignon 2004). Moreover, beyond the economic principles of optimal task allocation, politics plays a crucial role: in order to pool/cede sovereignty in an extremely delicate domain like that of fiscal policies, ideational and political convergence need to be achieved. Whereas this has been the case for monetary policies (McNamara 1998), the degree of preference convergence in the realm of macroeconomic policies and most of all fiscal and budgetary policies has never been such to allow for full integration (Buti and Van den Noord 2004). As a result, rule-based decentralised coordination emerged as a necessary second best.

The lack of preference convergence to allow for full integration in the presence of a collective action problem arguably explains the emergence of coordination regimes, but we still need to unearth the nature of the collective action problem. What is therefore the nature of the collective action problem prompted by monetary unification? Why does there exist a need for economic policy coordination within EMU in the first place? The answer is straightforward, though articulated.

Under a unified monetary policy (conducted by a delegated independent actor), other economic policy domains that are not subject to centralisation (fiscal and budgetary policies in particular) have the potential to generate negative externalities that can affect other member states and the monetary union as a whole. Negative spillovers stemming from unilateral actions are not automatic, they emerge because different autonomous actors have disjunct and time-inconsistent preferences and hence have a tendency to act inconsistently and unilaterally (Begg et al. 2003). These negative spillovers may accrue, for instance, in the form of heterogeneous budgetary stances (assuming that compliance with rules mandating fiscal restraint is politically costly for national, governments) that generate macroeconomic imbalances, differentiated creditworthiness and asymmetric economic trends – and potentially shocks. A government running high budget deficits needs a much different monetary policy with respect to a government pursuing fiscal consolidation. How should a unified monetary decision maker react to these asymmetries and imbalances?

Moreover, a government may be subject to deficit bias or electoral business cycles and therefore might try to exploit the beneficial effects of monetary unification on interest rates to free ride, for instance running persistent deficits without getting punished by harsher borrowing conditions (Collignon 2004, p. 918). Indeed, to avoid risks of moral hazard, heterogeneous policies, undue pressures on the independence of the European Central Bankk (ECB) and coordination failures, spillovers have to be internalised. Economic theory indicates that the most efficient way to internalise spillovers is full delegation/integration at the central level, granted that actors' preferences are fairly homogenous (*ibid*, p. 233; Oates 1999). Nonetheless, this was far from being the case when EMU was negotiated (Dyson and Featherstone 1999; Verdun 2002; Buti and Van den Noord 2004) and it is fair to argue that the same holds true now. In other words, preferences for fiscal policy remained largely heterogeneous across EMU Member States and this prevented (and prevents) full sovereignty cession at the central level. Once centralisation is ruled out due to preferences' inconsistency, rule-based *hard* coordination is the second best device to internalise potential negative externalities and that was the pathway chosen in the Maastricht treaty and in the Stability and Growth Pact (SGP) by EMU decision makers.

To summarise, the way in which EMU decided to deal with the potential negative externalities stemming from unilaterally conducted economic policies has been based (since 1997/1998 until the 2010 crisis – with only marginal changes) on the following logical chain and set of provisions, in a word, by the following paradigm:

- A common currency and a unified monetary policy bring about diffused benefits to participating member states in the form of increased overall creditworthiness and lower borrowing and transaction costs;

- These benefits (that once the monetary union is formed are not excludable) can be *reaped* if one or more member state decides to free ride, that is, if they do not contribute, through disciplined and homogenous fiscal and macroeconomic positions, to the overall sustainability of the new currency and to the sound, non-inflationary conduct of monetary policy by the new central bank;

- Economic and fiscal policies in particular are hence to be “conducted as a matter of common concern” (TEU, Art. 103, Par. 1) and, although fully falling within national governments’ responsibility, they have to be coordinated and monitored at the supranational level to avoid negative externalities stemming from unilateral action; macroeconomic and most of all fiscal policies are in fact part of a larger economic policy mix whereby their conduct, for sound macroeconomic outcomes to emerge, has to be broadly coordinated with the conduct of monetary policies (in line with the “sound money” paradigm underpinning the mandate of the ECB and the whole EMU construction, see also Chapter 4).

- Recognising the (political) unfeasibility of centralisation, effective policy coordination can be achieved through a hybrid regime including both hard and soft rules and tools that are meant to first prevent and then punish non-compliance within a multilateral surveillance setting;

- To curb moral hazard incentives and foster compliance with a non-profligatory, fiscally-conservative and sustainable conduct of budgetary policies, beyond the system of rules mentioned above (the full-blown policy coordination regime), other disciplinarian provisions can be set out to discourage rules’ defection, namely:

    - The newly established central bank can be barred from acting as lender of last resort and engaging in monetary financing of member states’ debts, even when they risk being insolvent;

    - To further reinforce the prohibition of monetary financing, an explicit no bail out clause can be established in the form of a prohibition of sharing liabilities among governments;

The final coordination mechanism of national fiscal policies is not under the control of regime's actors (i.e. monitoring supranational institutions and monitored Member States), but it is external and decentralised. In a way, it is both an external disciplinarian constraint and the potential key driver of negative spillovers, that is, private market discipline in the form of differentiated risk premia on sovereign bonds – that under perfect information and foresight should be strongly dependent on macroeconomic fundamentals and public finance stances (Schuknecht et al. 2010).

These combined arrangements ensure that EMU's Member States are subject to internal multilateral monitoring on the one hand (based on hard binding provisions and peer pressure) and external market discipline on the other. In particular, the no bail out clauses guarantee that Member States, through EMU membership, are not shielded from but are actually fully exposed to external market discipline that is openly seen as a welcome exogenous incentive to successful coordination and compliance (Van Riet (ed.) 2010).

To sum up and proceed, the regimes that have coordinated fiscal policies within EMU can be broadly characterised as "quasi-hard coordination regimes" whereby sanctions and (supposedly)[2] coercive enforcement mechanisms coexist with softer rules, which are all aimed at incentivising compliance. The preference for rule-based methods of coordination in this field of EMU policy making, instead of more integrative provisions, besides the various motives highlighted above, has also rested on the fact that budgetary policies are perhaps the most delicate levers of power for national political actors – most of all after EMU Member States have pooled monetary sovereignty and assigned the control of exchange and interest rates to a centralised authority.

Against this background, the institutional solutions chosen to guarantee stringent coordination without full delegation has consisted of "using rules when institutional bodies at the supranational level are unattainable due to preference

[2] Throughout the study, the continuous tension existing between rules and political discretion/flexibility underpinned by the hybrid governance arrangements chosen to coordinate decentralised fiscal policies will be a central theme of inquiry. To dramatically simplify this complex hiatus, it does not seem inappropriate to claim that political discretion has largely prevailed over rules, even under the new coordination regime that is supposedly geared toward sanctions' automaticity in cases of non-compliance, but that in the practice is still governed by hard bargaining practices and political discretion in rules' implementation (see Hallerberg et al. 2011; Dunlop and Radaelli 2016; Boggero and Annicchino 2014 on the Italian case).

heterogeneity and contentious advantages of centralisation" (Heipertz and Verdun 2010, p. 203). Noticeably, the presence of such explicit enforcement and sanctioning mechanisms makes these regimes unique within the broad institutional landscape of EU integration (*ibid*., p. 101), further increasing the salience and degree of scholarly interest toward these hybrid governance frameworks.

1.2 Three policy coordination regimes (and four case studies)

So far, at least three distinct fiscal policy coordination regimes have emerged and are analysed in depth in this thesis. The necessity of coordinating national fiscal policies via a set of multilaterally monitored rules and parameters first surfaced during the negotiations for Maastricht and materialized in the so-called fiscal criteria of Stage II of EMU convergence process. The "fiscal side" of EMU convergence process is hence the first coordination regime/case study tackled by my investigation. Back then, the rationale for coordinating budgetary policies strongly drew on the paradigm of "sound money" that underpinned the whole EMU project (see, *inter alia*, McNamara 1998 and Chapter 4 of this study) and on the pervasive policy and economic interdependences that were foreseen to be prompted by monetary unification. In short, in order to facilitate the new central bank in the pursuit of neutral monetary policies meant to support non-inflationary economic growth, the EMU paradigm foresaw a very limited role for domestic fiscal discretion (in line with a *German* economic policy making paradigm that strongly rejects the "typical pitfalls of discretionary fiscal policy" - Buti and Van den Noort 2004, p. 5).

Building upon concepts such as the benefits of "tying governments' hands", the need to "keep the fiscal houses in order" and the advantages of *vincolo esterno* (see Schelkle 2006 for a retrospective review of these concepts), deficit-biased budgetary policies (which were commonplace in a number of EMU candidates) were seen as a serious source of disturbance for the sound conduct of monetary policy and of potential negative externalities and asymmetric shocks within the currency union. With the aim of internalising those potential negative spillovers, but also to test the capacity of EMU candidates to steadily pursue sound economic policies, Maastricht signatories built, under Stage II of the convergence process, a temporary, transitional rule-based coordination regime for fiscal policies (namely, the fiscal criteria of EMU convergence process) and made EMU membership conditional on compliance with the rules of such a policy regime.[3]

Stage II of EMU convergence process, as a result, witnessed one of the largest and fastest exercises in supranational fiscal retrenchment and macroeconomic convergence ever experienced after World War II (Freitag and Sciarini 2001; Fatás and Mihov 2003; Briotti 2004), and in 1997 led to the landmark decision to move to the final Stage of EMU convergence process, i.e. the adoption of the common European currency by eleven Member States starting from January 1999.

With the full integration of monetary policy and the creation of the ECB, the need for fiscal policy coordination proved even more acute as early signs of "consolidation fatigue" started to emerge (Fatás and Mihov 2003) and the threat of exclusion from the *Euro club* could not function anymore as disciplining device (Hughes Hallett and Hougaard Jensen 2012). Moreover, having closed the monetary/currency stabilisation channel, EMU brought fiscal policies to the fore as a key leverage of macroeconomic adjustment/stabilisation and a crucial arena of domestic and supranational political bargaining. In order to guarantee that fiscal policies were really regarded as a matter of common concern also *after* the establishment of the monetary union and conducted in a prudent way so to avoid undue pressures on the new-born ECB, EMU decision makers negotiated and agreed on a new arrangement for the coordination of budgetary policies. This new arrangement crystallised the transitional fiscal provisions of the Maastricht treaty into binding, secondary EU legislation, that is, into the Stability and Growth Pact (SGP). The coordination regime based on the SGP hence represents the second case study analysed in my thesis.

The SGP was reviewed in 2005 due to an acute compliance crisis and survived until 2010, when the effects of the financial and sovereign debt crisis led to a substantial overhaul of the key tenets, overall paradigm and governance

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[3] Such a high-stake experiment in economic integration and sovereignty's pooling was carefully regulated in the transitional provisions of the TEU that set up a conditional process of economic and policy convergence based on Member States' gradually compliance with a set of criteria and benchmarks.

architecture of EMU (Ioannou et al. 2015). The last two cases investigated in my thesis revolve around the hectic process of policy change undergone by EMU as a result of the financial and sovereign debt crises. In particular, I put forth an argument whereby the policy and regime change originally spawned by the Greek quasi-default of 2010 can be understood and analysed as a two-pronged process: in the short term, under the extreme existential pressure of a potential sovereign default, key EMU decision makers found themselves groping in the dark (Jones 2010a; Van Esch and Swinkels 2015) and enacted fast-brushed policy change as an adaptive contingent strategy. Lacking time to engage in reflexive paradigmatic learning and change, these actors made a virtue out of necessity and accidentally *saved* the euro area (Kamkhaji and Radaelli 2016). Once the markets were reassured of the steadfast backing of EMU to its imperilled Member States, a more canonical process of policy change took place whereby the paradigmatic overhaul enacted in 2010 was anchored and locked in through the creation of a full-blown new regime of economic policy coordination (Schwarzer 2012 and 2015). This latter process is the object of my fourth and final case study.

Table 1.1 below details the case studies/regimes tackled in the remainder of the study and their temporal scope.

Table 1.1 Case studies within EMU-based fiscal policy coordination

Case study	Temporal scope
Stage II of EMU convergence process	1994-1998
Stability and Growth Pact	1999-2007
Abeyance, crisis and contingent paradigmatic change	2008-2010
A season of policy change: the construction of a new paradigm	2010-2013

1.3 Research design

1.3a Gaps in the literature, original contribution and motivation

At present, scholars interested in EMU, and in economic and fiscal policy coordination specifically, have provided numerous and fairly different causal accounts of the genesis and design features of the TEU, the SGP and the new coordination framework that arose in response to the sovereign debt crisis. In other words, a great deal of scholarly contributions have addressed the negotiation stages leading to the establishment of EMU and the various policy coordination regimes that have gradually emerged since 1993 under its umbrella (Dyson 1994 and 2000; McNamara 1998; Dyson and Featherstone 1999; Hosli 2000 and 2008; Verdun 2002; Heipertz and Verdun 2004, 2005 and 2010; Sadeh and Verdun 2009; Buti and Carnot 2012; Salines et al. 2012; Kamkhaji and Radaelli 2013; Menz and Smith 2013; Ioannou et al. 2015).

When they have looked at the implementation and sustainability of these regimes, scholars have mainly dealt with the domestic level of analysis tackling primarily two sets of research questions: What kind of impact, if any, has the EMU macroeconomic framework had on the conduct of national fiscal policies and on their outcomes (Artis and Buti 2000; Freitag and Sciarini 2001; Fatás and Mihov 2003 and 2010; Heipertz 2003; De Haan et al. 2004; Annett 2006; Enderlein 2006; Hughes Hallett and Lewis 2008; Fonseca Marinheiro 2008)?; and, are single European member states endowed with sufficient incentives, capacity, appropriate rules and institutions, and compatible economic and political fundamentals to comply with the rule-based regimes devised at the supranational level (Jones et al. 1998; Dyson 2002; Buti and Pench 2004; Buti and van den Noord 2004; Hallerberg 2004; Ardy et al. 2005; Hallerberg et al. 2007 and 2009; Blavoukos and Pagoulatos 2008; Von Hagen 2010)?

In sum, the main strands of the literature have so far investigated the “EMU effect” on the one hand, and the “goodness of fit” on the other hand, but always with a marked focus on the national/domestic level of analysis and presuming opportunistic and strategic compliance with fiscal rules as a baseline. Scholarly efforts focused on and aimed at gauging the independent impact of collective action problems under supranational coordination regimes have in turn been less numerous (Savage 2001; Collignon 2004; Pisani-Ferry 2006; Schelkle 2006; McNamara 2006; Heipertz and Verdun 2005 and 2010).

My study seeks to overcome the limitations, in terms of *foci* and levels of analysis, of the prevailing literature on EMU-based fiscal policy coordination. My investigation broadly contributes to theory-building in this field but from a different perspective: in fact, it explicitly engages with the supranational level of analysis by focusing on the iterated interactions among actors (and collective action thereof) taking place in the process of implementation and change of the various regimes that progressively emerged for fiscal policy coordination. The argument supporting this specific focus is that the creation of disciplinarian, rule-based regimes based both on soft law means - peer pressure and multilateral oversight - and binding legal obligations to coordinate decentralised policies determined the emergence of a collective and supranational interactive dimension that cannot be ignored as an explanatory driver of the regimes' outcomes, stability and change.

Furthermore, the objectively complex nature of the process of implementation of these regimes, involving policy dialogue, regular exchange of data, formal and informal monitoring, peer pressure, potential sanctions, exposure to the public/media sphere (Meyer 2004), etc., arguably prompted a *socialization* of domestic fiscal policies by creating a collective governance system (MArcussen 2000; Heipertz and Verdun 2004; Howarth 2004) where networked actors (Member States, supranational institutions, epistemic communities, domestic actors) both *power and puzzle* (Heclo 1974), or behave strategically and engage in collective problem solving/learning *at the same time*. As a result, a distinct focus on supranational collective action and interactive problem solving as explanatory drivers is seen as both necessary and original.

Further, acknowledging early on that these motives are relevant, but that they coexist with more power-based ones, also serves the purpose of stressing that in seeking for explanations that can account for the heterogeneous and erratic record of the regimes for fiscal policy coordination observed since 1994, I do not want to underestimate the importance of domestic-level and strategic explanations detected in the studies mentioned above. Nevertheless, a policy learning/puzzling perspective focused on the supranational interactive dimension of regime implementation is suited to provide a more comprehensive, parsimonious and externally valid account, while integrating other equally valid explanatory interpretations. This is mainly because tackling the puzzle of fiscal policy coordination through the domestic perspective of almost 20 EMU Member States would unavoidably lead to the idiosyncrasies of the different national political systems, posing concerns about external validity of such explanatory variables.[4] The advantage of my approach with respect to country studies is that it is parsimonious, does not rely only on the specificities of the different national political systems, and hence can complement extant scholarship by shedding light on the collective problem solving dimension of fiscal policy coordination and not only on the strategic one.

As aforementioned, in light of the fact that accounts concentrating on the powering and bargaining dimensions of fiscal policy coordination (while largely underplaying the puzzling one) and on the domestic factors influencing its outcomes are certainly not lacking in the literature, the distinctive analytical focus of my investigation is posed on the supranational interactive and problem solving dimension of fiscal policy coordination regimes. As a result of this focus, I further maintain that employing a learning and puzzling-informed analytical perspective centred on the policy interactions taking place at the supranational level in the context of regimes' implementation and change can improve and enrich our understanding of the dynamics of EMU and coordination regimes and also provide a fresh contribution to the most recent debates on the future of EU integration after the crisis (Ioannou et al. 2015; Jones et al. 2016 – see conclusive chapter).

1.3b Theoretical framework

The theoretical infrastructure to which I resort to implement my distinctive approach and analyse policy making, implementation and change in fiscal policy coordination regimes is that of modes of policy learning (Dunlop and Radaelli 2013 and 2017).

[4] "[…] country studies allow a nuanced look at specific forces and interests that gave birth to EMU and help sustain it, but their weakness is of course their external validity" (Sadeh and Verdun 2009, p. 288).

Although policy learning belongs authoritatively to the European integration theory mosaic (Radaelli and Dunlop 2013; Zito and Schout 2009) and although some authors have gone as far as defining the EU as a learning organization (*ibid.*), policy learning has not yet been properly *exploited* to address cases of “high-politics” of E(M)U policy making (Niemann and Ioannou 2015, p. 197), like fiscal policy coordination. As far as I am aware, no study has focused on the supranational interactive dimension of hard policy coordination regimes by explicitly resorting to the construct of policy learning as an overarching theoretical lens.[5] Learning theories have been customarily applied to lower order policy domains and to governance arrangements typically governed by soft rules and voluntary agreements but not to “high stakes” policy realms. As a result, while little or no attention has been devoted to the puzzling dimension of hard policy coordination, learning has been and still is one of the key motives of the literature on voluntary and soft instruments of coordination like the Open Method of Coordination (Radaelli 2008; Sabel and Zeitlin 2008). This is perhaps due to the conventional idea that compliance to supranational hard rules in quasi-hierarchical settings is strongly driven by the logic of interstate bargaining and distributive conflict (Schelkle 2006).[6]

My analytical approach does not want to underrate this important and strongly empirically corroborated insight, but to complement it with a puzzling-informed ontology. Although they do not belong to an analytical perspective based on policy learning and they do not necessarily focus on EMU, a number of authoritative studies on EU integration (Jupille et al. 2003; Heipertz and Verdun 2005 and 2010; Exadaktylos and Radaelli 2012; Jones et al. 2016) have highlighted and proved that a variety of causal forces and motives systematically overlap in the explanation of EU integration outcomes. This stance not only fully chimes with the idea that EU studies are underpinned by the resort to a mosaic of theoretical positions that are capable of explaining, from different angles, complex aspects and outcomes of EU integration, but also implies that different theoretical frameworks and causal mechanisms are

[5] For two exceptions see Schwarzer (2015) and Dunlop and Radaelli (2016).

[6] In more general terms, i.e. outside the scope of EU studies, the collective puzzling nature of supranational/international coordination regimes, most of all in the realm of hierarchic and quasi-hierarchic settings with disjunct preferences and high potential for distributive conflict, also represents an understudied area in the International Political Economy tradition. This work aims to fill that gap, besides contributing empirically to the scholarships of policy learning and EU political economy.

often complementary, rather than rivals, in explaining EU integration (Schimmelfennig 2014a) and public policy outcomes in general (Cairney and Heikkila 2014).

Much of the meta-theoretical debate on the EU has so far focused on its presumed unicity as a case of supranational integration or *sui generis* international organization. This debate has in turn spawned case-specific puzzles, research designs and *ad-hoc* theory building. Although strongly guarded by several somewhat *partisan* scholars, the grand-theories of EU integration (liberal intergovernmentalism, neo-functionalism and their numerous variations) are *by design* incapable of wholly accounting for a multi-faceted phenomenon like EU integration (Wiener and Diez 2009). While it is often the case that in a specific empirical context one logic of EU integration carries more explanatory weight than the other, arguing for exclusive explanatory leverage is hard, even within in-depth, individual case studies. Even phenomena/outcomes that are confidently established as following or another logic of integration, if seen outside of that theoretical perspective, seem to include traits predicted by the (supposedly) rival explanatory infrastructure. For instance, in the thorough study of EMU genesis conducted by Kathleen McNamara (1998), ideational, functional and intergovernmental explanations ecologically co-exist in providing a convincing account of the different aspects of EMU (although ideational convergence seems to prevail as the causal driver).

With specific regard to fiscal policy coordination, Heipertz and Verdun (2010) employ both mainstream theories of EU integration (intergovernmentalism and neo-functionalism) and two of their most popular variations (domestic politics and ideational approaches) to tackle the politics of the SGP. Their key finding is that all of these four lenses are able to make sense of certain outcomes, while they are silent on others. In practice, the four lenses complement each other and can offer a satisfactory overall explanation only inasmuch they are taken together (p. 196).

To provide another important and fitting example, the institutional overhaul prompted by the financial and sovereign debt crisis has been interpreted, with arguably equally compelling arguments, as a resurrection of the intergovernmental logic of integration (Schimmelfennig 2014a and 2015), the beginning of a new intergorvernmentalism characterised by integration without supranationalism (Bickerton et al. 2015), an example of the Commission's task expansion (Bauer and Becker 2014) and a case of increased integration through spillover effects (Niemann and Ioannou 2015). Banal as it may seem, none of these accounts are factually or empirically wrong, but neither do any carry exclusive explanatory leverage on the same observed outcome. They are simply complementary and at times mutually reinforcing vis-à-vis the explanation of multi-faceted and complex policy outcomes. Jones et al. (2016) have grasped this aspect and coined the "failing forward" argument that dynamically intertwine intergovernmental and functional causation (see the conclusive chapter for a discussion of their argument in relation to the findings of this thesis).

Put more generally, "cases are always too complicated to vindicate a single theory" (Evans 1995, p. 4). This insight does not just call for a resort to multiple theoretical approaches in tackling a case study with explanatory purposes, but crucially it implies the idea that causation processes and mechanisms can also be multiple and mutually reinforcing: "processes are multiple, not singular. In fact, there are multiple *types* of processes that can play a role in generating an outcome." (Waldner 2012, pp. 80-81; original emphasis). As we shall see in the following section, this vision is essential in motivating the use of modes of learning as complementary, non-mutually exclusive causal mechanisms of the outcomes of supranational fiscal policy coordination under EMU.[7]

As a result, I infer that an assortment of analytical lenses informed by theoretical eclecticism can (and should) be employed to unearth the empirical puzzles stemming from EMU and provide a more compelling overall explanatory picture. By resorting to modes of policy learning as theoretical explanatory devices (and to policy learning as a stand-alone ontology of the policy process – see below), I seek to demonstrate two points. First, that learning is also at work and carries causal and explanatory power in more controversial, bargain-driven fields such as that of fiscal policy coordination and its implementation; second,

[7] My own causal mechanisms (modes of policy learning) are admittedly non-exclusive and are thought to belong to a broader set of causal explanations and mechanisms that are complementary and not rivals. This digression about my understanding of causation is also meant to clarify that my theorized causal mechanisms (modes of policy learning) are far from being all-encompassing and all-explanatory. For instance, in my study domestic factors are largely set aside for the sake of theoretical parsimony, but my own explanatory accounts do not rule them out, they simply integrate them from a different analytical angle. See the next section for a more detailed discussion of these points.

that systematically gauging learning-based implications on policy processes and outcomes can enrich the set of causal accounts of EMU and fiscal policy coordination outcomes.[8] To this end, modes of policy learning will be conceptualised and employed as self-contained causal mechanisms – as the following section will elucidate.

1.3c Analytical framework

To sum up the previously presented arguments, the analytical lenses of my investigation are modes of policy learning (Dunlop and Radaelli 2013 and 2017). As the empirical manifestation of one of these modes is considered to be contingent on the nature and features of the regimes whereby they are at work (*ibid*.; Falleti and Lynch 2009; Heikkila and Gerlak 2013), they represent epistemological keys aimed at causally connecting a certain policy outcome (the dependent variable – Y) to the particular features of the policy regime (the independent variable – X) whereby the outcome occurs. From both a theoretical and methodological point of view, I rely on process-tracing scholarship (Beach and Pedersen 2013; Bennett and Checkel 2014) to inform the construction of my analytical framework and to empirically investigate the case studies of EMU regimes of fiscal policy coordination – employing modes of learning as *causal mechanisms* (Falleti and Lynch 2009; Dunlop and Radaelli 2017).

This view on learning is in line with the position of Heikkila and Gerlak (2013, pp. 486-491) who interpret policy learning as a process including different successive and interlocked components/phases that are suited to bring about specific products: "the phases of the process can be understood as the *mechanisms for the products of learning* because it is though these phases that learning products [outcomes] are activated" (*ibid*., p. 487, emphasis added). The resulting empirical strategy for tackling the case studies hence includes two stages. First, I seek to identify what mode of learning (i.e. causal mechanism) is at work within a given regime; and second, I appraise whether and how it

[8] Moreover, learning mechanisms, considered under an actor-centered perspective (see the measuring instrument described below and developed in Chapters 2 and 3) are robust, consistent and explanatory even within more conflictual policy interactions and hard rule-based regimes, whereas learning is normally thought of as invariably cooperative (Dunlop and Radaelli 2017).

causally impacts on the policy processes and outcomes (see the following sub-sections for a more detailed discussion).

Beyond this epistemological position, in light of the pervasiveness and hypothesised explanatory relevance of the interactive and problem-solving dimensions that characterise the regimes for fiscal policy coordination under EMU, my thesis relies on the overarching construct of learning as an ontology of policy making and on modes of policy learning as analytical lenses/epistemological instruments to be applied to the policy process.
The starting point of my theoretical reflection is that the puzzling and learning dimensions inherent to policy interactions are not just potentially suited to inform and influence the process of policy making (and its outcomes) but also represent *one of its ontologies*. This is even truer in the context of empirical domains characterised by actors' dense and iterated policy interactions explicitly devoted to cooperatively solving a collective action problem, such as the case of EMU self-disciplinarian regimes of fiscal policy coordination. To quote Dunlop and Radaelli's approach to the micro-foundations of learning (2017, p. 6), "within learning as framework, Homo *discentis* – the learning, studying and practicing person – is at the heart of all policy-making. No matter what policy environment we operate in, what our role or standpoint, whether we work alone or in a collective, learning is the governing dynamic of our activities. Learning is how people make sense of the world".

Learning in policy making is therefore conceptualised as a collective interactive process (that is, a collective process which takes place through communicative interaction – Stern 1997, p. 70) occurring among policy actors/stakeholders embedded in formal or informal institutional frameworks whereby knowledge is acquired, accumulated, exchanged, and processed, prompting an update or change in the beliefs of the actors involved and possibly a change in their behaviour and policy outcomes thereof. In line with Dunlop and Radaelli (2017) and with Dunlop (2009, pp. 296-297), I also maintain that "…while policy change can be the effect of learning, learning can be present when outcomes appear to remain stable and not alter at all." Hence, according to the ontological perspective, in every domain of policy making and in every policy process and interaction, new knowledge is always created by and diffused among actors.

The creation and exchange of knowledge spawned by policy interactions, in turn, is not an *extrinsic feature* of the policy process but an *immanent* one. Building upon Dunlop, learning takes place systematically, *regardless* of its causal effect on the policy process.[9] According to this vision, the presence of learning processes ceases to be an epistemological puzzle and becomes an overarching, pervasive characteristic of policy making, an ontology that complements the classic power-based understanding of politics and political science as a study of power in society (Lasswell 1950). This reasoning is far from being ground-breaking, as it is broadly drawn from Heclo's (1974) seminal understanding of politics as powering *and* puzzling on society's behalf.

The difference of my approach lies in the fact that it scales up the puzzling (and learning thereof) dimension to a full-blown ontology of politics, which is seen as complementary (rather than alternative) and intertwined with the power dimension.[10] In this way, the classic epistemological question about the *presence* of learning in a given empirical domain (see May 1992 as a prominent example of this epistemological thinking) loses relevance, as *some form* of learning is inherent to every policy process. Given this ontology, the novel epistemological questions about learning do not revolve around its presence, but rather around its *nature* and *causal influence*. In other words, under this novel approach, one shall ask "what mode of learning did take place and to what effect?" Modes of policy learning - defined as the different *ways* in which new knowledge is accumulated, processed, disseminated, and finally used in the policy making process – therefore become epistemologies whose typological classification and effects are subject to empirical testing.

To summarize and proceed, I intend to build upon the ontological insight that all interactive policy processes are characterised by a learning dimension that can be investigated empirically resorting to case-specific modes of learning, which are in turn contingent on actors, institutional conditions and on the (dialectic) interplay of these analytical dimensions – that is, broadly speaking, on the "context" (Falleti and Lynch 2009) within which the different modes manifest

[9] In other words, each policy process involving dense and iterated interactions of actors is characterised by an implicit learning dimension, regardless of its causal/explanatory influence.
[10] See Chapter 2 for an in depth discussion of these points.

themselves. Based on this premise, modes of policy learning are therefore considered as epistemological typologies/categories that allow systematizing agent-based and structural features of a policy process within a single coherent construct[11] that works as a *causal mechanism* - as intended in process-tracing methodologies.[12]

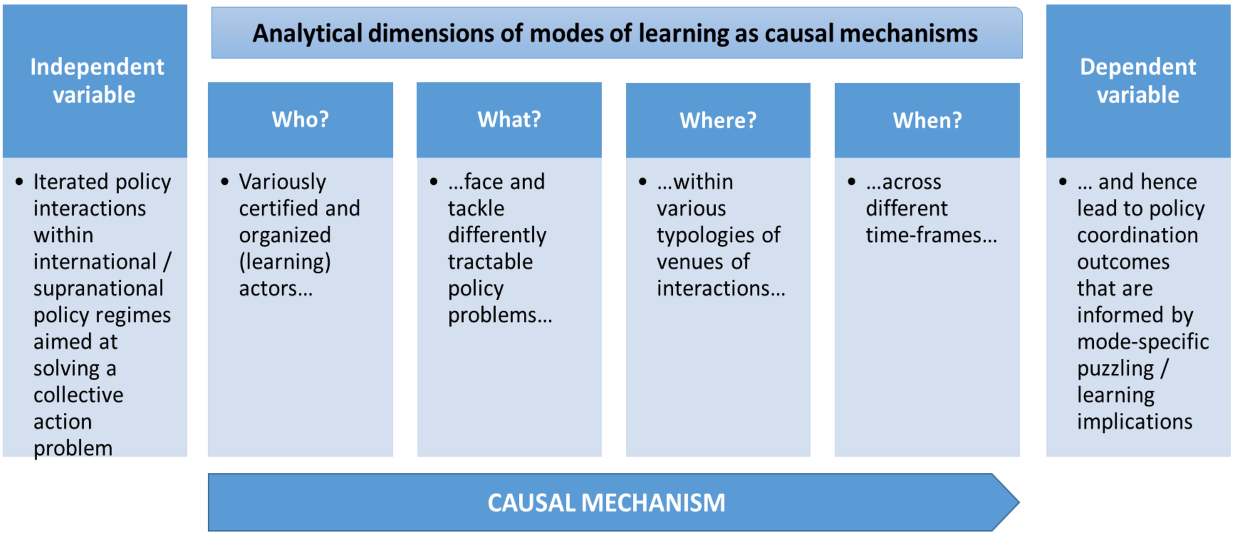
The conceptualisation of modes of policy learning as theoretical causal mechanisms represents the central tenet of my research design and methodological approach toward the investigation of regimes of fiscal policy coordination under EMU. In fact, modes of policy learning are the theoretical causal mechanisms that I hypothesize work as *casual connectors* between the independent variable X (iterated regime-specific policy interactions within self-disciplinarian cooperative arrangements aimed at solving a collective action problem) and the dependent variable Y (outcomes of policy coordination that are informed by puzzling/learning dynamics). This is strongly in line with the prescriptions of process-tracing methodologies, most of all its theory-driven typologies (Beach and Pedersen 2013, pp. 34 and 56). Understanding and employing modes of policy learning as causal mechanisms also implies the idea that each mode of learning is characterised by a series of concatenated analytical components whose empirical variation (in terms of scope conditions) substantiates different case-specific modes of learning.

Causal mechanisms have been defined in many different ways. I resort to the pragmatic and *reductionist* approach of Beach and Pedersen (2013) that is geared toward understanding causal mechanisms as epistemological devices to be employed in the context of case study investigations analysed through process-tracing. In this light, a causal mechanism can be parsimoniously defined as "a complex system, which produces an outcome by the interaction of a number of parts" (Glennan 1996, p. 52) or, similarly, as "a set of interacting parts – an assembly of elements producing an effect not inherent in any one of them" (Hernes 1998, p. 78).

[11] Modes of policy learning stem from regime-specific conditions and impinge on their process of implementation and outcomes (including policy change). In other words, in my view, modes of learning are both contingent on the policy process (that is, on the interaction of actors in their specific institutional framework) and influences it and its outcomes.
[12] "Methodological approaches that use the tools of process tracing […] may also be employed to identify how the phases unfold [and] their interrelationships" (Heikkila and Gerlak 2103, p. 502).

In particular, modes of policy learning are intended as mechanisms whereby variously certified and organized learning actors (part/analytical dimension 1) face and tackle differently tractable policy problems (2) within various typologies of venues of interactions (3) across different time-frames (4) and influence, as a result of this causal sequence, the observed outcomes (5). The figure below provides a graphic visualization of the hypothesized mechanism of causation.

Figure 1.1 Modes of learning as causal mechanisms



My ontological stance *superimposes* that one case-specific mechanism/mode of policy learning is immanently underlying every regime-specific set of policy interactions (regardless of its explanatory influence on outcomes), whereas process-tracing scholarship does not share such an ontological underpinning ("in theory-testing process-tracing, a causal mechanism is hypothesized to be present in a population of cases of a phenomenon" – Beach and Pedersen 2013, p. 11). Nonetheless, my own understanding of modes of policy learning as depicted above fits fairly well with the indication of intending and conceptualising causal mechanisms as composed by interlocked parts/components whose joint presence activates the mechanism and transmits causal force to the outcome. Moreover, as noted by a prominent and recent re-conceptualisation of policy learning, "if interested in zooming in on the ways in which learning processes lead to learning products, scholars may need to undertake process-based research" (Heikkila and Gerlak 2013, p. 502).

From the operational point of view, the empirical variations observed within these analytical components/parts of modes of policy learning inform us about the specific modality of learning at play in a given set of regime-specific policy interactions. The third chapter of this thesis is specifically devoted to review the literature on modes of policy learning in order to systematically unpack these shared analytical components and pin down for each modality its specific scope conditions/expected empirical manifestations (Beach and Pedersen 2013, p. 33) – i.e. the empirical *value* that each of the dimensions of variation needs to take to substantiate one mode or another.

Slightly anticipating and summarizing the analysis of Chapters 2 and 3, drawing on a recent systematization of the policy learning literature based on a meta-analysis of the scholarly contributions on the topic produced up to 2011 (Dunlop and Radaelli 2013), four major modes of learning have been detected:

1) Reflexive social learning;

2) Epistemic learning;

3) Learning via bargaining;

4) Learning in the shadow of hierarchy.

According to Dunlop and Radaelli, these modalities are explanatory devices that can be applied to and tested against different sets of empirical policy interactions; in other words, they are lenses to be applied to the policy process. In Dunlop and Radaelli's systematisation, these modes of learning are organised according to an explanatory typology featuring two dimensions: actors' certification and problem tractability. Capturing the variation of these two dimensions for each mode of learning is useful to reduce complexity and come up with a categorical systematisation of modes of learning – See Table 1.2 below.

Table 1.2 Modes of policy learning

CERTIFICATION OF ACTORS	PROBLEM TRACTABILITY: LOW	PROBLEM TRACTABILITY: HIGH
LOW	Reflexive Learning	Learning through Bargaining
HIGH	Epistemic Learning	Learning in the Shadow of Hierarchy

Source: Dunlop and Radaelli 2013, p. 603

Namely, the two analytical dimensions constituting the explanatory typology answer the questions: “Who learns/who teaches?”[13] and “What is learned?”. Nonetheless, as recognised by the authors, these two components are a parsimonious selection of analytical dimensions of variation of modes of learning. My own framework builds upon Dunlop and Radaelli’s explanatory typology and enlarges it by adding further analytical dimensions (i.e. *components/parts* of modes of learning intended as causal mechanisms – See Table 3 below) drawn from the review of the scholarly contributions focused on individual modes of learning *in action*. Once having derived in this inductive way a set of analytical components that are relevant to qualify different modes of learning, a “policy learning measuring instrument” is constructed with the aim of setting out the specific empirical scope conditions for each different mode of learning to be typified in an empirical setting, fully implementing the following methodological indication: “Th[e] theorized causal mechanism needs to be operationalized, translating theoretical expectations into case-specific predictions of what observable manifestations each of the parts of the mechanism should have if the mechanism is present in the case […] we draw on existing empirical work to make case-specific empirical predictions about

[13] Actors’ certification is clearly dependent on the way actors are hierarchically located within the institutional framework in which the policy interaction takes place. This dimension of agency, as will be clarified in Chapter 3, is more usefully subsumed within the construct of “actor constellation”.

what evidence we should see if the theory is valid" (Beach and Pedersen 2013, p. 14).

Although this approach does not possess the quality of parsimony of 2X2 explanatory typologies, it better lends itself to an in-depth, within-case empirical analysis, typical of and indispensable for a theory-testing process-tracing investigation and its stepwise empirical analysis of the scope conditions/expected empirical manifestations of each part of the hypothesized causal mechanism.[14]

The measuring instrument hence relies on the causal mechanisms depicted in Figure 1.1 and builds upon the following set of analytical dimensions/components of modes of learning (remember that for each mode of learning specific scope conditions, i.e. answers to the following questions, are derived – see Table 3.3 – constituting the measuring instrument).

Table 1.3 Analytical dimensions of variation of the "Policy Learning Measuring Instrument"

1. Variously certified and organized learning actors…   Who learns? And who teaches? Who are the learning actors, which is their certification and role in the learning process? How is the actor constellation shaped? What is the prevalent mode of interaction among actors?   2… tackle differently tractable policy problems…   What is learned? What is the tractability of the problems faced in the policy interaction? What is the aim of learning? And, what is the content?[15]

[14] The overall objective of my theory-building effort and one of the key theoretical contributions that my research seeks to accomplish is to come up with a systematic template (the "policy learning measuring instrument") setting forth key analytical components and mode-specific scope conditions related to different modes of policy learning. From the operational point of view, the measuring instrument allows the empirical cases to be qualified, but the scope of its application is potentially larger. The systematization of scope conditions for modes of policy learning (both structural and agent-based) in a single framework results in fact in a tool meant to address empirical analysis. Hopefully such a tool could also inform future research in the field, somehow easing the difficulties posed by the measurement of learning.

[15] This latter category can be extremely varied, spanning from new ideational repertoires and paradigms to technical knowledge, instrumental competences, increased strategic sophistication, etc.

3… within various typologies of venues of interactions…

Where does learning take place? What is the venue and mode of interaction among actors? Is it formal (hierarchically organized) or informal (horizontal and deliberative)?

4...across different time-frames…

When does learning take place? Are the interactions one-shot or iterated? How frequent and formalized are the iterations of the interactions? How much time is given to the actors to engage in the learning process?

5…and influence, as a result of this causal sequence, the observed outcomes.

What are the observable empirical implications of different modes of learning on the policy process and outcomes?

The last analytical component of the “policy learning measuring instrument” directly hinges on the causal influence of different modes of learning on the policy outcomes. In fact, each mode of learning, besides common variable analytical components/parts, is also characterised by a set of mode-specific expected observable implications on the policy outcomes. These observable implications, like the mode-specific scope conditions of the above presented analytical dimensions, are also inductively derived from the review of the literature and serve the essential purpose of working as mode-specific hypotheses that are to be tested (again in terms of presence/absence) in the empirical analysis in order to verify the actual explanatory/causal influence of modes of learning on policy outcomes. In other words, the final step of my theorization involves drawing again on the literature to infer mode-specific empirical implications for each of the four typologies of learning, so to test them when analysing the case studies: “the empirical analysis proceeds stepwise, testing [at the outset] whether evidence indicates that each part of the mechanism was present [and then] whether the expected case-specific impactions of its existence are present in a case” (Beach and Pedersen 2013, pp. 14-15). The final part of each case study analysis will be hence devoted to evaluating the *goodness of fit* between the theoretical expectations and observed outcomes: “…the deductive theory-testing side of process tracing examines the observable implications of hypothesized causal mechanisms within a case to test whether a theory on these mechanisms explains the case” (Bennett and Checkel 2014, pp. 7-8).

Before moving to operational issues, and in the light of the arguments put forth in the last two sub-sections, it is worth briefly summarizing the set of original contributions that this thesis seeks to achieve. They are mainly six. The first three are at the theoretical level, while the second three are at the empirical one.

First is the conceptual shift that envisions learning as an immanent trait of policy making alongside (and not in opposition to) classical power-based ontologies. Second is, building upon such a conceptual shift, the change in the epistemological posture that requires not (only) to verify empirically the presence of learning, but to qualify its mode/typology. Third is the construction of a systematic measuring instrument that interprets different modes of learning as distinct causal mechanisms and that allows the singling out of: the analytical dimensions of variation of modes of policy learning, their mode-specific scope conditions and a set of expected empirical implications on policy outcomes linked to different modes of learning.

From the empirical point of view, the key contributions are the following. First, the focus on the interactive and learning dimensions of EMU-based fiscal policy coordination allows for new empirical findings that complement and enrich existing scholarship. Second my learning-informed explanations depart from two key misconceptions that affect the current debate on the effects of policy learning: the one that posits that the occurrence of learning implications is systematically connected to policy change and the one that interprets learning-informed outcomes as unequivocally functional to policy making. With regard to this latter point, one of the key findings and arguments of this thesis is that the effects of learning, most of all when they manifest themselves as a by-product of hierarchical or strategic policy interactions, have the potential to be dysfunctional and to strengthen negative dynamics that can potentially lead to policy failure. As we shall see in Chapter 5, this perverse effect of learning has arguably occurred in the context of the implementation of the SGP. Third, the empirical findings about the influence of learning in EU and EMU policy making have the potential to open a fruitful conversation with mainstream integration theories and, also in light of the agnostic take on the functionality of learning causal effects and on the openness to multiple causation, to appraise how different modes of learning intervene in strengthening or weakening one or another logic of integration and their outcomes.

1.3d Methodology, empirical sources and logic of inference

From the operational point of view, each empirical case study is analysed through a two-pronged theory-testing process-tracing methodology. In the first step, the case-specific scope conditions of each analytical component of modes of policy learning are traced in order to adjudicate the case/regime to a given mode of learning. This operation is stepwise[16] and practically based upon the inductive detection of the observable implications derived in the "policy learning measuring instrument" for each analytical component within each mode of learning. The second step involves verifying whether the expected implications on the policy outcome relative to the detected, case-specific mode of learning have been borne out empirically, so to evaluate the influence of the causal mechanism on the policy outcomes. Importantly, I draw on the literature review to *ex-ante* assign a number of expected empirical manifestations to each causal mechanism/mode of learning, thereby limiting the risks of confirmation bias and storytelling typically related to theory-testing process-tracing (Schimmelfennig 2014b).

Drawing again on process-tracing scholarship and best practice, the selection of empirical sources for the sake of theory-testing needs to be theory-driven. I therefore adhere to evidentiary and sources' eclecticism to verify the manifestations of mode-specific expected implications - both in terms of scope conditions of each component of the causal mechanisms and of the theoretical implications of modes of learning on policy outcomes. This is because "the evidence necessary to test whether the different parts [of a mechanism] are present can be very different, making evidence for the parts noncomparable with each other" (Beach and Pedersen 2013, p. 14). As a result, "different types of evidence are gathered, depending on what is best suited to enable us to update our confidence in the presence/absence of a mechanism" (*ibid.*, p. 33).

[16] "Process-tracing case studies should […] usually be presented as a stepwise test of each part of the causal mechanism" (Beach and Pedersen 2013, p. 5). "The researcher looks for a series of theoretically predicted intermediate steps" (Checkel 2008, p. 363).

In particular, since the mode-specific observable implications stemming from the four modes of learning causally impinge on different aspects of the observed policy regimes, the thesis employs a mix of functional empirical sources to come up with a rigorous testing of each causal mechanisms' implications. For instance, the first analysed regime (Stage II of EMU) is characterised as a case of learning "in the shadow of hierarchy". The main implications of the highly regulated and formal policy interactions typical of hierarchic learning relate to the emergence of instrumental learning, that is, to the compliance with regime's rules and thereby to outcomes/implications such as "learning how to comply" to new targets and procedures. Therefore, in order to prove the presence of the key implications of hierarchic learning, the most appropriate empirical sources are the official acts and documents produced by the actors in the implementation of the coordination regime leading to monetary unification. The SGP case study, on the other hand, is characterised as a case of "learning via bargaining" and, given the highly strategic nature of the policy interactions inherent to this specific modality, the empirical testing of the expected empirical manifestations takes the form of and relies on sources suited to come up with a narrative form of validation, which is customary for bargaining arenas (in line with analytic narrative scholarship – Bates et al. 1998; Levi 2004). The measures adopted in the period 2010-2013 to reform the regime for fiscal policy coordination in response to the sovereign debt crisis are characterised as an instance of "epistemic learning", therefore to validate the expected expertocratic implications of that mode of learning I look at the scientific production of EU actors (namely, the Commission and the ECB) to evaluate whether and how the epistemic lessons produced internally influenced the path taken by the reform.[17]

The third case study, tackled in Chapter 7 and revolving around the intracrisis emergency measures taken in 2010 to rescue Greece and the Eurozone, departs from process-tracing methodologies. This is because case-specific, empirical circumstances do not allow us to fully posit the subsistence of condition X, that is, the presence of "iterated regime-specific policy interactions within self-disciplinarian cooperative arrangements aimed at solving a collective

[17] In all the case studies, I rely heavily on official primary sources in the form of publications of EU actors. Official documentary sources abound in the EU, making them a natural choice. Moreover, as the first two surveyed regimes date back several years, interviews could be ineffective.

action problem". As we shall see, the nature of the interactions taking place in the context of the abrupt regime and paradigm shift prompted by the existential risk of a sovereign default within EMU, and most of all of the traits of acute uncertainty and problem *intractability* generated by the explosion of a long-shadow crisis tackled necessarily through intracrisis management, do not provide for the activation of conventional policy learning mechanisms (Kamkhaji and Radaelli 2016). To address this case study an innovative mechanism of learning is conceptualised ("contingent learning"), theoretically developed and tested through a plausibility probe (more on case-specific theorization and methodology in Chapter 7).

When it comes to the logic of inference related to the use of different types of evidence in the testing and validation of expected observable manifestations, I rely on so-called *prima facie* evidence to evaluate the goodness of fit between theorized and observed implications. I rely on this arguably *loose* confirmatory strategy for three reasons. First, it is typical of policy learning scholarship (see the seminal contribution of May 1992, largely followed by subsequent scholarship).[18]

The second reason is that the resort to supposedly decisive inferential tools (e.g. doubly-decisive or smoking gun tests) works well for those designs that posit exclusive causal leverage for their mechanisms (whose empirical testing is also geared toward ruling out alternative explanations) but this is not the case with either of my own mechanisms (that are designed and conceptualised to be non-exclusive and complementary) or of the theory-testing process-tracing understanding of causality: "The belief that theory-centric process-tracing can be used to test two competing theories against each other is widespread but erroneous in most situations. In the complex social world, most outcomes are the product of multiple mechanisms acting at the same time. The inference that can be made with theory-testing process-tracing are therefore restricted to claiming that a mechanism was present in the case and that ii functioned as expected. No claims can be made about whether the mechanism was the only factor the resulted in outcome Y occurring – in other words, we cannot claim sufficiency based on a single theory test" (Beach and Pedersen, p. 89).

[18] See also Chapters 2 and 3 for a discussion of the use of the empirical methodology and its rationale.

Moreover, I abide by a view that causal mechanisms, most of all macro-level ones like modes of policy learning emerging in collective action regimes, are largely unobservable: “We theorize about mechanisms. Such mechanisms are ultimately unobservable, but our hypotheses about them generate observable and testable implications” (Schimmelfennig 2014b).

Third, in line with Dunlop and Radaelli (2017), a certain degree of under-theorization has to be acknowledged with regard to policy learning, most of all in terms of its causal effects on policy change and related observable implications. Theories of policy learning have “provided testable propositions about how to identify one type of learning or another, or sequences of learning. Here, however, the literature has just begun to operationalize concepts, hence measurement is a challenge. When we turn to learning as independent variable, we have *conjectures* about when we should expect or not expect policy change, and its causal drivers under different modes of learning.” Employing strong logics of inference like Bayesian analysis to weakly validated implications and conjectures would be inappropriate. Indeed, the empirical measurement of learning, or better put, the distinction of the causal influence of mechanisms/modes of learning on the policy outcomes is widely considered as an Achilles’ heel of policy learning studies. Although I try to overcome this weakness by resorting to rigorously derived *ex-ante* theoretical observable implications, the latter are somewhat too general (and too much subject to multiple explanations) to lend themselves to decisive inferential tests.

A few further considerations about modes of learning as causal mechanisms are in order. First, although a number of scholars insist on limiting the scope of causal mechanisms at the micro, individual level of analysis, a more pragmatic (and realistic) approach allows for mechanisms that are thought to operate at different levels of analysis (Beach and Pedersen 2013, pp. 40-43). In particular, modes of policy learning, as intended in my analysis, work distinctively at the macro/system-level (Heikkila and and Gerlak 2013). This is because the outcomes of the collective action regimes I investigate are “collaboratively created by individuals yet are not reducible to individual action” (Sawyer 2004, p. 266).

Second, as already hinted above, my interpretation of modes of learning departs from the commonplace view according to which the effects of learning on policy outcomes are invariably positive and functional. Although May's political learning (1992; see also Gilardi and Radaelli 2010) is an established conceptual category and includes instances of actors learning and refining opportunistic and self-interested practices, more recent learning scholarship seems to be affected by a bias that tends to interpret the effects and outcomes of learning as solely contributing to better policy making. I reject this normative stance and instead posit that actors can also learn in ways that are dysfunctional and this can ultimately lead to policy failure. As Chapter 5 will show in detail, the implementing parties of the SGP learned over time how to twist the policy regime toward their political interests and goals, thereby making non-compliance a systematic trait of fiscal policy coordination under the Pact.[19]

Third, and most importantly, as extensively highlighted above, I embrace a vision of policy outcomes as fruit of potentially multiple, non-rival causal mechanisms. This vision has important practical implications. In fact, the choice of a methodology informed by theory-testing process-tracing also draws on this understanding of non-exclusive causation processes. This is because in theory-centric studies informed by process-tracing methodologies "causal mechanisms […] are not theorized as sufficient causes of [the outcome] by themselves" (Beach and Pedersen 2013, p.12), or, to put it differently, "analysis seeks to determine whether a single mechanism such as learning or policy drift is present in a particular case, but given that most social outcomes are the product of multiple mechanisms, no claims of sufficiency are made" (*ibid*., p. 34).

1.3e Research questions

The measuring instrument presented above represents the key building bloc of my analytical framework and allows me to achieve two key empirical goals. First, it allows me to *map* the case studies onto one of the modes of learning through the systematic analysis of its scope conditions across the four analytical

[19] In other words, the implications/expected empirical manifestations of the four modes of policy learning (and of hierarchical and bargaining-driven modalities in particular) are not necessarily oriented toward improved compliance or *improved* coordination outcomes but are also suited to reinforce non-cooperative and opportunistic dynamics.

dimensions tackled in the “policy learning measuring instrument”.
The second goal to be achieved through the instrument is to empirically test the explanatory leverage of the case-specific mode of learning through the verification of the occurrence of its expected observable implications/empirical manifestations.

In light of the theoretical and analytical infrastructures I decided to employ and sketched above and in order to account for the understudied puzzling/learning dimension of fiscal policy coordination under EMU, the research questions addressed in each of the case studies of this thesis are the following:

1) What are the scope conditions of each analytical component of modes policy learning specific to the different fiscal policy coordination regimes that emerged historically under EMU?

2) In light of the detected case-specific scope conditions for policy learning, which is the prevalent mode of learning observed in each different regime?

3) How do case-specific modes of learning impact on the policy process and outcomes of the regimes?

With a view to systematically tackle these questions through the research design and analytical framework detailed above, let us now move on to some conclusive remarks about this introductory chapter.

1.4 Conclusions and overview of the thesis

This introductory chapter has elaborated on the nature and empirical scope of the thesis, that is, a diachronic account of more than 20 years of EMU-based fiscal policy coordination subdivided in three policy regimes and four case studies. It then tackled research design issues starting from detecting a gap in the literature and thereby motivating a distinctive analytical focus centered on the interactive supranational process of policy coordination and its puzzling/learning dimension. A brief discussion has also been devoted to the other original contributions this study tries to achieve. Stemming from the proposed new *foci* of analysis*,* the chapter then presented the theoretical framework that will be employed to investigate the empirical cases, a framework based upon different modes of policy learning intended as non-exclusive causal mechanisms. To qualify case-specific modes of learning a “policy learning measuring instrument” has been introduced and it has been proposed to employ it empirically in the context of a two-staged process-tracing methodology. The final sections of the chapter have been devoted to justifying the eclectic choice of empirical sources and the logic of inference underpinning the case studies and to present the research questions.

The remainder of the thesis can be summarized as follows. Chapter 2 is devoted to navigating the policy learning literature and to further motivate and explain the ontological and epistemological stances sketched in this chapter.

Chapter 3, drawing on recent systematizations on modes of policy learning, aims to derive a set of analytical dimensions/constitutive elements common to different modes of learning in policy making. Thenceforth, through the review of the scholarly contributions (at times implicitly) devoted to and focused on these different modes of learning, the chapter qualifies the previously derived analytical dimensions in order to come up with a set of scope conditions for each mode of learning to be prevalent in a given set of policy interactions. Policy learning analytical components and mode-specific scope conditions (along with mode-specific expected implications on policy outcomes) are meant to constitute the bulk of the “policy learning measuring instrument” presented in this chapter and to be employed to categorize the empirical cases.

As already hinted, both literature review chapters are theory-building oriented, that is, geared toward the construction of an inductively derived “policy learning measuring instrument” that will work as a key epistemological device to empirically investigate my case studies.

Chapters 4 to 8 are devoted to addressing the four case studies (see Table 1.1). In greater detail, Chapter 4 is dedicated to the investigation of the coordination regime stemming from the provisions on fiscal policy included in Stage II of EMU convergence process (1994-1998). The empirical analysis (based upon the “policy learning measuring instrument”) indicates that the implementation of the fiscal criteria of the TEU substantiated a form of learning in the shadow of hierarchy. The key implications of this form of learning are verified (and confirmed) in the context of an empirical analysis of the process of implantation that relies on primary official sources of the convergence path undertaken by EMU candidates toward the adoption of the common currency. It finds that the key implication of hierarchic learning (instrumental learning) has supported the process of fiscal retrenchment that made the launch of the Euro viable.

Chapter 5 focuses on the erratic implementation course of the SGP (1999-2008) and qualifies the regime stemming from the Pact, again by resorting to the “policy learning measuring instrument”, as characterised by a mode of learning *via bargaining*. Given the eminently strategic nature of the regime, the key implications of learning via bargaining are verified through a narrative validation that indicates how a dysfunctional process of learning increased the strategic sophistication of the actors involved in the Pact’s implementation, contributing thereof to its negative record, failure and reform.

Chapter 6 serves the purpose of introducing the global financial and sovereign debt crises as key intervening variables to the framework of fiscal policy coordination under EMU. Furthermore, building upon an original interpretation of the crisis, the chapter proposes to investigate the change undergone by the fiscal policy coordination regime as a result of the Greek quasi-default of 2010 as a two-pronged process, one of short-term intracrisis management and one of long-term reform.

Chapter 7 investigates the first of these two reform processes, that is, the short-term intracrisis policy change experienced by EMU in 2010. Due to the intrinsic contextual features of the case study and their impact on learning processes, the chapter puts forth an *ad-hoc* mechanism of learning under crisis conditions called “contingent learning “ and successfully tests it empirically through a plausibility probe. The key finding of the chapter is that under acute crisis circumstances the conditions for canonical modes of learning to emerge are often not given and that under change-or-die scenarios policy change can take place as an adaptive strategy that precedes a more classical (and time-consuming) process of learning.

Nonetheless, once critical circumstances are somewhat relaxed, classic processes and modes of learning revamp and *anchor* the adaptive strategy accidentally chosen to cushion potential short-term disruptive effects of the crisis. In light of this, Chapter 8 analyses the process of reform (2010-2013) that led to the approval of four key reforms to EMU fiscal framework (namely, the European Semester, Six-Pack Rules, the Treaty on Stability Convergence and Governance and the Two-Pack Rules) through the “policy learning measuring instrument”. The analysis shows that an epistemic mode of learning has been prevalent and validates the mode-specific implications on outcomes of policy change by scrutinising the scientific production of the internal epistemic actors of the EU (namely, the ECB and the Commission). The key finding is that the role of internally produced epistemic lessons has been critical and instrumental in justifying and fostering the emergence of the new austerity paradigm underpinning the conduct of fiscal policies under EMU.

Finally, Chapter 9 concludes by systematizing the key empirical findings, discussing them, spelling out the limitations of this study and proposing future avenues of research. In particular, besides summarizing substantive empirical findings, the chapter tries to put them in the broader context of European integration theories and to reason on the functionality/dysfunctionality of different modes of learning for the sake of policy coordination.

Chapter 2. Navigating the literature: between ontology and epistemology

2.1 Introduction

Over the last decades, learning has been one of the most employed concepts in the social sciences. Almost no academic discipline has been *spared* by the kind but robust offensive of learning-oriented approaches. Political and policy sciences have not differed in embracing, more or less explicitly, learning-oriented perspectives to analysis. As a result, a relatively broad and diversified body of learning-informed literature is currently available (for recent overviews, see: Freeman 2006; Grin and Loeber 2007; Zito and Schout 2009; Heikkila and Gerlak 2013; Dunlop and Radaelli 2013). To better grasp the motivations underlying the interest towards the concept of learning in political science and hence the nature of this wide-ranging scholarship, it is worth elaborating briefly on the genesis of and seminal contributors to this literature. In order to achieve this preliminary clarification, I begin by reasoning on several definitions of policy learning featured in early pivotal contributions and review articles. This will not only illustrate the nature of the concept of policy learning, but will also serve as a much needed contextualization of and introduction to the *theory-building literature review* presented in Section 3 and then conducted in Chapter 3.

As commonly acknowledged, the first conceptualisation of learning as an overarching trait of policy making is by Karl Deutsch (1957 and 1966). In the context of his research on political systems, Deutsch advanced the idea that these systems work similarly to cybernetic (evolutionary) structures. Cybernetic systems are understood as dynamic models suited to produce decisional sequences on the basis of new inputs from the environment and to review such sequences on the basis of exogenous and endogenous feedback information on the prior course of action. Under this perspective, political decision-making organizations are interpreted as being involved in a knowledge-intensive communicative process within themselves and with the external environment. Their policy outcomes are not seen merely as the fruit of static, one-off reactions to inputs from the environment but rather as the result of a dynamic process whereby the information input “includes the results of its own action in the new information by which it modifies its subsequent behavior” (Deutsch

1966, p. 88). Hence, according to this characterisation, a "learning system is in principle equipped to pursue changing goals" (Radaelli and Dunlop 2013, p. 931). Such an approach stood in contrast with those theories of policy making built upon a view of politics as a struggle for power (Lasswell 1936), going as far as *explaining* policy outcomes and change through the communicative and puzzling dimensions of political systems, rather than through the pursuit of own goals and own preference attainment of self-interested actors.

A few years later, drawing on the seminal work of Deutsch, Hugh Heclo coined the famous and successful definition of policy making as "a form of collective puzzlement on society's behalf" (Heclo 1974, p. 305). Within the process of collective puzzlement, Heclo characterises the phenomenon of learning in policy making as something that "can be taken to mean a relatively enduring alteration in behavior that results from experience" (Heclo 1974, p. 306). This early and seminal account, heavily refined and reworked by subsequent scholarship, puts the crucial tenet of the then-emergent policy learning scholarship under the spotlight: the importance of experience to bring about durable policy change within a framework whereby policy making is seen as a knowledge-intensive collective problem solving (puzzlement) exercise – broadly in line with Deutsch's cybernetic approach to political systems.

In a later attempt to provide a clearer definition to the phenomenon of learning within policy making (most of all with respect to the problem of who the learning agents are, a central one in the policy learning literature, as we shall see later on), Peter Hall (1993, p. 278) puts forward the following account: "We can define social learning as a deliberate attempt to adjust the goals or techniques of policy in response to past experience and new information. Learning is indicated when policy changes as the result of such a process". This definition qualifies Heclo's picture by adding three further elements: the attempt to produce experience-based change needs to be deliberate, the change resulting from learning can invest both broad policy objectives as well as policy instrumentation, and the driver of this change is not limited to the accumulation of experience but also involves the processing of new information. Notwithstanding these differences, overall Hall's account strongly chimes with Heclo's early interpretation since it underpins the same causal mechanism: experience/learning-driven policy change. Moreover, Hall further elaborates on the nature of change brought about by experience and new information, arguing that depending on the nature of policy change - whether investing policy tools or broad policy paradigms - learning processes “may take different forms” (i*bid*.).

This latter idea is picked up by another seminal contribution dating back to the nineties - the golden age of policy learning theorizations. In his article “Policy Learning and Failure” (1992), Peter May in fact distinguishes between three typologies of learning building upon the idea that learning processes vary according to what their object is. Like in Hall’s framework, policy makers can learn about policy tools (instrumental policy learning) or more broadly about policy paradigms (social policy learning) but, differently to Hall, that learning can also be *political* in the sense that under this typology learning agents do not learn for the sake of increasing their problem solving capacity but rather for the sake of better attaining their deeply engrained policy goals through increased strategic sophistication and advocacy capacity. Learning hence ceases to be an invariably positive phenomenon and starts to be intertwined with the power-based dimension of policy making.

Yet again, we see how the seminal idea of Heclo gets refined through the expansion of the concept of learning but along with the increased analytical sophistication stemming from the construction of different typologies of learning, we observe in May the same approach to causality of Heclo and Hall that learning is seen as having a causal effect on policy.

The same tenet is featured in the early review article by Colin Bennett and Michael Howlett (1992). Along with the brilliant intuition, seemingly developed independently from May, that the scholars operating within the policy learning framework are not conceptualizing different phenomena but are rather elaborating on different typologies of the same broader phenomenon, they are the most explicit authors in approaching learning as the (causal) source of policy change (i*bid.*, p. 276).

With a leap of about twenty years, we get to the review article by Anthony Zito and Adriaan Schout (2009, p. 1103) in which the following definition is provided: “Learning in policy analysis can be defined as a process of exercising a judgment based on an experience or some other kind of input that leads actors to select a different view of how things happen (‘learning that’) and what courses of action should be taken ('learning how')". Like in earlier works, we see the acknowledgement of variation in the content of learning processes and their inputs and, crucially, a similar outcome: the selection, by those actors involved in learning processes, of a different view, that is, an alteration in their beliefs and behaviours, potentially leading to policy change.

There are three key takeaways of this brief overview (that will be expanded in the following sections). First, increasing and increased experience, knowledge/information accumulation, and eventually learning are pervasive and ubiquitous traits of policy making (most of when the latter is intended as collective problem solving/puzzlement), hence the need to take them seriously when trying to explain policy outcomes. Second, depending on different contextual factors, learning processes can come in different types, allowing room for original concept formation. Third, and most importantly, learning processes may have a causal impact on policy and policy change. Policy learning is hence an attractive construct because it brings within the right hand side of the equation (along with or in opposition to power-based factors) ideas, paradigms, policy objectives and, crucially, their variation according to experience accumulation in the context of problem solving/collective puzzlement (whether endogenously generated or due to external inputs). In other words, the interest toward learning as an explanatory construct can be seen as the operationalization, possibly spawned by the scholarly trend toward more solid behavioural micro foundations of collective action, of the everlasting phenomenon of accumulation of experience faced by individuals, and in particular by groups of individuals, engaged in policy making intended as a form of collective problem-solving.

As a result of its conceptual and epistemological attractiveness, the body of literature dealing with learning in policy making is at the present time mature, vast and varied, including both theoretical and research/empirical contributions (Heclo 1974; Argyris and Schön 1978; Etheredge 1985; Sabatier 1988; Rose 1991; Haas 1992; May 1992; Hall 1993; Radaelli 1995 and 2009; Checkel 2001; Weyland 2005; Sabel and Zeitlin 2008; Meseguer 2009; Gilardi 2010; Radaelli and Dunlop 2013), along with review pieces that try to systematize previous theories and findings in order to produce cumulative knowledge (Bennet and Howlett 1992; Dolowitz and Marsh 1996; Freeman 2006; Grin and Loeber 2007;

Zito and Schout 2009; Gilardi and Radaelli 2012; Dunlop and Radaelli 2013 and 2017; Heikkila and Gerlak 2013). As is often the case, debates, controversies and challenges abound within this relatively young scholarship - see Lodge and James (2003) for a well-known critique of the policy transfer scholarship, a critique that can be extended to account for the limitations and issues, conceptual and practical, of the policy learning literature at large.

The aim of this chapter is not to set out all of the scholarly disagreements and intellectual controversies that have progressively emerged in the literature but rather to propose a novel way of thinking about learning within policy making and thence, thanks to the review of selected contributions, construct a reliable tool for empirical typological analysis.[20] Admittedly, the literature review featured in this chapter is hence not a canonic one where the investigator quite agnostically engages in the effort of classifying various relevant contributions according to different analytical criteria. This kind of endeavor is already featured in excellent review essays, like those of Freeman (2006), Grin and Loeber (2007) and Gilardi and Radaelli (2012). Each of these contributions engages with the review of the literature from different positions and with different purposes. Freeman (2006) looks, in an historical perspective, at the "founding fathers" and main contributors to the development and refinement of the concept; Grin and Loeber (2007) tackle their review by focusing on the constructivist/interpretivist angle; Gilardi and Radaelli (2012) look at how learning has been employed as a mid-range mechanism/process, shedding light on its usage in policy diffusion and transfer studies. Taken together, these contributions provide a very complete overview of the policy learning scholarship.

The present chapter, therefore, restrains from telling a story already repeatedly told in the field, a story of increasing engagement with and use of the concept, but also of definitional elusiveness, weak empirical measurability and debatable explanatory leverage (James and Lodge 2003). What this and the following chapters aim to do instead is to review the literature with a theory-building aim. This is to be achieved firstly through the resort to a novel ontological approach

[20] Please notice that the present literature review and the one featured in the following chapter are limited to the theoretical framework of the dissertation, that is, they engage (with a theory-building purpose) solely with contributions on policy learning. The scrutiny of the literature related to the case studies is instead performed in the introductory sections of each of the empirical chapters (from 4 to 8).

to learning in policy making, and secondly through the creation of an informed tool for empirical analysis, a “policy learning measuring instrument” constructed around different typologies/modes of learning, their analytical components and expected empirical manifestations (in terms of scope conditions and observable implications on policy outcomes – see also Chapters 1 and most of all 3). In short, the present and the following chapters engage in a theory-driven literature review ultimately aimed at deriving a tool for empirical typological analysis.

In the remainder of this chapter I first discuss two outstanding and interrelated issues related to the use of the notion of policy learning: how to conceptualise and empirically “measure” it (Section 2). Then, by dwelling upon the ontological and epistemological levels, I tackle the modelling challenge. In particular, I discuss the four typologies/modes of learning[21] featured in Dunlop and Radaelli’s 2013 systematic review, with a view to expand their theoretical foundations so to derive a comprehensive “policy learning measuring instrument” apt to carry out empirical categorization and analysis (Section 3). Section 4 briefly concludes.

2.2 *What is* policy learning? How can we measure it? Definition and *locus* of policy learning

One of the key puzzles arising out of the specialized literature is that the notion, and hence the definition, of policy learning are conceptually contested (Bennett and Howlett 1992), generating ambiguity regarding its empirical measurability and independent explanatory value (Lodge and James 2003). As a matter of fact, and as shown in the introductory section of this chapter, it is quite difficult to find two different contributions belonging to the policy learning scholarship whereby the latter is defined univocally. This definitional ambiguity is clearly acknowledged in both early review articles on policy learning (see the already quoted Bennett and Howlett 1992) and in subsequent attempts at systematization (Freeman 2006; Dunlop and Radaelli 2013 and 2017).

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[21] Note that the expressions “modes of learning” and “typologies of learning” are utilized interchangeably.

Arguably, the main conceptual problem that makes the notion and definition of learning in policy making contentious is represented by the fact that learning is eminently an individual, micro-level process, whereas the kind of phenomena that inspire political science scholars in general, and public policy scholars in particular, are, generally, collective ones (Zito and Schout 2009; Heikkila and Gerlak 2013). This is termed somewhere as the problem of aggregation (Levy 1994) or the problem of who the learning actors - i.e. the agents and units of analysis of policy learning processes - are (May 1992; Hall 1993; Stern 1997). In other words, can learning as an analytical concept be profitably applied to collective actors and decision making? And, if so, how and where are we to find evidence of the occurrence of learning within groups of individuals or institutions?

To cope with these problems, I argue that if the interest devoted to learning as an explanatory construct of policy making outcomes is to be confined to the individual cognitive processes taking place within the black box of single decision makers' minds, learning would be both of little interest for political scientists (i.e. merely subsumed by individual agency) and hardly measurable. Yet, there exists a number of studies interested in mapping individual political leaders' belief systems (see for recent examples Van Esch 2014 and 2015; Van Esch and Swinkels 2015), as well as studies focused on the micro and meso effects of policy narratives on policy learning (Jones and McBeth 2010). I contend, nonetheless, that the object of analysis of such studies is a paradigmatic/ideational change of key individual decision makers, possibly the fruit of different forms of individual learning and/or use of policy narratives. One can talk in those instances of individual learning influencing politics but not of *policy learning*.

I maintain instead that the kind of phenomena that spur the conceptualisation of the category of "policy learning" (as opposed to "learning" only) are those phenomena of knowledge accumulation, exchange and utilization that arise out of the policy-specific *interactions* among different collective actors involved in the policy making process (see among others: Heclo 1974; Sabatier 1988; Rose 1991; Sanderson 2002). As Heikkila and Gerlak (2013, p. 484, original emphasis) put it, "it is not just how individuals learn in policy processes that is important but also how groups of individuals in *collective* policy contexts learn that is critical for understanding policy issues and solutions and translating that knowledge into policy change".

In other words, the focus of the policy learning scholarship has typically shifted from the individual level common to psychology, educational research and political elite studies, to the collective level of analysis - whether the meso-level, i.e. involving learning actors like civil servants and elected politicians (sometimes termed as agents of "government learning" - Etheredge 1985) or the macro-level, involving political, bureaucratic *and* societal actors at large (sometimes termed as agents of "social learning" - Hall 1993). This suggests that when employing the concept of policy learning, the focus should rest on group learning and collective intelligence.

Once intuitively established that the for the notion of policy learning to be appropriately operationalized collective actors need to be the units of analysis/agents of learning, a further conceptual conundrum summarized by the following question emerges: can these collective actors (groups of individuals, organizations, institutions, etc.) actually learn, or is such a collective form of learning is merely a metaphorical construct which in reality is simply the sum of individual *learnings*? In other words, is learning within (political) organizations a discrete phenomenon which results in a simple aggregation of individual learning processes, or is it a group phenomenon, often mediated by institutions and rules, where actors learn both individually and collectively, with multiplicative, non-incremental effects on the organization's experience and intelligence, and hence resultant behaviours and policy outcomes?

In line with the seminal contribution of Mary Douglas (1986) on institutional *thinking*, and drawing on converging findings about group learning and collective intelligence stemming from educational research (Ashman and Gillies 2003), organizational theory (Hayes and Allinson 1998; Dixon 1999; Lawson and Lorenz 1999; Akgün et al. 2003), and social and cognitive psychology (Stein 1997; Reed et al. 2010; Jeong et al. 2013), I argue that learning at the collective level is not a metaphorical expression as suggested by Sabatier (1988). Indeed, learning as a group and *socially*, under determined conditions, brings about multiplicative effects on the group's cognition and intelligence (Woolley et al. 2010). This suggests that the aforementioned problem of aggregation can be solved by focusing on groups and collective actors as valid and fully legitimate units of analysis/agents of policy learning phenomena. Nonetheless, this is not enough to delimit the scope of policy learning. Even understanding the latter as a collective process arising out of and resulting in group intelligence, the realm in which to observe its emergence remains controversial: "Organizations are not merely collections of individuals, yet there is no organization without such collections. Similarly, organizational learning is not merely individual learning, yet organizations learn only through the experience and actions of individuals" (Argyris and Schön 1978, p. 9).

What does this ambiguity concerning the appropriate level of analysis of learning within organizations suggest to policy analysis? Fundamentally, I think that it calls for policy learning scholars not to *look for* evidence or proof of learning through the static observation of individual or group behaviours (i.e. policy outcomes) but rather to concentrate on the dynamic processes that connect individuals to groups and groups to other groups, that is, to focus explicitly on policy-specific *processes of interaction* (Dunlop and Radaelli 2017). In fact, "within any given collective structure, individuals interact and communicate. Their interrelationships and communication patterns or social dynamics can play a key role in promoting and inhibiting learning" (Heikkila and Gerlak 2013, p. 497). This view is also in line with Deutsch's early intuition interpreting policy systems as evolutionary systems responding both to environmental and endogenous inputs and feedback, and with Heikkila and Gerlak's (2013, pp. 485-486, emphasis added) approach: "we acknowledge that learning can emerge at multiple levels and that these levels interact. Therefore, we emphasize the *features and processes* that define and influence learning at the collective level", that is, "the [features of the] collective contexts where policy decisions are debated, devised, implemented, and enforced". In other words, in agreement with the literature, I argue that the *locus* of learning in policy making is the policy process, in particular the contextual, case-specific interactions of collective actors within the policy process. This insight is strongly engrained within the policy learning literature but results somehow in being obfuscated by the endeavor of causally connecting learning to policy outcomes and policy change in particular (Sabatier 1988; Bennett and Howlett 1992. See below for a discussion of this issue).

A recent and valuable view expressed in an already quoted review article about policy learning in the European Union suggests we focus on the “myriad of ‘micro’ processes of civil servants and politicians interacting concerning problems, hopes, norms, symbols, et cetera” as these “exchanges [i.e. the process-specific interaction] generate changes in information, goals, values, behaviours, structures, policies and outcomes” (Zito and Schout 2009, p. 1103). I fully embrace this stance and therefore proceed to define policy learning as:

> A collective process taking place among policy actors/stakeholders embedded in formal or informal institutional frameworks whereby knowledge is interactively acquired, accumulated, exchanged and processed, prompting an update or a change in the beliefs of the involved actors and possibly a change in their behaviour and policy outcomes thereof.

It follows that policy learning *happens within and is contingent on the interactions specific to the policy process* (as also suggested in some ways by Heikkila and Gerlak 2013 and Dunlop and Radaelli 2017). Hence, whatever the epistemological role attached to learning (dependent, independent variable or causal mechanism – *ibid*.), the systematic investigation of the features (structural and agent-based) of the policy process, i.e. of policy-specific interactions, is necessary (if not at times sufficient) to gauge the nature of those collective learning phenomena at work in a specific empirical case and the scope of their explanatory leverage. The advantage of this perspective is that it does not only provide a suitable and well delimited domain for empirical investigation, but it also allows us to appreciate the mutual dialectic relation between the puzzling/learning, process-based dimension of policy making and its powering and institutional nature (in line with Heclo’s seminal framework).

In this regard, learning-oriented approaches have been seen, to a certain extent, as a remedy or a “partial corrective” (Bennet and Howlett 1992, p. 290) to theories of policy change built upon ontologies like power and conflict. For this perspective to be viable, the underlying assumption needs to be that these two ontologies are not exclusive and alternative to each other but complimentary and interdependent (see Chapter 1 and following section). Accepting this ontological interdependency implies also that the puzzling/learning dimension deploys its most observable effects and is dependent on the policy process and its interactions. Hence, focusing specifically on the policy process and its inherent interactions before opening the box of policy outcomes achieves two goals: first, it helps fix some the conceptual ambiguity of learning by giving it a clear empirical perimeter; and second, it makes it compatible and integrable with other theoretical and explanatory frameworks (whether as a non-exclusive causal mechanism or as an intervening variable – Dunlop and Radaelli 2017). In fact, if learning is contingent on policy-specific actors' interaction, the interaction itself is contingent on institutional traits and on actors' interests (Arminen 2005; Ostrom 2005).

In other words, the nature and effects of learning in a given policy domain depend on the features of the observed interaction but the way in which policy actors interact is organized and conveyed through institutional structures and constrained by actors' roles and interests. It follows that the study of learning processes cannot be disentangled by the scrutiny of the systemic influence of institutions and interests, or to put it differently, of the powering and institutional dimensions of policy making (most of all, as we shall see in Chapters 4 and 5, when the prevalent mode of learning is hierarchical or based on bargaining). Nonetheless, the opposite also holds true. Actors' behaviours and policy outcomes within institutional frameworks also emerge interaction (whether horizontal, pluralistic, or hierarchical and based on formal delegation) but the interaction is the *locus* of learning as well as the *locus* of powering. Under this ecological understanding of policy making, one dimension cannot be understood and analysed without the other, hence the proposed argument for their interdependence.

2.3 Policy learning as an ontology of policy making and the benefits of typological analysis

In the previous sub-section, I have put forth a definition of policy learning focused on collective problem solving and intelligence. Furthermore, I suggested that we understand policy learning as a process taking place within and across groups of policy (collective) actors and, due to this view, concentrate on policy-specific, process-based interactions among these actors as the empirical *locus* of policy learning.

Now we ought to achieve a conceptual clarification about learning and its role in policy analysis and then, building upon that clarification, come up with an empirical strategy and tool to operationalize it (see Chapter 3). In particular, this sub-section is meant to elaborate on these issues with a view to motivate the choice of organizing the review of the field around *modes of policy learning* (intended as causal mechanisms – see Chapter 1) and to explain the explanatory and empirical merits of typological analysis.

In the theoretical/methodological and empirical domains, the indications stemming from the literature on how to employ policy learning are diversified and not conclusive, reverberating the non-conclusiveness of theoretical conceptualisations. Along with a handful of studies, mainly belonging to the policy diffusion scholarship, that operationalize policy learning as an independent variable and are quantitative (Volden 2006; Volden et al. 2008; Gilardi 2010; Meseguer 2009; Escribà-Folch and Meseguer 2011), the large majority of empirical works are qualitative in nature, i.e. focused on in-depth case studies (see, among hundreds: May 1985 and 1992; Haas 1992; Hall 1993; Eising 2002; Weyland 2005; Nilsson 2005; Radaelli 2009), and mainly resort to learning as an independent variable or causal mechanism (Dunlop and Radaelli 2017).

Both of these approaches have merits and drawbacks. On the one hand, quantitative studies are extremely helpful in taking stock of phenomena like the diffusion of similar policies across different constituencies or the transfer of policies from international organizations to state actors and in attributing these phenomena to policy learning processes but the operationalization of learning utilized in these works is rather simplistic. In particular, and despite the resort to sophisticated statistical techniques (Gilardi 2010), these studies still fail in clearly distinguishing different drivers of diffusion/transfer processes, very often resulting in a confusion of learning with other neighboring explanations like imitation, emulation, adaptation or heuristics (see also Heikkila and Gerlak 2013 for a similar critique).

On the other hand, qualitative studies, emphasizing internal validity, are better suited to distinguish among the different ideational phenomena that can underpin policy change, resulting in a more nuanced account of the distinctive features of learning processes. Nonetheless, they also have several limitations. These latter are mainly related to the use of indirect evidence[22], to problematic falsifiability, and to the fact that case selection often appears skewed in favor of those instances where policy change took place (i.e. no variation in the dependent variable), hence resulting in a lack of attention for those cases where learning takes place but policy stability, rather than change, is observed. But beyond their specific limitations and methodological/empirical diversity, the key problem of these contributions is that they invariably cast policy learning as an *epistemological problem*.

> "The problems of epistemology are problems of how we can possibly know certain kinds of things that we claim to know […] In general, given the statement that *P*, we can ask, 'How do you know that *P*?' This is the general form of an epistemological problem. The question 'How do you know that P?' is a challenge – a demand for justification. The task of the epistemologist it to explain what justifies us in believing the things we do" (Pollock 1968, p. 183).

Mutatis mutandis, May (1992, p. 343, italics added), one of the noble fathers of qualitative policy learning analysis, faces this kind of epistemological challenge:

> "The strategy for analysis of these cases is to look for prima facie evidence of policy learning. At best this evidence is indicative of learning for which further investigation of primary materials is necessary to establish whether learning in fact occurred. Nonetheless, such analysis helps to delimit the frequency of and types of situations for which learning *may have occurred*".

May's epistemological perspective is taken here as the typical example of the empirical cut of the ensuing policy learning scholarship whose key research question has so far been whether it is possible to find evidence for the presence or absence of learning processes within specific case studies on the basis of *prima facie* evidence and expected implications of learning on policy outcomes. In this perspective, it follows that when process-based evidence of policy

[22] "[A]s with most constructs, policy and political learning cannot be directly observed" (May, 1992, p. 351)

learning is detected in a case study, the observed change in the policy outcomes is causally connected to it. In other words, although not explicit, a direct link between the *presence* of learning phenomena/processes and their causal effects on policy is clearly underpinned by such approaches: “Most of the authors argue that learning does not actually occur unless there is some kind of policy change which results from that learning process” (Bennett and Howlett 1992, p. 285). Under such a epistemological stance, if a researcher hypothesizes that a certain policy change is informed by a process of, say, epistemic learning, their main task is first to prove the presence of epistemic dynamics (e.g. appointment of expert panels, involvement of academics in the policy debate, etc.) and then to causally connect the policy outcome to those epistemic manifestations. The finding would thus be that a process of epistemic learning *explains* the change observed in the policy.

This research design, whether implemented quantitatively or qualitatively, is common to the large majority of policy learning contributions and has its merits but it has also been criticized for various reasons. First, casting the empirical presence of policy learning as an epistemological problem does not fully allow for supplementing it with complementary sources of causation that can also explain policy change (Heikkila and Gerlak 2013, pp. 491-493). Second, as the concept of policy learning is considered overly broad and elusive, too many phenomena can be conceptualised as instances of learning, resulting in a potential confusion or conflation between policy learning and the policy process itself (*ibid*.; James and Lodge 2003).Third, the policy learning scholarship attached to this epistemological perspective has so far failed to produce cumulative knowledge (Dunlop and Radaelli 2013). Fourth, and crucially, the typical empirical validation of policy learning - based on the proof of the goodness-of-fit between generic theory-driven expectations and *prima facie* evidence stemming from the policy outcome - may result too vague and not enough systematic (Dunlop and Radaelli 2017). This is even truer when the researcher seeks to unpack the causal mechanism connecting the policy process (and learning dynamics taking place within it) to its outcomes. In other words, the link between the detection of the *presence* of learning processes and their *causal effects* on policy is not problematized enough in mainstream studies.

The assumption of learning as “the source of policy change” has led to a situation whereby policy learning advocates find it hard not only to complement learning with other causal explanations of change, but also to account for those instances where learning processes take place but policy does not change accordingly (Dunlop 2009). Heikkila and Gerlak (2013, p. 491) also acknowledge this problem when elaborating on two distinct products (read: outcomes) of learning: cognitive change (that does not necessarily imply policy change) and behavioural change (that does). Yet, besides a general indication of concentrating on the process-based dimension of policy making, they do not put forth an operational solution to the conundrum of empirically recognizing and distinguishing between these two products.

In order to sort these puzzles out, I propose to abandon the epistemological perspective and assume instead an ontological view which considers learning as a systemic and ubiquitous trait of policy making, implicit and inherent to any form of social interaction, and even more so to any set of policy interactions. Let us recall that policy making (and, most of all, economic policy making, the realm of my empirical investigation – see Chapter 1), is commonly intended as “a knowledge-intensive process, long associated with concepts of learning.” (Hall 1993, p. 277). So far, we have seen that the puzzling/learning dimension of policy making has been employed as an epistemological lens. Let us then shift the discussion to the ontological level by accepting the banal truism of learning being a legitimate overarching and immanent aspect of knowledge-based social interaction in general, and of a markedly knowledge-intensive process like policy making in particular (in line with both Deutsch’s and Heclo’s early frameworks).

The main implication of this approach is that the investigator does not need to prove the presence (or absence) of learning within a specific case. The fact that a certain process of learning takes place within any policy domain is taken for granted, with learning being considered an ontological trait of policy making. This strong assumption, in turn, has two main consequences on the nature of the empirical investigation. First, the acknowledgement that policy learning is a pervasive, omnipresent trait of policy making calls for a categorization of the policy processes according to modes/typologies of learning (that hence become the epistemological tools of the learning-informed ontology – see also Chapter

1); and second, it requires the investigator not to generically *prove the presence* of learning and as a result claim explanatory leverage, but, once a case is qualified as being characterised by a specific mode of learning, to concentrate on mode-specific implications on policy outcomes. This approach involves and calls the researcher to problematize and unpack the causal path going from learning typologies (and not learning *per se*) observed in the policy process to policy outcomes.

This is also because an ontological perspective on learning, unlike an epistemological stance, does not take for granted that learning processes, when present, have unequivocal causal effects on policy and policy change, also allowing the null hypothesis of a lack of causal effects of learning to be tested. Put differently, if learning is a legitimate ontology for the investigator, the central question shifts toward its leverage in providing explanatory accounts. In fact, as already said, taking learning as an ontology means to work under the assumption that there is always some learning process going on in a given social or policy interaction, but what type of learning? The problem now is no longer to discriminate learning from the other explanatory variables but to qualify it, that is, engaging in concept formation: how many learning types exist? Which are the analytical components common to these typologies? And how do these components vary (in terms of scope conditions) within different typologies?

These considerations hopefully clarify and motivate the use of typologies/modes of learning as causal mechanisms that characterise empirical cases. This analytical approach is a direct consequence of the ontological perspective: there is always learning, but what type? But this does not extinguish the scope of the empirical investigation. In fact, even if categorizing a case study, a policy process, as being underpinned by one or another mode of learning is important *per se*, it does not answer the question revolving around the specific causal effect of learning – better, of different types of learning – on policy outcomes. To answer this question a further analytical step is needed, namely a comparison between expected and observed effects of modes of learning on policy outcomes.

This empirical strategy can resemble May's but this is only partially true. In fact, my design follows a methodology for empirical validation similar to that proposed by May, but only after having engaged in a thorough typological analysis of the policy process. Unlike May's, the bulk of my own goodness-of-fit validation is hence not centered on *loose* evidence of policy learning emerging within the policy process. Under my approach, the latter is in fact systematically investigated through typological analysis, that is, through the tracing of the case-specific scope conditions. Similarly, *prima facie* evidence of learning within the policy process (the key step of May's empirical strategy) is subsumed within a more systemic and theoretically justified analytical framework (the "policy learning measuring instrument").[23] As Heikkila and Gerlak (2013, p. 485, emphasis added) argue, "without linking the outcome to a *process of learning*, we cannot rule out the [the policy outcome] was simply the result of mimicry or good timing". The resort to typological analysis, i.e. the identification of a case-specific mode of learning through the analysis of scope conditions observed *within the policy process,* is exactly geared toward this aim, also allowing us to rule out "false positives" (*ibid*.). In other words, focusing on the policy process through typological analysis allows for the validation of the causal path I hypothesized for my own case studies, which, as already argued in Chapter 1, reads as follows:

> Modes of policy learning are the theoretical causal mechanisms that I hypothesize work as casual connectors between the independent variable X (iterated regime-specific policy interactions within self-disciplinarian cooperative arrangements aimed at solving a collective action problem[24]) and the dependent variable Y (outcomes of policy coordination that are informed by puzzling/learning dynamics).

In practical terms, the resort to systematic typological characterisation *plus* the comparison between expected implications of the identified typologies and observed outcomes (the two-pronged empirical strategy – see Chapter 1) serves the purpose of validating the causal connection between the independent variable and the observed outcome.

[23] Also notice that the typological analysis realized through the measuring instrument allows for a broader view on the policy process because the analytical dimensions of the measuring instrument not only cover the puzzling dimension but also embed key powering/institutional elements of the policy process itself. See Chapter 3, Section 3 for a more extended account of the interrelation between puzzling and powering dimensions.

[24] I.e. "conditions associated with policy-making environments" (Dunlop and Radaelli 2017, p. 4).

May’s empirical approach is used within my design to investigate the connection between the policy process (informed by a specific mode of learning) and the policy outcomes, that is, to explicitly unpack the connection between modes of learning and their mode-specific causal effects - the second step of my empirical strategy. Therefore, also from the methodological point of view, this research design allows for an improvement with respect to previous empirical approaches. This is because it enables us to appraise the causal effects of learning typologies (intended as causal mechanisms) on the policy outcomes, not only through the analysis of expected manifestations and implications of learning, but also through a systematic, theory-driven measuring instrument that seriously engrains power-based and institutional aspects within a learning-informed template. In other words, this represents also an attempt to tackle and embed alternative and supposedly rival explanatory dimensions within the learning ontology. It is in this way that this approach also sheds light on those learning processes which are not directly connected to policy change (with the latter potentially being absent or stemming from different drivers). Too often these two concepts - policy learning and policy change - are conflated, as already posited. My approach, by concentrating on the policy process and its interactive dimension, allows us to grasp what is termed by Heikkila and Gerlak (2013) as cognitive change emerging as a product of policy learning, even when this change does not go as far as triggering behavioural and hence policy change.

A further problem of the conventional analytical stance on policy learning, beyond its elusive empirical verifiability due to its manifold effects on both processes and outcomes, is that it sees the effects of learning as uncontroversially positive, that is, invariably leading to *constructive* policy change. Nonetheless, as many have argued but few understand, actors can learn for the best – but also for the worst (Deutsch 1966; May 1992; Gilardi 2010). This means that a theoretical framework that conceptualises learning as unvaryingly leading to change, and in particular positive change, only tells part of the story. But, on the one hand, different processes of learning can occur without being *visible* in terms of change, hence learning can also explain stability;[25] and, on the other hand, a learning-driven policy change can also entail *endarkenment*, that is, learning-informed policy changes that result dysfunctional (Radaelli 2009; Dunlop and Radaelli 2016 and 2017).

To sum up and proceed, the ontological stance allows us to account for the criticism related to the difficulty of policy learning studies (and qualitative studies in general) to take stock of multiple causation. In fact, the ontological perspective does not claim that learning is the only legitimate ontological key, yet it attaches a systemic, overarching nature to learning dynamics, bringing about several advantages. First, it is in line with the long term behavioural turn of social sciences seeking for more solid micro foundations to explain collective and institutional action (Thelen 1999). Second, it allows us to move the typical (and elusive) research question of policy learning studies from asking whether learning has taken place at all in a given empirical domain, to asking what typology of learning has taken place. This, in turn, allows for better understanding of the connection between typologies of policy learning and policy change (or lack of it), that is, the explanatory effect of learning over outcomes. Third, as also argued previously, through the acknowledgment of learning being contingent on interactive policy processes and these latter being contingent on the institutional dimension and actors' interests, the ontological stance and its epistemological consequence (i.e. the resort to modes of policy learning as pluralistic causal mechanisms) allows us to put learning in a broader explanatory context, creating a connection between the puzzling and powering/institutional dimensions of policy making. Fourth, it allows us to also focus on cases where the dependent variable is not always "policy change" and to qualify implications of modes of policy learning as negative in terms of policy outcomes.

[25] As already discussed, within an empirical case (a set of regime-specific policy interactions) learning processes can contribute to explaining both change and stability: "while policy change can be the effect of learning, learning can be present when outcomes appear to remain stable and not alter at all" (Dunlop, 2009, p. 296-297). This insight is also in line with the large number of contributions belonging to the game theoretical tradition which stress the effects of learning in iterated form, such as replicator dynamics, on institutional stability (Cheung and Friedman 1998; Mailath and Samuelson 2006).

2.4 Conclusions

This chapter, drawing on the discussion of seminal contributions, has dealt with a number of conceptual and analytical issues related to the definition, venue, use, and explanatory nature and leverage of policy learning. It has highlighted that the *locus* of learning is the policy-specific interaction among actors and proposed to point the theoretical and empirical *foci* on it. It has then come up with a characterisation of learning as an ontological trait of policy making emerging in the context of policy specific interactions. Furthermore, it has posited that in order to investigate this ontology, typological analysis is necessary, that is, that modes of policy learning can work as epistemological keys of a learning-based ontology. The following chapter, looking again at the literature and drawing on the conceptual takeaways of this chapter, will build a measuring instrument based upon analytical dimensions of modes of learning and their scope conditions. The measuring instrument will then be employed to conduct typological analysis of the empirical case studies.

Chapter 3. Building on the literature: learning types and operationalization

3.1 Introduction

After having provided a definition of policy learning and having elaborated on the related issues of how to conceptualise and measure learning in the previous chapter, the next challenge is how to model and then empirically investigate different typologies of policy learning. Within this domain of enquiry, the literature provides a recent and robust answer: Dunlop and Radaelli's 2013 systematic review. In Dunlop and Radaelli (2013), in fact, four major modes of learning (called also typologies, varieties, or genera) are clearly detected and analysed. That article goes beyond systematically reviewing the literature; the authors, in fact, also engage in an exercise of conceptual systematization which allows them to come up with the said set of four modes of learning. These modes of learning are abstract theoretical categories which, on the one hand, build upon the systematic analysis of previous contributions, and, on the other hand, are defined within a theoretically justified property space. Let us see how these modes are developed and how they lend themselves to the operational analytical framework conceptualised in the previous chapters and put forth in this one.

As already argued in Chapter 1, my analytical strategy relies on these four modes of learning for cases' specification, hence the need to come up with a "policy learning measuring instrument" as a tool for systematic typological analysis and empirical categorization. The question in this regard is how to demonstrate whether a case (i.e. a set of regime-specific policy interactions) presents one prevalent (underlying) mode of learning or another. The measuring instrument used to this end lists all the relevant components of modes of learning and sets out, for each mode, the specific scope conditions attached to it. As the research questions of this dissertation revolve around the detection of the case-specific modes of learning as a clue to read through the interactive process of regime implementation, the contribution of Dunlop and Radaelli provides me with a minimum set of analytical categories. However, to support in-depth, within-case empirical analysis, I will also have to enlarge their property space to allow it to cover other key constitutive dimensions.

For Radaelli and Dunlop (2013, p. 602) “there are two dimensions with which to construct a mutually exclusive and jointly exhaustive explanatory typology of policy learning”. The first dimension is problem tractability (intended as a proxy of the level of uncertainty observed in the policy process), while the second is actors’ certification (intended as the legitimacy and authority of the actors involved in the policy process). The 2x2 property space generates four main learning types where scholarly contributions developed thus far in the field are plotted. The two dimensions that generate the four modes of learning are actors’ certification and problem tractability. These dimensions seemingly answer, respectively, the following questions: “who learns?” and “what is learned?”. They represent classical learning definitional elements and are also featured in the seminal review article from Bennett and Howlett (1992). These dimensions are indeed crucial. Nonetheless, they are only two out of many analytical components of modes of learning. Moreover, they were admittedly chosen by the authors for the sake of theoretical parsimony but cannot possibly subsume all the determinants of modes of learning. Thus, I seek other dimensions to enrich the overall picture. The key insight that drives me to this choice of learning dimensions/components is that learning is contingent on interaction and policy interaction is contingent on institutional features and actors or, to put it differently, that policy learning is mediated by the institutional structure within which policy interactions take place.

To start with, the certification of actors informs us about who are the learning (and teaching) agents of a learning process. Beyond this aspect, I complement the *agency* component by further investigating the constellation and mode of interaction of the agents (see Table 3.1), following Heikkila and Gerlak (2013, p. 491): “the social dynamics of a group, will shape whether, what and how information is disseminated [i.e. the typology of learning]”. But this does not fully inform about the “venue” of the learning process, that is, the (institutional) setting in which policy-specific interactions and learning processes take place. Hence, a further key aspect to consider when sorting out key analytical dimensions of modes of learning is the “where” question, that is, how the venue of the policy-specific interactions among actors can be characterised, or at which level the interaction is occurring (Jobert 2003; Borràs 2011; Heikkila and Gerlak 2013). Moreover, the venue of the policy interaction (whether horizontal and informal or hierarchical and formal) also informs us more clearly about the mode of interaction of the actors – a crucial element of the learning process intended as an interactive phenomenon.

Furthermore, the time dimension is also critical for learning processes, most of all under low tractability of policy problems (Stern 1997; Boin et al. 2009; Dunlop 2010). The resulting analytical dimension to be investigated embeds questions like the following: are the interactions mainly one-shot or iterated? How frequent and formalized are the interactions and their iterations? How much time is given to the actors to engage in the learning process?

Finally, the "why" question has a prominent place in the literature (see for instance Gilardi and Radaelli 2012), but it loses salience in the light of the ontology depicted above. In fact, if learning is a pervasive, implicit, and at times even unintended dimension of policy making, what is the benefit of asking which factors move actors to learn? First, this dimension is arguably subsumed by the dimension of problem tractability, and second its relevance is significantly diminished by the usage of an analytical framework that sees both puzzling and powering as intertwined ontological dimensions of the policy process. Asking why actors learn would be like asking why actors engage in power and conflict. If these are ontologies of policy making they should be taken as axioms.

To sum up, the property space of Dunlop and Radaelli is expanded by adding up the "where" and "when" questions and by qualifying more specifically (i.e. by focusing on interactive features) the "who" and "what" questions. This results in the five analytical dimensions portrayed in Table 1.

Table 3.1 Analytical dimensions of variation of the "Policy Learning Measuring Instrument"

1. Variously certified and organized learning actors… Who learns? And who teaches? Who are the learning actors, which is their certification and role in the learning process? How is the actor constellation shaped? What is the prevalent mode of interaction among actors?
2… tackle differently tractable policy problems… What is learned? What is the tractability of the problems faced in the policy interaction? What is the aim of learning? And, what is the content?[26]
3… within various typologies of venues of interactions… Where does learning take place? What is the venue and mode of interaction among actors? Is it formal (hierarchically organized) or informal (horizontal and deliberative)?
4...across different time-frames… When does learning take place? Are the interactions one-shot or iterated? How frequent and formalized are the iterations of the interactions? How much time is given to the actors to engage in the learning process?
5…and influence, as a result of this causal sequence, the observed outcomes. What are the observable empirical implications of different modes of learning on the policy process and outcomes?

Before we fill in each of these components with its mode-specific scope conditions, let us illustrate the four modes of Dunlop and Radaelli. Once we have done that, we will be able to introduce a proper "policy learning measuring instrument" with mode-specific scope conditions and expected implications.

The four genera (henceforth, modes of learning) arising out of the property space built upon actors' certification and problem tractability are shown in the following table.

[26] This latter category can be extremely varied, spanning from new ideational repertoires and paradigms to technical knowledge, instrumental competences, increased strategic sophistication, etc.

Table 3.2 Modes of learning

CERTIFICATION OF ACTORS \ PROBLEM TRACTABILITY	LOW	HIGH
LOW	Reflexive Learning	Learning through Bargaining
HIGH	Epistemic Learning	Learning in the Shadow of Hierarchy

Source: Dunlop and Radaelli, 2013, p. 603

Because different modes of learning may overlap at times, that is, a set of policy interactions that can be characterised by different underlying modes of learning, we should speak of a *prevalent* mode of learning for each of the empirical cases.

3.2 Mode-specific scope conditions and empirical implications

The following sections are devoted to *filling in* the analytical components of modes of policy learning sketched above with empirical scope conditions and expected implications specific to each of the modes of learning.

3.2a Reflexive social learning

This mode of learning has a prominent position in the literature. The majority of the earlier conceptualisations of learning arguably elaborate on some sort of social reflexive learning, in fact. The key references are Heclo’s political learning (1974), Hall’s social learning-third order change (1993), and May’s social policy learning (1992). Nonetheless, the interest toward this particular form of learning has not been limited to early conceptualisations. More recent scholars also elaborated on typologies of learning that eventually belong to the variety of social reflexive learning (Checkel 2001; Grin and Loeber 2007; Sabel and Zeitlin 2008).

To derive the scope conditions for reflexive social learning to be prevalent within a set of policy interactions I stick to the analytical dimensions developed and discussed previously. The same will be done for the other three modes of learning.

To start with, who are the agents of learning under this mode? What is their certification? How is their constellation shaped?
There seems to be little ambiguity on the fact that processes of social reflexive learning invest the macro-level of society-wide interactions and societal forces - especially in Heclo (1974), where learning is crucially driven by social forces.

According to Bennett and Howlett (1992, p. 278), in social learning "state officials and societal actors are locked in a life-long and somewhat complex embrace in which they both determine each others' activities, including learning". Under this mode, then, learning is a process involving both political actors (politicians and bureaucrats) and societal groups (pressure/interest groups, advocacy groups, scientific experts, the media, etc.) that interact with each other in both specialized fora for discussion and in the public sphere at large (Hall 1993, p. 286-287). To understand actors' certification, note that no actor enjoys the role of teacher: the process of knowledge exchange and elaboration takes place in a deliberative and argumentative manner and through efforts aimed at constructing preferences and identities through the learning process itself (Checkel 2001). Hence actors' certification is low: each actor can learn from the other as there are no differences in certification that can lead to hierarchical roles within the learning process, nor pre-set rules for the production and utilization of knowledge (Dunlop and Radaelli 2013). Given the varied set of actors taking part in the learning process and their low certification, the actor constellation is hence horizontal and can even resemble a directly deliberative polyarchy (Cohen and Sabel 1997). Often the learning agents can also be conceptualised as being networked (Freeman 2006).

What is the tractability of the problems tackled under reflexive social learning? What is the aim of learning under reflexivity? And, what is the content?

The policy problems typically faced by society-wide actors under reflexivity are characterised by low tractability. The horizontal and varied actor constellation described above originates in the uncertainty over the policy problem. In fact, when facing highly tractable policy problems, policy making actors have distinct preferences, they can clearly calculate the payoffs of different courses of action (Moravicsik 1999) and hence get engaged in distributive bargaining over policy outcomes. This restricts the learning process within political arenas organised around the power resources of the actors or actors' coalition involved in the decisional process (Sabatier 1988). On the other hand, when decision making actors suffer of a knowledge gap with regard to a policy problem (i.e. when they face low problem tractability), the payoffs related to different policy options blur. Under these circumstances, political actors can be pressured or are willing to open their arenas to different social actors in order to create collective *fora* for problem solving (Checkel 2001; Jobert 2003). The aim of this constellation is then to produce non-incremental knowledge and discursive legitimacy to cope with the uncertainty stemming from the policy problem. In Hall's third order change (1993) and in Heclo's template, the society-wide processes of puzzling and problem solving generate new paradigms. The key is a shift in preferences, long-term goals, core beliefs, and even policy paradigms (Hall 1993, p. 283-287; May 1992, p. 334) resulting from society-wide interactions aimed at dealing with ambiguous policy problems. Hence, the policy lesson that is collectively taught and learned under reflexivity, that is, the content of the learning interaction, is typically a new policy paradigm or, in less abstract terms, a change in "the hierarchy of goals behind the policy itself" (Hall 1993, p. 279), or a "new social construction of a policy or problem, […] a rethinking of the dominant view about fundamental aspects of a policy" (May 1992, p. 336-337), or, at a minimum, "a relatively enduring alteration in behavior that results from experience" (Heclo 1974, p. 306).

A suitable example of reflexive social learning is the process of ideational convergence that led to the signature of Maastricht in 1992. For McNamara (1998), the Economic and Monetary Union (EMU) core paradigm levitated during a period of twenty years in the context of a long-term switch from Keynesian ideas to varieties of monetarism, two devastating oil crises, the experience of the currency snake and a new global geopolitical equilibrium.

McNamara rightly observes that new ‘core ideas’ and paradigms are not a mere product of the mind. They have to be deployed in concrete historical experiences to solidify and be accepted through a process of wide ideational convergence. Moreover, unlike incremental and instrumental policy modifications, they have to go and actually went through a progressive learning process whereby the new paradigm emerges as a progressive refinement or rejection of the old one based on new knowledge production and exchange (in line with May’s social policy learning conceptualisation – 1992, p. 337-338). Reverting to the dimension of problem tractability, and again with regard to the EMU case, the policy solution to the monetary turbulences and instability following the collapse of Bretton Woods surely counts as an ambiguous policy problem (Dyson and Featherstone 1999). In the process that led to the convergence toward a monetarist and ordo-liberal paradigm that underpinned and substantiated the new Maastricht architecture, different domestic and supranational actors interacted in social and political fora to produce a paradigm shift (McNamara 1998). When the new paradigm finally emerged, the process of ideational convergence that led to it has been depicted as a fruit of collective puzzlement, trial-and-error dynamic (the experiences with the monetary snake and the European Monetary System), political entrepreneurship exerted by new learning agents (like the Delors Commission – see Verdun 1999), and opening opportunity windows (*ibid*.). In short, as a fruit of social learning.

These considerations take us to the next components of the measuring instrument, that is, the time dimension and the venue of learning. In fact, we have just seen that reflexive social learning requires a long time horizon to take place (McNamara 1998; Dyson and Featherstone 1999). The actors must be free to iterate their interactions and to learn reflexively from them. The process of reflexive social learning is normally characterised by repeated interactions and subsequent reflection over these interactions and over the new knowledge produced and exchanged. Hence, besides a varied set of learning agents organized horizontally and dealing with ambiguous policy problems, the timeframe is also important for reflexivity to appear in collective decision-making.

The venues of these iterated interactions, due to the nature and certification of the actors involved, are extremely varied. They encompass informal preparatory meetings among bureaucrats to inform formal negotiations, *ad-hoc* venues like committees and study groups filled by experts, public consultation exercises with policy stakeholders, conferences and debates featuring societal groups and decision makers, policy dialogue, and governance settings open to the public spheres (Hall 1993 p. 286). Importantly, the puzzling exercise must not be limited to experts, bureaucrats, or politicians but also has to involve organized interest groups and the public at large. The crucial and common features of these venues is that they do not configure as closed arenas for political conflict but rather as socially inclusive *fora* for open for discussion and mutual persuasion (Jobert 2003).

Finally, what are the expected implications of a process of social reflexive learning over the policy outcomes? Arguably, a policy change investing technical details of instruments of a policy is not enough to attach an explanatory power to the reflexive learning process. For this to be claimed, in line with the content of this mode of learning, a major preference and paradigm shift, and a value change, have to be observed (Hall 1993; Bennett and Howlett 1992; Gilardi and Radaelli 2012). Furthermore, the more the new paradigm is informed by the knowledge produced in the context of the policy interactions, the more the mode of learning can be accounted for as a relevant explanatory mechanism of policy change (May 1992).

Another likely effect of a reflexive social mode of learning is experimentation and policy innovation (Sabel and Zeitlin 2008). The policy area invested by such modes of learning can be subject to paradigmatic change, but can also involve innovative and experimental policy tools. It follows that an observable implication of reflexive social learning is that it is often accompanied by and/or brings about non-hierarchical governance arrangements that are supportive and fruits of social experimentation and grassroots innovation (Radaelli 2008). Hence, we also expect a change in the institutional structure of a policy, besides in its key goals and paradigms. An example of the type of governance arrangement consistent with social reflexive learning is the architecture of the Open Method of Coordination in the EU (Radaelli 2003; Borràs and Radaelli 2010).

To sum up, under reflexivity learning takes place through a horizontal process of argumentative and discursive socialization that involves a varied set of political and social actors generating and exchanging knowledge within formal and informal fora for collective problem solving. In this type there is low problem tractability, hence the prevailing ambiguity about the policy problem and content of learning, and low actors' certification. The nature of the actors' constellation is horizontal and polyarchic. The mode of interaction is cooperative and deliberative. The content of this mode of learning, what is learned, is typically a novel policy paradigm (sometimes accompanied by specific institutional vehicles) and/or a stable re-orientation of core policy values and goals.

3.2b Epistemic learning

Learning through epistemic communities is the classic model of top-down, expertocratic learning seminally conceptualised by Haas (1992). Also Rose's lesson drawing (1991), in its non-coercive version, counts as an epistemic mode of learning, as well as May's instrumental learning (1992, p. 335-337), which arguably belongs to this variety. More recent studies employing the concept of epistemic learning are Radaelli's article on informed policy transfer (2000), Dunlop's and James's principal-agent model (2007), and Stone's investigation of transnational networks (2008).

Again following on from the analytical dimensions of Table 1 above, let us discover who the agents of learning of the epistemic mode are, how their constellation is shaped, how they interact, what sort of policy problems are typically faced, and what the resulting content of the learning process is.

To start with, this mode of learning involves low problem tractability, like the reflexivity mode, but the ambiguity of the policy problem and subsequent uncertainty are not framed within a horizontal actor constellation but rather in a vertical one where knowledge is mainly controlled and produced by highly certified, epistemic, knowledge-based actors and exchanged with non-epistemic (mainly political) actors: "knowledge is deployed by a limited set of expert actors to narrow discussion" (Dunlop and Radaelli 2013, p. 603). Typically, the set of experts is embedded in the policy interaction through a direct appointment by political actors. The agents of learning are hence both political actors (politicians and bureaucrats) as learners, and policy experts or scientists - often coming from the academic world - as teachers. Under Rose's (1991) lesson-drawing paradigm, in its non-coercive form, epistemic communities offer expert advice. They are the key certified agents through which lessons from international or domestic experiences are conveyed to the policy makers. The constellation resulting from this "division of labour" is hence vertical and hierarchical as for the control and production of knowledge (Dunlop 2009). The typical mode of interaction is top-down, resembling teacher-learner or principal-agent relations (Dunlop and James 2007). To draw a parallel with reflexivity, problems under epistemic learning are also ambiguous, but the outcome of this ambiguity is not socialization but rather specialization. Epistemic actors also feature in the set of learning agents typical of reflexivity, but in that setting they are just a voice among many and they do not enjoy a specific and higher certification that locates them within an authoritative position with respect to other actors. Under the epistemic mode, such certification for expert actors exists, resulting in a vertical, top-down constellation deliberately set up by the political actors.

What does lead political actors to open the policy process to non-political/bureaucratic specialized actors? Following Dunlop (2009), they key driver of the specialization of the policy process is that political and bureaucratic actors face a knowledge gap with respect to some aspects of a policy. Epistemic actors are called in to fill that gap. Another key driver of the involvement of epistemic actors in the policy process is the emergence of a crisis (Stern 1997; Boin et al. 2009). In practice, political actors do not know which course of action to choose (low problem tractability) and hence "hire" epistemic actors as teachers to collect new evidence, disclose cause-effect relations, inform policy instrumentation, and ultimately provide legitimacy to the decisional process (Haas 1992, p. 15). Under reflexivity, the main reasons for socialization are ambiguity, the overarching nature of the policy problem and the need to seek for new paradigms arising out and legitimated by public discourse. Instead, under the epistemic mode, the policy problem remains ambiguous but its nature is arguably less all-encompassing. Dunlop (2009, p. 294) rightly elaborates on the difference between problems revolving around substantive policy detail (i.e. the technical/instrumental aspect of a policy) and policy makers' beliefs (the ideational paradigm underpinning that policy). Drawing on this distinction, epistemic actors are characteristically called in to inform instrumental aspects of a policy problem rather than policy makers' deep beliefs about that policy. This is reflected in a content of learning that is sometimes a technical solution to a specific problem (like in Hall's second order change and in May's instrumental learning), rather than a paradigmatic shift. Nonetheless, the change of substantive and technical aspects of a policy may also underpin (or trigger) paradigmatic change, hence we need to be cautious about the scope of the impact of epistemic lessons and processes on policy outcomes.

This leads us to the content of epistemic learning. New knowledge, typically in the form of 'lessons', is produced by epistemic actors on the grounds of scientific authority and evidence-based arguments. At times, as already pointed out, what is learned is not a new paradigm but rather a new instrument underpinning an *ad-hoc* evidence-based expertocratic lesson that is drawn by political actors. In Rose (1991, p. 3) it is also argued that the members of the (transnational, in this case) epistemic communities are fully responsible for any learning observed in the process. Indeed, a great deal of the literature on policy transfer implicitly deals with an epistemic mode of learning, most of all when non-coercive transfer is involved (Dolowitz and Marsh 1996). As already argued, these lessons are characterised by a technical and instrumental nature but at times, under specific circumstances, they can also *feed* a new overall policy paradigm (most of all under crisis conditions). As proved by Dunlop (2009), vis-à-vis the ideal typical Haasian stylization of an epistemic learning where the teaching actors not only inform the whole policy process but somehow legitimate it normatively and steer it filling an overarching policy makers' knowledge gap (Haas, 1992), instances where the role of epistemic communities is more limited are also common. In fact, given the multidimensionality of policy domains and of the related puzzles, epistemic actors can be called in to fill more limited and specific knowledge gaps resulting in a lesser influence on the overall aspect of a policy and a focused impact on substantive policy details.

The specialized venues of the knowledge production and exchange processes, the *classrooms* where the policy lessons are drawn by non-epistemic learners, have been conceptualised as "policy laboratories" (Volden 2008), as opposed to arenas suitable for bargaining (Dunlop and Radaelli 2013 and 2017) and open horizontal fora typical of reflexivity. Stark instances of these laboratories and of their working are experts' consultation under Regulatory Impact Assessments (RIAs), study groups/task forces appointed on *ad-hoc* terms by political principals (for a topical example concerning the EU see the role of the De Larosiere High Level Group in shaping the new framework of financial regulation – Savona and Oldani 2011), delegation of power to independent authorities and agencies, and the policy dialogue taking place between states and international organizations of technical nature such as, to a certain extent, the International Monetary Fund (Meseguer Yebra 1999) and the World Health Organization (Kickbush 2002).

Nonetheless, epistemic communities can be called in to fill larger *existential* gaps in political actors' knowledge or understanding. In those cases, the content and venue of the epistemic learning process can resemble one of reflexivity, hence a major shift in the paradigm underlying the policy developed in social fora is expected as a product of the learning process, as well as a new institutional arrangement. This can be the case of policy making under acute crises. In these instances, the "crisis" can work as crucial intervening variable and trigger epistemic learning processes, as we shall see in Chapters 6 and 7, and much more so in Chapter 8.

The time dimension of this mode is shorter vis-à-vis reflexive learning. Often the interaction between learning and epistemic actors is confined to a limited number of experts' consultations (whether formal or informal) and to the discussion of white books and reports produced by the epistemic communities within workshops, policy dialogue events, and hearings of experts. The policy interactions can be iterated, but the time for reflexivity is not fully available due to an urgent need to cope with a substantive policy problem. This configures a shorter time horizon for epistemic learning.

Finally, what are the expected implications of a mode of epistemic learning on the policy process and outcomes? If the aim of the epistemic learning process is often an evidence-based increase in learners' intelligence aimed at solving a concrete policy problem, an innovative policy instrumentation, largely drawing on the process of expert knowledge accumulation and elaboration, is the expected outcome of the epistemic mode. In Rose's interpretation, program goals remain stable and the quest for new policy lessons does not involve the adoption of new goals and value changes (Rose 1991). Instead, epistemic learning involves an instrumental growth in intelligence and effectiveness (*ibid*.; Etheredge, 1985). It follows that epistemic learning can influence the policy outcomes informing the development of innovative technical or institutional solutions which are discovered and legitimated by a quasi-scientific, evidence-based process of learning. Hence, implications of epistemic learning can be found in both the process and the policy outcomes (also in terms of new institutional arrangements).

To sum up, epistemic learning implies a clear differentiation between low certified political/bureaucratic actors and highly certified expert actors, configuring a vertical actor constellation and teacher/learner mode of interaction (Haas 1992; Dunlop and James 2007). The "principals" of learning are both political actors (politicians and bureaucrats) in the role of interested learners, while the "agents" are policy experts or scientists - often coming from the academic world - in the role of teachers. Although there is variance within the epistemic mode (depending on whether the policy puzzle is overarching or more limited in scope), a common trait is that the policy problem is particularly ambiguous and its tractability low, hence the need to (sort of) "hire" experts and involve them in the policy process.

Combining these two elements, the resulting content of learning typically revolves around technical, albeit sophisticated, policy solutions or instrumental policy tools. This content eminently aims to improve the problem solving capacity of the decision makers though newly acquired, evidence-based knowledge. Yet, at times, and most of all under crisis conditions, the content of learning can also consist in more profound and paradigmatic lessons. The timeframe of the epistemic interactions is shorter that that allowed in reflexivity, and the venues of such interactions are specialized and *ad-hoc* laboratories as opposed to the open fora observed under reflexive social learning. Finally, the key expected implication of this modality on policy processes and outcomes is that of a phenomenon of lesson-drawing. This means that the content of the learning process is expected to strongly inform and substantially shape the new policy instrumentation and/or the new institutional setting.

3.2c Learning via bargaining

Learning via bargaining is the mode of learning under which knowledge production and exchange take place as a by-product of strategic interactions of self-interested actors (Dunlop and Radaelli 2013, p. 610). This mode leads us to policy domains characterised by high problem tractability, hence to ordinary, "every day policymaking" (Hall 1993, p. 279), as opposed to the policy areas characterised by ambiguity typical of reflexive and epistemic modes of learning. The domains of bargaining, due to high problem tractability, are also characterised by stable and predictable payoffs related to the different courses of action available to the decision making actors, crucially bringing about the strategic interplay of the latter.

Whereas for the reflexive and epistemic modes the learning process is an intended product of the policy interaction, which is informed by and builds upon the problem solving imperative spawned by low problem tractability, as for learning under bargaining and under the shadow of hierarchy, learning is principally a by-product of the policy process. The latter, being contingent on unambiguous policy problems and choices which lead to assured distributional gains or losses for the actors, is eminently strategic, rather than oriented toward the policy problem. Hence, broadly speaking, the learning process within this kind of interaction revolves around increasing the strategic knowledge and sophistication of the actors (see: Sabatier 1988, p. 144-146 and 151; May 1992, p. 339) rather than being oriented at problem-solving.

In the literature, modes of learning characterised by high problem tractability and strategic interactions among actors are often conceptualised as instances of *political learning*, as opposed to policy learning (May 1992; Gilardi 2010). The key reference in the political science literature is indeed May's political learning (1992) but also Sabatier's advocacy coalition framework (1988) and Hall's first and second-order changes (1993) can be seen instances of learning via bargaining. Moreover, the learning processes taking place within strategic landscapes are also the explicit object of evolutionary and behavioural economics and of game theorists (Fudenberg and Levine 1998; Friedman 1999; Mailath and Samuelson 2006).

Learning under bargaining (and under the shadow of hierarchy, as we shall see in the following sub-section) is an implicit by-product of the policy interaction rather than a constitutive component of it. This, as we shall see, has striking consequences most of all on the content of learning and on its observable implications over the policy outcomes. This is because of the eminently strategic and power-based nature of the policy interaction under bargaining (and under the shadow of hierarchy). As a result, the observable implications of these learning mechanisms will crucially be mediated by the preponderance of the strategic, powering content of the policy-specific interactions.

To follow the key analytical dimensions of the "policy learning measuring instrument", under learning via bargaining problem tractability is high, as already pointed out above. The actors involved in this form of learning include both political/bureaucratic agents with high official and formal certification, as well as informally certified actors entitled to take part in the bargaining. Given the high problem tractability of the policy problem, they are fully informed about the distributive consequences of the various policy options (i.e. about the different payoffs), and hence bargain over them with the other policy *stakeholders*. As exposed by Dunlop and Radaelli (2013, p. 611), "the actors involved in the process set their own goals – they are strategic about where they want to go with their learning process". The certification of these self-interested, fully informed actors is hence low as the policy interactions and processes neither take place within an explicit hierarchical structure, nor within a teacher/learning relationship where an actor enjoys legitimate control of knowledge production and dissemination. Therefore, diverse sets of actors (sometimes conceptualised as advocacy coalitions embedding political/bureaucratic actors, interest groups, social players and informal actors) fully engage in horizontal distributional bargaining and in "loosely coupled" learning. The lack of a hierarchical structure leads actors to explore the Pareto-frontier and update their beliefs when new information is generated within the bargaining process (Dunlop and Radaelli 2013 and 2017). Nonetheless, different actors and groups of actors are endowed with different resources and bargaining power and their distribution can work as an implicit hierarchical power structure. The resulting actor constellation is asymmetric and strategic and the mode of interaction, depending on actors' resources, preferences, and iterations of the policy interactions, can span from cooperative to purely adversarial.

A well-known conceptualisation of these bargaining actors, their constellation, venues of interaction and content of learning is the advocacy coalition framework (Sabatier 1988). Advocacy coalitions are broad clusters of agents kept together by the sharing of a common beliefs' system. Even though this framework also covers those (rare) instances when core beliefs of the learning agents (i.e. the advocacy coalitions) change as a product of social learning, the key mechanism underpinning the working of an advocacy coalition is that of strategic bargaining. Under this paradigm, actors value their core beliefs, seek to advance them in the policy outcomes and, while bargaining over them, learn about and update "near core beliefs" and secondary aspects of the policy rather than adopting new core beliefs, echoing Hall's distinction among different orders of change. Near core beliefs and secondary aspects of a policy hinge on the political strategy and on the policy tools that allow actors to achieve their deep core beliefs - indeed, "policy-oriented learning is an ongoing process of search and *adaptation* motivated by the desire to realize core policy beliefs" (*ibid*., p. 151, emphasis added). This interpretation, as already said, strongly chimes with Hall's orders of change and, most of all, with May's characterisation of policy learning as opposed to political learning. The latter, in fact, like Sabatier's policy-oriented learning, involves a process aimed at improving the strategic sophistication in advocacy of the policy actors (May 1992, p. 336 and 339). Under this mode of learning, problem solving incentives are curtailed by high problem tractability, hence the content of learning is not based on substantive features of the policy problem but rather on improving the attainment of own goals (Sabatier 1988, p. 133 and 149-150). It is in this sense that the content of this mode of learning can hence be accounted for as political learning (May, 1992), that is, an increase strategic sophistication, a heightened capacity to explore the Pareto-frontier, or a strategic update determined by the iterated nature of the policy interactions (as suggested by the game theory literature). This form of learning typically takes place within both institutionalized and informal policy *arenas* (May 1992, p. 339), arguably characterised by cumulative distributive conflicts (Dunlop and Radaelli 2016, p. 112). One can think of tripartite bargaining, the negotiations over the EU budget, and intergovernmental deals as fitting examples of the actors typically involved and their venues of interaction.

The time frame of the interactions taking place under bargaining is salient. In fact, given the strategic nature of the policy process, actors will act and react very differently on the basis of the fact that their interaction is a single-shot or a repeated one. Single-shot interactions provide incentives for non-cooperative strategies and exploitation, whereas the iteration of the interactions provides, in theory, incentives for evolutionary stable strategies based on mutual adaptation and long-term cooperation under the shadow of time. These latter outcomes can resemble those of partisan mutual adjustment (Lindblom 1965). Typically, learning via bargaining can be observed in the context of repeated interactions. This is because the most likely effect on the policy outcomes of the mode of learning vie bargaining is mutual strategic adaptation, and hence stability or incremental change that are not observable in one-shot games.

According to May (1992, p. 339), “the prima facie evidence for political learning consists of policy advocates’ change in political strategy”. Sabatier (1988) has a slightly more nuanced view as regards to the implication of this form of strategic learning. Under his paradigm, in fact, the key implication of learning via bargaining is not limited to the increase of strategic capacity of the actors in the bargaining phase but also extends to new techniques and processes learned by the advocacy coalition to improve the policy. Nonetheless, the improvement of the policy is only partially substantive and objective as it is always mediated by the coalition’s aim to effectively implement core beliefs. This also suggests that this modality of learning is suited to account for dysfunctional learning seen as “endarkenment” (Dunlop and Radaelli 2016 and 2017).

To sum up, learning via bargaining is a form of unintended learning observed when political and non-political actors bargain over policy options that lead to certain distributional consequences due to the high tractability of the policy problem. These actors are not framed within a power or learning vertical structure, hence their constellation is horizontal and their mode of interaction is strategic. Learning emerges as a by-product of repeated strategic interaction within political arenas and consists in political learning intended as increased advocacy and strategic sophistication, that is, an increased capacity to attain own core policy goals. The effects of this mode of learning on the policy processes and outcomes point toward incrementalism, mutual adaptation and partisan adjustment (Dunlop and Radaelli 2013 and 2017).

3.2d Learning in the shadow of hierarchy

Learning in the shadow of hierarchy is strongly contingent on the strategic and coercive nature of the policy interactions and on institutional rules and procedures. In fact, it is the shadow of hierarchy itself that structures the interactions among actors and this has obvious impacts on learning. First, also under the shadow, the actors' focus on puzzling/learning is not explicit, as the powering dimension is the salient one (Dunlop and Radaelli 2013 and 2017). Second, like under bargaining, learning is a by-product of actors' mutual adaptation within strategic interactions over highly tractable policy problems but the presence of a hierarchical institutional structure also creates further pressure for actors to "learn how to comply" to rules, targets and procedures (Chayes and Chayes 1993). The shadow of hierarchy, in fact, can be conceptualised as a normative power structure mandating behaviours within which the actors are locked in by consent or coercion (*ibid*.). International policy regimes are suitable and common examples of the hierarchical setting. Under this setting, actors are not placed horizontally but their constellation is vertical and organized around the aforementioned rules of the policy regime and the roles mandated by the hierarchy, hence they cannot fully engage in distributive bargaining.

The literature dealing with the shadow of hierarchy and its effects is now mature (see, as key references, Héritier and Lehmkuhl 2008; Börzel 2010), but the learning processes taking place under the shadow have been understudied, to be generous. Nonetheless, it is possible to consider some conceptualisations of policy learning as implicitly moving within that shadow. I refer, namely, to Etheredge's "government learning" (1985) and to the part of the lesson-drawing and diffusion literature dealing with coercive or quasi-coercive policy transfer (Marsh and Dolowitz 1996; Radaelli 2000; Weyland 2005).

To characterise the empirical scope conditions that we expect to qualify the analytical components of learning under the shadow of hierarchy, I begin by elaborating on the "what" and "who" questions.

Policy problems in the hierarchal mode are highly tractable and actors are clearly detected in terms of roles and resource availability thanks to the presence of formal and hierarchical institutional structures and rules. Under this mode, high problem tractability means, similarly to the bargaining modality, that the actors are fully informed of the consequences and payoffs of the different courses of action they can take in the policy process (Moravcsik 1999). Nonetheless, their constellation is not horizontal like under bargaining, but vertical and organized around institutional roles and rules. This constrains the set of actors solely to governmental, highly certified political actors (Etheredge 1985) or to a set of institutional actors clearly indicated by the policy regime's rules. Under extreme hierarchical conditions, the participation of the actors can even be compulsory (Scharpf 1988). Within this framework, "there is a kind of teacher-learner relationship, but this has less to do with specific actors (such as the experts, the scientist, etc.) and more with the content of institutional rules. Institutions 'teach' roles via socialisation and/or are channels through which rules are taught to the actors in the system of interaction" (Dunlop and Radaelli 2013, p. 612).

Arguably, another feature of the hierarchical actor constellation is that it involves the presence of agents posed at different levels, like in a multilevel governance system. Within this constellation, we observe the presence of highly certified actors who stay at both the top and at the bottom of the hierarchical structure, with the former commanding the rules of the game and often working as monitors. Importantly, the shadow and the implicit vertical constellation it determines must not necessarily be fruit of the presence of courts or of the embedment of the policy process within the delegation chain. Indeed the shadow refers more generally to "political institutions that, when present, can either provide 'rules of the game' (in the sense of the rational-choice version of the shadow articulated by Scharpf) or codes, identities, collective memories, lock-in mechanisms and roles." (Dunlop and Radaelli 2013, p. 612). One can think of the role of the European Commission in economic policy surveillance, of the role of international organizations imposing legal obligations or recommendations to independent states, or of domestic policy makers implementing EU legislation. The resulting mode of interaction, therefore, resembles that of a monitoring game (Mailath and Samuelson 2006) based upon conditionality and potential sanctioning of non-compliant behaviours. It follows suit from this line of reasoning and from the high tractability of the policy problems that the content of learning can be either an increased strategic sophistication in breaching the rules of the institutional policy interaction (most of all when compliance is costly and the incentive structure is insufficient to induce it) or an increased capacity to follow the rules, i.e. learning how to comply to conditionality requirements (Schimmelfennig and Sedelmeier 2004).

The venues of this mode of learning are typically formal and strongly institutionalized. Again, a suitable example is the annual submission of information regarding fiscal policy performance from EU Member States to the Eurogroup and the EU Commission. This submission of information results in a mutual monitoring exercise carried out first informally (i.e. behind the closed doors of the Eurogroup meetings) and then formally (i.e. within the structures and official procedures of the Commission, and eventually of the Ecofin Council). Nonetheless, these arenas are only open to internal contestation and do not foresee any presence of a role for non-political social or epistemic actors. As for the time frame, these policy interactions are customarily iterated and framed with the shadow of time besides that of hierarchy (Mailath and Samuelson 2006).

As for the expected implications of this mode of learning, they strongly depend on the incentive structure attached to the hierarchical arrangement. Thus, on the one hand, with sound incentives that sustain a cooperative mode of interaction, conditionality and hierarchical traits of the policy interaction, they can become healthy and imply learning to comply to rules and cope with instructions. On the other hand, compliance can be systematically curtailed by improper strategic incentives leading to the defection of rules, joint-decision traps and political/strategic learning or learning how to defect without retaliation. It follows that the key expected implication of a process of learning in the shadow of hierarchy, depending on the nature of that learning, is yet again institutional continuity or change.

To sum up, learning under the shadow of hierarchy takes place as a by-product of rule compliance and thanks to systemic pressure exerted by conditionality requirements. The learning actors are fully political and are organized in a vertical hierarchical constellation. Depending on their preferences and structural incentives, they can equally be pushed to learn on the process of compliance or to learn how to defect to the rules of the policy regime. Problem tractability is high as the rules of the game are broadly shared and fully known. The content of learning, as well as its impact on the policy outcomes, is improved process-based capacity to "play the game", whether to defect or to comply with its rules. Again, the learning process does not involve learning about substantive, ideational aspects of a policy but learning about its process of implementation. The most likely observable effect of learning is on the grounds of institutional continuity or change due to the "lessons" learned or, to put it differently, on the grounds of reinforced, instrumental process-based compliance or sustainable defection.

3.3 Powering *over* puzzling?

Whereas under the reflexive and epistemic modes learning is an *intended* product of the policy interaction (which is informed by and builds upon the problem solving imperative spawned by low problem tractability), in learning under bargaining and under the shadow of hierarchy learning is principally a by-product of the policy process. The latter, revolving around unambiguous policy problems and choices which lead to clear distributional gains or losses for the actors, is eminently strategic, rather than oriented toward puzzlement and problem solving. As a result, learning within these kinds of processes is mainly about increasing the strategic knowledge and sophistication of the actors. In this light, the analytical components of actor constellations and modes of interaction (see analytical component 1 in Table 1) gain particular prominence. Their characterisation, in fact, serves the purpose of shedding light not only on the puzzling/learning dimension of the policy interaction but also on the strategic one. Like this, modes of learning can also be considered as mechanisms able to successfully subsume strategic, institutional and ideational features (Beach and Pedersen 2013, p. 53) in a single template. This, as we shall see diffusely in chapters 4 and 5, has important implications for the degree and typology of explanatory leverage of modes of learning in strategic settings. Since mechanisms of learning are in fact contingent on and sensitive to actor constellation and problem tractability, it can be anticipated that they will be able to properly subsume the strategic implications of policy arenas characterised by distributional conflict within the modality of “learning in the shadow of hierarchy” and, of course, “learning via bargaining”. These modes of learning indeed predict instrumental and hierarchical learning on the one hand, but also dysfunctional learning (e.g. learning how to defy rules or how to comply with them formally, but not substantially) on the other. In other words, the implications/expected empirical manifestations of hierarchical and bargaining-driven modes of learning are not necessarily oriented toward improved compliance or better a regime’s outcomes, but are also suited to reinforce powering dynamics (see for instance the unsatisfactory implementation of the SGP as a case of “learning via bargaining”, where actors learned how to escape and overturn the regime’s rules).

In more general terms, the fact that the measuring instrument is constructed to also carefully account for the strategic nature of agency allows the achievement of the supposedly arduous *blending* of two analytical dimensions that seem to be far from each other in ontological and epistemological terms. This is to be seen as a fruitful attempt to overcome the limitations and shortcomings of both ideational and interest-driven literature, according to a classical view that interprets the puzzling and powering dimensions of policy making as intertwined and interdependent (Heclo 1974).

Like this, my analytical infrastructure, that puts the ideational/puzzling dimension of policy making at center stage but does not disregard its powering and institutional nature, is suited to also account for complementary causal forces – like those that most likely emerge in policy regimes characterised by a prevalence of the strategic dimension. This is because this study conceptualises learning as one potential explanatory trait of the policy process but it equally acknowledges the causal importance of the strategic dimension, posing powering and puzzling in a dialectic mutual relationship. Scope conditions for different modes of learning in fact emerge from the complex interaction between different analytical components that revolve around a comprehensive understanding of the policy process.

The common claim that rational-choice, power-based explanations are mutually exclusive with respect to ideational and learning-based ones is to be rejected. In fact, this view disregards both scholarship and common sense. With regard to the former, for instance, the whole rationale and experimental findings of behavioural economics draws extensively, yet within game theory models that are driven by rationality assumptions, on the concept of variable preferences due to game repetition and underlying learning processes (Fudenberg and Levine 1998; Cheung and Friedman 1998). The same can be said with regard to the literature on Bayesian learning. In a seminal contribution from Herbert Simon (1955), the latter is elegantly integrated within a rational choice paradigm spawning an extremely rich strand of the literature that is still flourishing now (Weyland 2005; Braun and Gilardi 2006; Meseguer 2009). As for the latter, the idea that assumptions of full rationality and learning processes (that can be as much ideational as they are instrumental) are not only “reconcilable” concepts but are even germane constructs, should be commonsensical: what is more rational (and self-interested) than learning from previous experiences, from other agents, from new evidence, whether to better achieve own goals or to improve problem solving capacities?

Finally, merging rational-choice explanatory motives with a learning-informed perspective can benefit both rational-choice and policy learning scholarships. As for the former, embedding learning in rational accounts allows us to make sense of shifts in the preferences of the actors, easing one of the major limitations of rational-choice institutionalism (Checkel 2001). It also induces us to focus more on agency, whereas rational-choice theorizations are blamed as being overly deterministic and centered on structural traits (Schmidt 2006). With regard to the learning literature, conceptualising scope conditions of modes of policy learning as also being contingent on the strategic dimension allows us to depart from a normative-laden vision whereby learning systematically improves policy outcomes.

3.4 Conclusions

Table 3 below, drawing on the review of the four modes of learning performed in Section 2 of this chapter, characterises the specific scope conditions attached to each analytical dimension of the four modes of policy learning, hence constituting the "policy learning measuring instrument". This table represents the key analytical tool for the sake of the empirical analysis of the case studies which is grounded in a design based upon *policy learning* as an ontology of policy making and *modes of policy learning* (intended as causal mechanisms) as the epistemological key underpinning that ontology.

Table 3.3 Scope conditions of the "Policy Learning Measuring Instrument"

	Who	What	Where	When	Expected implications on policy outcomes
Social reflexive	Societal and political actors with mixed certifications organized horizontally and mainly through a cooperative/deliberative form of interaction	Complex and uncertain policy problems	Social *fora* for deliberation	Repeated interaction over long periods of time	Experimentation, third-order and belief/paradigmatic change
Epistemic	Expert and political actors with high certification organized vertically in a teacher-learner relation	Complex and uncertain policy problems requiring expert advice	Technical/institutionalized policy venues	Normally taking place over limited time-frames	Epistemic inputs shape policy and policy making prompting both first, second and third-order change
Bargaining	Actors with low official certification, but using their resources to interact strategically, hence reproducing different degrees of certification and potentially both	"Every day policy making"[27]	Arenas for multilateral bargaining	Potentially infinitely iterated interactions	Increased strategic sophistication, mutual partisan adjustment, first and second order change

[27] Hall (1993).

	horizontal and vertical constellations				
Hierarchical	Highly certified actors organized vertically and interacting through formalized rules	"Every day policy making"[28]	Rule-based, institutional venues	Potentially infinitely iterated interactions	Instrumental learning, learning "how to comply" (or defect), first and second-order change

To summarize and proceed with the case studies, this chapter has dealt with the task of constructing an analytical tool to categorize different modes of learning according to a number of analytical components and predicted scope conditions. It has done this inductively, that is, by reviewing established modes of learning and key empirical contributions in the field of policy learning. In particular, drawing on modes of learning developed in the context of a recent systematic review (Dunlop and Radaelli 2013), the chapter has come up with a series of analytical components of modes of learning and with a systematic "policy learning measuring instrument" characterised by mode-specific scope conditions and observable implications on policy outcomes. The four modes of learning - systematized with the help of the measuring instrument's approach - will be the key epistemological tools used to categorize the empirical cases and to "measure" the influence of different modes of learning (intended as causal mechanisms – see Chapter 1) in terms of their effects on policy outcomes.

[28] Hall (1993).

Chapter 4. Fiscal policy coordination in Stage II of EMU: Learning in the shadow of hierarchy

4.1. Introduction

The Treaty of Maastricht, officially known as the Treaty on European Union (TEU), is an international agreement negotiated between 1989 and 1992 by the then twelve Member States of the European Communities (EC). Entered into legal force in 1993, it was and still is commonly considered as the most substantial leap of the EC toward a fuller economic and political integration (Baun 1995; Dyson and Featherstone 1999). The TEU, besides creating a brand new supranational institution (the European Union – EU) which legally substituted the Communities, also inaugurated the so called three pillars structure of the EU. Most importantly for this investigation, it set up a process of economic and institutional convergence meant to lead, through successive stages, to a monetary union.

Economic and Monetary Union (EMU), the supranational regime subsuming the set of economic and administrative criteria, soft and hard rules, and institutions established by the TEU and successive treaties to achieve and govern the EU's monetary unification and the broad economic convergence among the Member States, is the unavoidable starting point of any investigation concerning fiscal policy coordination within the EU. Although the nexus between stricter economic integration, monetary coordination/unification, and domestic fiscal policies had surfaced several other times in the history of European integration (most prominently in the famous 1977 MacDougall Report), the TEU, and in particular the convergence criteria established for the convergence process, represents a strong lever for a stricter coordination of national fiscal policies at the EU level. This is the key motivating reason for starting the empirical investigation by looking at the policy regime stemming from the fiscal criteria embedded in the EMU convergence process. EMU convergence process is therefore my first case study.

The empirical scope of the present chapter covers, from the temporal point of view, the period from the inception of Stage II of EMU (January 1994)[29] until the Council Decision of May 1998 that inaugurated the third and final stage of EMU, establishing that eleven EU Member States "fulfilled the necessary conditions for the adoption of the single currency" (*ibid*. Article 3) starting from January 1999.

As we shall see and discuss below and in Chapter 5, there are two fundamental reasons to delimit the scope of the first empirical case to 1998. First, toward the end of the second stage of EMU, with the signing of the Stability and Growth Pact (SGP), a new legal basis was laid down for fiscal policy coordination, bringing about a new policy regime. Second, with the adoption of the common currency and the achievement of the monetary union, Member States were not engaged anymore in the conditional joint *production* of a public good (the monetary union) but rather in its multilateral *maintenance* or *exploitation* (Cornes and Sandler 1996; Furubotn and Richter 1997; Begg et al. 2003; Collignon 2004). This circumstance, as we shall see when comparing the regime pre- and post-SGP, has had relevant consequences on the policy process and outcomes of fiscal policy coordination and leads me to put forth a clear-cut distinction between the two arrangements.

To sum up, the empirical case of this chapter focuses on Stage II of EMU convergence process. To investigate it, I will draw on the "policy learning measuring instrument" developed in the previous chapters. The *explanans* will be the learning dynamics taking place among actors when they interact in the implementation of the policy coordination regime. The *explanandum* will be the outcomes observed under the regime, or, to be more precise, the observable influence of learning processes on regime implementation and policy outcomes.

In terms of case-specific research questions, this chapter addresses the following:

1) What are the scope conditions for policy learning within the regime for fiscal policy coordination prompted by the fiscal convergence criteria of Stage II of EMU?

[29] The transitional provisions regulating the first stage of EMU (operating in 1993) did not include specific provisions on fiscal policy.

2) Are these conditions conducive to a specific, prevalent mode of learning within that policy regime?

3) Does the prevalent mode of learning engrained within the policy regime contribute to explain the observed outcomes? In other words, do the expected implications of the case-specific mode of learning bear out empirically and explain actors' interactions and regime's outcomes?

Thus, first I identify the mode of learning specific to the case study and, second, I verify the expected effects of the detected mode of learning on policy process and outcomes.

In the background lie some of the classic research questions revolving around the economic rationale underpinning EMU and its sustainability (Eichengreen 1992 and 1996; Eichengreen and Von Hagen 1996): the seemingly endless debate between *economists* and *monetarists* (Mongelli 2008), the nexus between fiscal and monetary policy (Uhlig 2002; Canzoneri et al. 2006), and the monetary criteria of the EMU convergence process. Although these issues will be explored to a certain extent, the key focus of the chapter lies in the interactive and dynamic process of implementation of the fiscal policy coordination regime and on its learning dimension.

Also the issue of why and how EMU happened at all (for a review see Sadeh and Verdun 2009) is to be dealt with in this chapter but only inasmuch as it hinges on and provides explanatory leverage with regard to the process of implementation. In fact, unlike the prevailing literature on EMU, this investigation is not primarily interested in explaining how the regime for fiscal policy coordination came about through iterated bargaining and negotiations, but rather in how it has been implemented at the systemic, supranational level. On the one hand, the simple argument for the distinction between negotiation and implementation phases is that arrangements on fiscal policy coordination are not self-enforcing contracts and they require ex-post commitment from the actors involved to be successfully executed (Begg et al. 2003; Schuknecht 2004). On the other hand, my investigation focuses specifically on the supranational dimension of the implementation process of fiscal policy coordination because it seeks to overcome the weaknesses of domestic-based explanations. In fact, these explanations draw on idiosyncratic national patterns and, to a certain extent, fail in making sense of a controversial, yet homogeneous, path of policy convergence (Fatás and Mihov 2003). Policy learning is hence seen as a unifying framework that goes beyond domestic-level variables and provides a systemic-level explanatory account of regimes' implementation.

The remainder of the chapter is organized as follows. Section 2 provides a static, descriptive account of the key structural features of the policy regime for fiscal policy coordination, stemming from the fiscal convergence criteria under Stage II of EMU. This description feeds into Section 3 that takes care of characterising the case's scope conditions for learning according to the previously developed "policy learning measuring instrument". This, in turn, allows us to portray the implementation of Stage II of EMU as a case of learning under the shadow of hierarchy. As I argued in Chapter 3, each mode of learning comes with a set of observable implications. Section 4 tests the previously detected observable implications about the policy regime, hence working as an empirical validation of the theory-driven expectations. Section 5 briefly concludes by summarizing the key findings.

4.2 The fiscal "side of the moon" within the EMU convergence process

Before exploring in detail the specific TEU provisions concerning fiscal policy coordination within the convergence process (i.e. the legal basis of the fiscal policy coordination regime), it is necessary to take stock of the general framework within which those provisions were laid down. Although my focus is on the fiscal side of the EMU convergence process, fiscal coordination did not take place in a *vacuum* but within a broader frame of economic convergence. The fundamental tenet of this frame is expressed in the well-known Article 103 of the TEU that states in its first paragraph that "Member States shall regard their economic policies as a matter of common concern and shall coordinate them within the Council" (TEU, Article 103, 1). Besides establishing this general principle, Article 103 also introduces two procedural mechanisms aimed at governing the coordination of domestic economic policies at the supranational level. The first mechanism foresees that the Council, acting by a qualified majority upon the Commission's recommendations and the European Council's conclusions, adopts broad guidelines for the economic policies of the Member States (TEU, Article 103, 2). Moreover, the Council is also responsible for monitoring economic developments in each Member State and the consistency of domestic economic policies with the aforementioned guidelines (TEU, Article 103, 3). Using the same expression of the Treaty, Article 103 set up a system of "multilateral surveillance", the aim of which was to achieve both *procedural* and *substantive* coordination of Member States' economic policies (in the meaning conceptualised by Andrews 2006).

When it comes to the enforcement mechanisms of this surveillance system, Article 103 limits referral to the issuing of recommendations by the Council to non-compliant Member States (both in private and public form, if non-compliance persists). This has led many analysts to characterise the system of multilateral surveillance laid down in Article 103 as based on peer pressure and soft rules, rather than on coercive legal means (Begg et al. 2003).

If this conclusion holds true as for the coordination and monitoring of economic policies in general and their framing within broad guidelines formulated by the Council (that is, it is always worth recalling it, the most intergovernmental forum of the EU), the picture changes consistently when we look at Article 104c of the TEU, which is the article expressly dealing with the coordination of fiscal and budgetary policies of the Member States. Article 104c does not in fact limit its spelling out of the rules for Member States to "avoid excessive government deficits" (paragraph 1) but also establishes a complex, yet clear, coercive implementation mechanism purportedly able to effectively enforce the legal requirement of sound budgetary policies, even through hard rules such as economic sanctions in the forms of fines issued to non-compliant Member States. Moreover, the transposition of Article 104c within the transitional provisions regulating the convergence process (TEU Article 109j) made it not only the legal *acquis* of the regime I survey as first of the four cases of fiscal policy coordination but also a "living" article, or, to put it more clearly, an immediately effective legal obligation for Member States. In fact, in slight anticipation of what will be discussed in the following sections, right after the launch of Stage II of EMU, Article 104c (transposed in Article 109j) started to *bite*, as did its coercive weapon, the Excessive Deficit Procedure (EDP). This is exemplified by the noticeable fact that during Stage II of EMU all Member States incurred at least one EDP (see Section 4, Table 2).

To be more specific about the disciplinarian dimension of Article 104c, it stipulates that:

> "The Commission shall monitor the development of the budgetary situation and of the stock of government debt in the Member States with a view to identifying gross errors. In particular it shall examine compliance with budgetary discipline on the basis of the following two criteria: (a) whether the ratio of the planned or actual government deficit to gross domestic product exceeds a reference value […] (b) whether the ratio of government debt to gross domestic product exceeds a reference value, unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace" (TEU, Article 104c, 2).

These values are then specified in an annex protocol to the TEU and are the well-known 3% for the deficit/GDP ratio and 60% for the debt/GDP ratio.

In case a Member State reveals that it is incapable of fulfilling these criteria, it is subject to a set of corrective procedures eventually resulting in an Excessive Deficit Procedure. The provisions established in case Member States do not fulfilling these criteria (TEU, Article 104c, 3-13) can be summarized as follows. The Commission is the first mover as it is the institution not only entitled to monitor Member States' fiscal policies but also to report any case of defection under one or both of the aforementioned criteria. If the Commission finds that an excessive deficit in fact exists, it has to address an opinion to the Council. This latter body has then the responsibility of taking action against the defector.

The Council's actions vis-à-vis an excessive deficit reported by the Commission are principally three: to decide about the actual existence of an excessive deficit "acting by a qualified majority on a recommendation from the Commission", to issue recommendations (first confidentially, then, if the Member State's corrective measure is deemed insufficient, publicly) and, if no satisfactory actions are taken by the breaching Member State to halt the excessive deficit, to initiate a sanctioning procedure (the EDP), potentially leading, eventually, to a fine (TEU, Article 104c, 6-12). It is crucial to note that, as for the issuing of warnings to the concerned Member State and for the potential sanctioning, "the Council shall act on a recommendation from the Commission by a majority of two thirds of the votes of its members […] excluding the votes of the

representative of the Member State concerned" (TEU, Article 104c, 13).
The Council, according to the postulate of the TEU, therefore works as a third sanctioning party in a monitoring game that sees Member States acting under the oversight of the Commission. Alongside these institutions, in Stage II of EMU, two further bodies take part in the fiscal criteria implementation, namely the European Monetary Institute (EMI), that is, the transitional predecessor of the European Central Bank (TEU, Article 109f), and Eurostat, in its technical capacity.

The above reported provisions of Article 104c represent the general framework for fiscal policy coordination *regardless* of the EMU convergence process (in fact, they were almost literally transposed in TEU's successive amendments and in the SGP). In order to understand how these provisions were in effect put at work within the process of the conditional economic convergence necessary to get to the third and final stage of EMU, that is, to achieve the adoption of the common currency, one has to look at TEU's transitional provisions, particularly the already mentioned Article 109j. These can be considered the "rules of engagement" for the Member States within the second stage of EMU and differ slightly, but importantly, from the above described set of rules, generating a specific regime for fiscal policy coordination, the object of my empirical investigation.

To start with, the transitional provisions regarding Stage II draw on the fulfillment of a few conditions that had to be achieved under Stage I, that is, the full liberalization of capital markets, the implementation of Community Law regarding the Internal Market, and the preparation by Member States of multiannual programmes that paved the way for the economic convergence process foreseen by Stage II, with particular regard to price stability and sound public finance. In any case, the monitored implementation of fiscal policy discipline as laid down in TEU's Articles 104c, 109j and in the dedicated Protocol on EDP started, from the legal point of view, with Stage II, which was set to begin in January 1994.

Within the transitional provisions laid down in Article 109j, there are two key differences with respect to the framework established by Article 104c. The first one is that the corrective provisions designed to address Member States' non-compliance with the fiscal policy criteria are relevantly watered down. Namely, paragraphs 9, 11, and 14 of Article 104c (those dealing with the enforcement options that the Council has against non- compliant Member States) are not in place during Stage II, prompting a much less coercive role of the Council in the case of excessive deficits. Secondly, the set of relevant actors under Article 104c (the EU Member States, the Commission, the EMI, and the Council) is enlarged; in fact, the final say over the fulfillment of the necessary conditions for Member States to proceed to Stage III is no longer at the disposal of the Council in its normal formation, but it is left to the Council of the EU, that is the Council in the composition of the Heads of State or Government – a body that is of an even more pronounced intergovernmental nature. Aside from these noteworthy differences, the framework of implementation for fiscal policy coordination during Stage II follows the provisions of Article 104c and the protocol on EDP.

The working of fiscal policy coordination under the regime in place under Stage II of EMU is summarized as follows. From 1994 to 1998 Member States were into Stage II of the EMU convergence process. To abide by its rules on fiscal discipline and hence be able to access to Stage III, Member States were requested to interact with the Commission, the newly established European Monetary Institute (EMI), Eurostat and, crucially the Council, in both its formations. The format and rules of this interaction were formally prescribed by binding and conditional convergence criteria and enforcement procedures. In particular, these latter took the form of biannual submissions of detailed reports about the state of Member States' public finances to the Commission. This institution was tasked with carrying out an evaluation of those reports, with the aim of detecting potential excessive deficits. If the Commission found that a Member State was not respecting the ceilings with regard to one or both of the fiscal criteria, and hence detected an excessive deficit, they had to report it to the Council.

On the basis of the reports of the Commission, the Council in its normal setting was called to evaluate, through a qualified majority voting, whether the Member State was actually running an excessive deficit or not, and, in cases where it did, act accordingly by first issuing reserved, and then public, recommendations. It is worth recalling again that under Stage II the Council was deprived of those coercive powers stemming from paragraph 11 of Article 104c and could simply issue recommendations for the correction of excessive deficits. Nonetheless, under Stage II of EMU the Council enjoyed the relevant power to refuse the access to Stage III for those countries that were still engaged in an EDP, according to the input provided by both the Commission and the EMI. In fact, by 1996 and 1998 the transitional provisions imposed an obligation for all Member States to be subject to an assessment leading to the detection of those countries eligible for Stage III. To proceed toward it, at least with regard to fiscal policy criteria, a Member State needed to not be involved in an ongoing excessive deficit procedure. The ball then rolled into the yard of the Council in the composition of the Heads of State or Government that again, via a qualified majority, was tasked to give its official *imprimatur* to those Member States eligible for the last stage of EMU.

When it comes to a preliminary evaluation of the policy regime, notwithstanding the preference for qualified majority voting instead of unanimity within the Council and besides the sit-out provision for Member States involved in EDPs, it is clear that the third evaluating party is not *impartial* but structurally partisan, given that the Council is, by definition, the intergovernmental organ of the EU (Schuknecht 2004). This configured a “sinners judging sinners” situation that eventually undermined the credibility of the sanctioning arm of fiscal policy discipline, as the 2004 conflict between Germany and France and the Commission clearly showed (Heipertz and Verdun 2010; see Chapter 5 for an in-depth discussion). Moreover, during Stage II, we have seen that some of the tools stemming from Article 104c, and such to allow the Council to coerce Member States to comply with the fiscal criteria, were not in force.

However, under the shadow of conditionality imposed by the convergence process, the rationale of monitoring and sanctioning appears somewhat different with respect to the well-known scenario spawned by EDPs *after* the adoption of the common currency. The key difference lies in the fact that an EDP, hence a breach of the regime’s provisions, has a noticeably different nature if framed within an already *existing* and working monetary union rather than within an *emerging* one. In fact, even within the above sketched “sinners judging sinners” scenario and notwithstanding the absence of effective coercive tools, the conditionality (read: threat of exclusion) implied by the convergence process and the highly salient perspective of the adoption of the common currency implicitly made up for the lack of strong enforcement mechanisms. I shall elaborate on this point below, but for now it is important to stress that the role of an evaluating third party is crucially different when it acts within or without the scope of an already existing public good as a monetary union (Heipertz 2003; Collignon 2004).

4.3 The "policy learning measuring instrument" in action

As previously clarified, the first step of my empirical strategy, beyond the description of the formal characteristics of the surveyed policy regime featured in the previous section, entails *filling in* the policy learning measuring instrument developed in Chapter 3. This means, in practice, to characterise the various items of the measuring instruments that represent the key analytical dimensions of modes of policy learning. Unpacking these analytical dimensions allows for the characterisation of the scope conditions for learning and for the assignment of a prevalent mode of learning to the regime-specific policy processes and interactions taking place among the relevant actors.

Then, once a prevalent mode of learning has been assigned to the policy regime, the conclusive step of my empirical analysis involves contrasting the expected implications of the case-specific mode of learning with the real-world, observed features of the policy regime. If these implications are supported by evidence, then the finding will be that learning processes have to be considered as one of the explanatory drivers of the observed outcomes, with the crucial caveat that learning dynamics are not an exclusive explanation but belong to a multi-causal explanatory account of the policy outcomes. Moreover, another important caveat which arises out of my ontological understanding of learning needs to be taken into account. In the case that theory-driven causal expectations about learning are not confirmed by empirical investigation, the conclusion is not that learning has not taken place at all but rather that learning processes did not contribute to directly explain the outcomes, being nonetheless at work within the policy interactions.

That being clarified, and bearing in mind the *static* description of the structural features of the policy regime carried out in the previous section, let us start characterising the first empirical case according to the analytical dimensions of the learning measuring instrument.

4.3a Who learns? What are actors' certification and role in the policy and learning processes? How is the actor constellation shaped?

The first analytical dimension of policy learning revolves around actors and the nature of their agency. Policy learning is a dynamic interactive phenomenon contingent on the policy process. The cases I deal with are the implementation courses of different regimes of fiscal policy coordination, hence the learning dynamics to be characterised through the measuring instrument are contingent on the process of implementation. It follows that the actors who are called to implement a given regime, or that influence this process in both formal and informal terms, are the relevant actors of the underlying learning process that I seek to characterise.

Bearing this in mind, the answer to the questions above lies in Article 109j of the TEU and in the observation of the substantive, historical developments of the convergence process. In particular, Article 109j (the one that I labelled as the practical "rules of engagement" of the policy coordination regime) not only imposed a binding timetable and clarified the successive procedural stages for the convergence process and for the eventual adoption of the common currency, but also singled out in clear terms the set of relevant actors, their roles within the policy regime, and their mode of interaction. Drawing on the very first line of that article and on the real-world implementation process observed under Stage II of EMU, we can easily detect the actors engaged in the implementation of the newly established regime: "The Commission and the EMI shall report to the Council on the progress made in the fulfilment by the Member States". There are hence four relevant actors within the policy regime, with well-defined tasks: the Member States that engage in the convergence process by complying with its various criteria (in our case the thresholds for the deficit/GDP and debt/GDP ratios), the Council that works as the final evaluator of Member States' adherence to the convergence criteria, and two intermediate bodies, the Commission and the EMI, which work as monitoring parties by providing key inputs and advice on Member States' fiscal policies to both the Council and to the Member States themselves. Moreover, in order to harmonize Member States' accounting standards, a fifth actor, Eurostat, was called to provide key technical input (European Commission 1996 and 1998).

The division of labor among different institutions of the EU in the oversight and multilateral surveillance of Member States' fiscal policies was not reflected only in the formal provisions of the TEU. The great deal of scholarly research devoted to the convergence process highlights the factual interplay among these institutions during Stage II of EMU, as demonstrated, for instance, by the timely exchange of high-quality data among actors during the convergence process, by the supportive role of the Eurostat in bringing about the harmonization of accounting standards, and, most of all, by the thick institutional dialogue between the Commission and the Member States (Schuknecht 2004; Hughes Hallett and Lewis 2005).

Ostensibly, all the relevant actors singled out above enjoyed a high degree of certification with regard to their role in the learning processes underlying the regime's implementation. This is because the legal machinery and substantive working of the regime clearly indicated which actors were "rule-givers" and which ones were "rule-takers", both in the implementation process and within the implicit learning dynamic underpinning the process. Actors with low official certification, like societal groups, open public fora, or domestic interest/pressure groups, were not involved in the regime's implementation courses, neither explicitly nor implicitly.
These considerations induce to characterise actors' certification for the learning processes within the EMU's convergence regime as high.

Moreover, the circumstance whereby actors' roles and responsibilities in the implementation process were clearly mandated by the Treaty leads to characterise their constellation as hierarchical. At the top of the hierarchical structure we find the Council (in both its formations) right above its monitoring agents (the Commission, the EMI, and Eurostat), whereas the Member States are located at the bottom of this structure.

As argued in Chapter 3, the hierarchical structure underpinned by the regime is suited to implicitly reproduce a top-down teacher/learner relationship, whereby the actor located at the top of the hierarchical structure mimics the role of the teacher and the actors subject to monitoring and eventually called to comply with the regime's rules represent the learners (Dunlop and Radaelli 2013). This is certainly the case under Stage II of the EMU convergence process, even though, owing to the complex nature of the EU's institutions, it is more pertinent to assign the role of teacher to the Commission rather than to the Council. This is because of the supportive role assigned by the TEU to the Commission vis-à-vis the role of monitor and the final evaluation assigned to the Council.

Proceeding with the characterisation of actor constellation, Member States were embedded in a vertical structure that they consented on and that poses them in a subordinate position with respect to the monitoring parties (the Commission and the EMI) and to the final decision maker (the Council). Indeed, the way actors interact with each other is decisively structured by the shadow of hierarchy of the convergence process and by clearly demarcated roles and rules. This translates, in substantive terms, into a formal and vertical mode of interaction taking place via the exchange of official communications within institutionalized venues. Key empirical examples of this dynamic of interaction are the presentations of macroeconomic programmes and budgetary figures to the Commission by the Member States twice a year;[30] the policy dialogue and exchange of information taking place under the EDP between the Council and the involved Member States; and the mandatory presentation by the Commission and the EMI of transitional reports (1996 and 1998) on the status of the convergence process. Most of all, these latter forms of institutional, coordinative communication (Schmidt 2008) can be seen as the key sources of empirical evidence of the interactive dimension of the policy implementation process, as they crystallized the continuous policy dialogue taking place between the evaluating/monitoring (the Council and the Commission) and implementing (Member States) parties (see Section 4).

To sum up, Member States are subordinate (by their explicit consent) to the Council which is in charge of evaluating the progress made by the Member States (through the decisive input of the Commission and the EMI) on the path towards convergence. Under this regime, the Council works as an evaluator and its assessment turns out to be conditional on Member States' compliance

[30] In accordance with Article 4(1) of Regulation (EC) No 3605/93.

with the rules set in the negotiation stage of the TEU by the Member States themselves.

After having concluded that highly certified actors are hierarchically ordered in a constellation suited to generate compliance with mandatory rules through formal institutional interactions, there already seems to be evidence to argue that the prevalent mode of learning for this policy regime is very likely to be hierarchical. Nonetheless, we need to further verify whether the other scope conditions for learning go in the same direction, that is, if they also indicate that learning in Stage II of EMU took place under the shadow of hierarchy.

The second set of questions revolves around problem tractability. In particular, by addressing this set of questions I seek to understand whether the surveyed policy regime is meant to deal with an obscure, ambiguous policy problem or with routine, everyday policy-making.

4.3b What is the tractability of the problems tackled in the policy process? What is the content of the learning process?

With regard to the specific empirical case, does the convergence process provide evidence that actors cope with elusive implementation issues/ambiguous coordination problems? Or does evidence point to fully informed actors strategically deciding over policy solutions/courses of action with known payoffs? Remember that under the second circumstance, learning is not a direct, explicit aim of the policy process but rather an unintended by-product of it or as the puzzling dimension of the implementation process is overshadowed by its powering nature (see Chapter 3.3).

To begin with, the whole process of fiscal policy coordination and its implementation implies at least three distinct stages: the formulation of the "rules of the game" (taking place through supranational-level negotiations), the actual implementation at national domestic level of the negotiated agreements via (supposedly) compliant fiscal policies and the monitoring/assessment of compliance (that takes place again at supranational level) potentially entailing a sanctioning scheme for defectors, or in the case of the convergence process, the denial of access to the third stage of EMU.

My own investigation focuses mainly on the second and third stage of this process but when dealing with the very first legal regime regulating fiscal policy coordination we need to understand where this regime comes from, what its rationale is, and what coordination problem it means to address. Thus, I need to elaborate briefly on the question "why and how EMU happened" to draw conclusions about the problem tractability of the policy coordination regime.[31]

Causal explanations of the process that led to fiscal policy coordination, and to the TEU's and EMU's genesis more generally, are all but clear and unproblematic (for a comprehensive review on EMU's creation see Sadeh and Verdun 2009). Moreover, even for an investigation focusing solely on fiscal policy coordination, one cannot avoid to taking stock of the so called monetary/fiscal nexus. This means in practice that the motives explaining fiscal policy coordination mechanism(s) and regime(s) are inevitably functionally correlated to the overall rationale of EMU. This is because the establishment of different arrangements for fiscal policy discipline can be grasped, both conceptually and practically, as a reinforcement device of the macroeconomic paradigm underlying EMU and of its long-term sustainability (Alesina and Perotti 1995; Buti and van den Noort 2004). It is hence plausible that several of the causal motives for EMU in general have been reproduced in the crafting of the fiscal discipline regimes. These causal explanations encompass both economic and political accounts.

Specifically, economic accounts for fiscal policy coordination, following a functional logic with regard to monetary integration, highlight the need to reduce the likelihood of asymmetric shocks, as suggested by the theory of Optimum Currency Area (Mundell 1961).[32] Moreover, the lack of a regime for fiscal policy coordination exacerbates the problem of collective action. In fact, it would increase risks of moral hazard brought about by deficit-biased Member States that profit from improved overall borrowing conditions without committing to a sound fiscal paradigm – an instance of free riding on a public good (Schuknecht

[31] In the successive case studies this will not be needed because the shifts that lead form one regime to another are largely endogenous, that is, they are explained by the outcomes of the incumbent regime. Obviously, for the first case, there is no other way to grasp its *ethos* without getting back to the process that led to its creation.

[32] Asymmetric shocks emerge as divergent output gaps among member states of a currency union. As a unified monetary policy can adjust just one typology of shock, having member states with unsynchronized business cycles is risky for the overall sustainability of the currency area.

2004). Fiscal profligacy could then spill-over on to other Member States and to the whole monetary area, determining an externality problem. This situation would endanger the independence and credibility of the European Central Bank in respect of its no bail out clause and to its statutory - besides implicit - inflation targeting policy (Begg et al. 2003), potentially leading it to monetize the debt and failing to provide the common currency with a sound and coherent macroeconomic framework in terms of the economic policy-mix (*ibid*.). Furthermore, supranational fiscal policy discipline responds to the need to finalize a process of collective fiscal retrenchment (McKinnon 1997).[33]

Political science explanations belong to different theoretical perspectives (Heipertz and Verdun 2010). Drawing on an intergovernmental approach, the introduction of EU-wide fiscal discipline can be unravelled as an outcome of national interests (i.e. of national-based cost-benefit calculations carried out by single member states – Hosli 2000 and 2008), of a Franco-German deal, and of large-scale bargaining driven by issue-linkage whereby Germany interpreted the role of *de facto* hegemonic power within the specific EU power constellation (Heipertz and Verdun 2004 and 2010). Under a more supranational explanatory approach, fiscal policy discipline would not only arise from conflicting national interests, issue-linkage motives, and hegemony, but crucially from a *functional* push determined by the Member States' embeddedness in the EMU's economic framework (Eichengreen 1994).

Further explanations focus on domestic politics and interpret the emergence of fiscal policy coordination as the result of country-specific political dynamics (in line with comparative political economy scholarship) coupled with the underlying power relations among Member States (Heipertz and Verdun 2004, 2010 and Hallerberg 2004).

Finally, another theoretical lens highlights the decisive role played by experts and ideas in determining a supranational ideational convergence towards a specific paradigm of economic and fiscal policy, namely that provided by the German pragmatic neoliberal template that crucially resulted in fostering the idea of "sound money" underlying EMU (McNamara 1998). According to

[33] It is worth noting anyway that various authors, drawing on economic considerations, contest the case for fiscal policy coordination (for a seminal example see Alesina and Wacziarg 1999; for an insightful discussion on the desirability of fiscal policy coordination see Beetsma et al. 2001).

Heipertz and Verdun (2004), the causal explanations dealing with German hegemony and with ideational convergence (both belonging to the set of political science accounts of EMU) are the most relevant in making sense of the creation of the EMU and fiscal policy coordination mechanisms. Domestic-level explanations - as well as economic reasons - are in turn less prominent (*ibid*. and Dyson 1994).

One can therefore argue, much in line with McNamara (1998), that EMU fiscal discipline stems from a process of EU-wide ideational convergence around the paradigm of “sound money”, which consisted, namely, of non-profligatoy and non-inflationary economic policies. This explanation of EMU is not just “ideational”, as it left questions revolving around the origin and advocacy of the paradigm unanswered. It therefore also points to German hegemony (most of all as a setter of sound policies – see below) and asymmetric bargaining power in steering Member States’ convergence towards its own policy paradigm. The case for ideational convergence lies in the following: without a consensus on the German policy paradigm of “sound money”, economic and classic interest-driven accounts would not predict coordination (McNamara 1998; Dyson and Featherstone 1999; Marcussen 2000; Heipertz and Verdun 2004 and 2010). Crucially, however, Germany managed to emerge as the EU’s standard setter, owing not much to its asymmetrical bargaining power, that is, due to a resource-based hegemony, but rather due to the credibility stemming from the twenty-year success of its macroeconomic paradigm, or, to put it differently, due to policy-based output legitimacy (Kaelberer 2001). For Dyson and Featherstone (1999), the German example represented a successful archetype of sound and sustainable economic policy making.

This conclusion about the establishment of macroeconomic coordination is also central for my post-decisional implementation analysis. Again quoting McNamara (1998, p. 71), “a process of policy failure, policy paradigm innovation, and policy emulation transformed European policymakers’ ideas about the working of their political economies and thus their interests at both the domestic level […] and at the level of EC regimes”. The causal chain sketched above maintains that a process of social reflexive learning determined a change in beliefs, ideational convergence and interests’ reshaping during the negotiation phase. Relying on the concept of the “advantage of tying one’s hands", Member States converged on a specific paradigm of economic policy-making and crafted an implementation regime suited to deliver on this objective.

This is by no means a trivial finding for the purpose of characterising the problem tractability of my first case study. In fact, granted there was a lengthy process of ideational convergence (twenty years according to McNamara), EMU negotiations were meant to address the low problem tractability posed by the need to coordinate decentralised fiscal policies within a currency union. In other words, the ideational convergence over the German standard of non-profligatory fiscal policy served to turn a low tractable policy problem of credible commitment and paradigm change into a "solvable" one, via the creation of a supranational regime. To sum up, during the negotiation stage of the TEU and EMU we observe low problem tractability, but once the German template emerged as the standard policy paradigm for EMU, the problem tractability of the implementation stage becomes high, as the example of German economic policy-making has been in place for over two decades.

This leads me to conclude that, at least for the implementation of the fiscal policy constraints imposed by the TEU, the implementing parties were fully informed (although not fully *expert* and *competent*) on the rules of the game and on the tradeoffs implied by a conservative approach to fiscal deficits. This does not mean that the costs of implementing such restrictive policies were low, most of all for long-term deficit biased Member States, but yet the payoffs of the coordination game taking place under Stage II of EMU were by no means unknown by the actors, who even consented on these costs and payoffs in the negotiation stage that led to EMU.

Having established that the problem tractability of my first case of regime implementation is high, I need to concentrate on the content of the learning processes. To address this puzzle, let us go back to the literature on learning in the shadow of hierarchy. This literature, as well as the substantive evidence regarding the convergence process (see Section 4 for a detailed discussion), tells us that under hierarchy and conditionality learning is a by-product of the policy process and is limited to a typology of instrumental learning, or "learning *how* to comply" with rules, targets, and procedures (Chayes and Chayes 1993; Dunlop and Radaelli 2013). Nonetheless, when dealing with highly strategic policy regimes characterised by a prevalence of the powering dimension over the puzzling one, the content of learning and its aim must not necessarily be that actors are compelled to learn how to comply, as in theory they are also allowed to “learn how not to comply” and stay unpunished, or in other words, to learn how to increase their strategic sophistication and hence learn *politically*, in the sense intended by May (1992). That being said, I argue that the incentives implicit within the convergence process were such to guarantee, through high conditionality, that actors were reaching cooperative outcomes, hence learning (instrumentally) how to comply rather than learning how to defect.

A final caveat is in order: “learning *how* to comply” is a different conceptual and substantive construct with respect to “learning *to* comply”. The “how” implies that learning invests primarily the *process* of compliance rather than its final *outcome*. Learning how to comply instead means that actors learn on the process leading to compliance, learn its rules and procedures, and develop a policy and regime-specific “know-how”.

Moving on with the policy learning measuring instrument, the following analytical dimension concerns the time dimension of the policy interactions observed under the regime. The key questions posed in order to unpack this analytical component of modes of learning are the following.

4.3c Are the policy interactions observed in the regime one-shot or iterated? How frequent and formalized are the iterations of the interactions?

With regard to this set of questions, the answer lies once again in the formal provisions of the TEU, as well as in its substantive functioning. In particular, the fact that the format of the convergence process is based on three successive stages is highly informative. The policy interactions implied by the policy regime are, by design, to be iterative. Under Stage II, the implementing parties are asked to comply with the convergence criteria of EMU every year for a maximum of four years. Moreover, a first evaluation on convergence was foreseen amid the process, that is, by 1996. To be more specific, Member States are obliged to interact with the monitoring counterparts at least twice a year through the submission of national stability programmes and budgetary figures but the frequency of this policy dialogue informed by the transitional provisions of the TEU can be increased if a Member State is subject to an EDP.

Under these circumstances, the involved Member State is engaged in a dense exchange of information and dialogue with the Commission and the Council as its compliance has to be checked in the context of a quasi-sanctionative scheme. In fact, under an EDP, the involved Member State has to also abide by (and act with regard to) the corrective measures designed by the Council.

Moreover, as a matter of fact, all Member States incurred at least one EDP during Stage II of EMU (see Table 2 in Section 4). This means that all the Member States interacted with the Council and the Commission intensively and through various iterations during the convergence process.

Nonetheless, the time horizon of the iterated interactions was neither infinite nor indefinite, as it was set in legal/formal terms by the transitional provisions of the TEU - with strong conditionality. To put it bluntly but fairly realistically, Member States had four years to understand the "rules of the game", to learn about the process of implementation and to *deliver*. Without this time frame, they would not be eligible to enter Stage III and would end up in derogation. Note also that the first formal evaluation by the Council foreseen in 1996 was not successful and that the enactment of Stage III was postponed, pending a new evaluation to be carried out in 1998.

Again, to fully characterise this dimension of the measuring instrument we have to look back at the learning process that occurred during the negotiation that led to the TEU. This is because we need to make clear that Member States themselves are the parties who designed this policy regime *in primis*, and hence also its deadlines. They deemed the time span provided by the TEU sufficient to "learn how to comply" under the shadow of hierarchy and strong conditionality. In a way, we are back to the content of the learning process, a consideration that shows how interrelated the different dimensions of policy learning are.

Nonetheless, even if I argued that the Member States considered the TEU's time-frame adequate to achieve homogeneous cross-country compliance and proceed to Stage III of EMU, this does not mean that their calculation was correct – most of all in terms of long-term sustainability of the anti-profligatory fiscal framework. This is clearly demonstrated by the failure of the first assessment of 1996.

As we will see when dealing with the regime stemming from the SGP, fiscal policies are particularly sticky and domestic institutions are highly explanatory of fiscal outcomes – most of all of profligatory ones (Hallerberg et al. 2007). Although almost unthinkable achievements were realized during Stage II of EMU in terms of fiscal retrenchment (European Commission 1998, p. 87 and 89; Freitag and Sciarini 2001; Fatás and Mihov 2003), these noticeable results were fruit of the strong conditionality and sound incentives of the EMU convergence process, and were therefore subject to potential consolidation fatigue, dynamic inconsistency problems and even *reversals* when the incentives for compliance became less stringent and no longer enabling, such as under the SGP (Heipertz and Verdun 2010).

The (instrumental) learning process typical of Stage II might have been in a way not deep and lengthy enough - as the subsequent failure of SGP regime has epitomized. I tentatively argue that the time-frame of Stage II did allow Member States to learn how to comply beyond the coordination game for the joint production of the public good, that is, to learn how to make their compliance sustainable in the medium run via a substantial reform of their domestic institutional framework for fiscal policy or via structural reforms. The change of the incentive structure due to the SGP and the adoption of the common currency and the related problems of dynamic inconsistently halted and even reversed the learning process, casting doubts over the adequacy of the time frame under Stage II of EMU, that is, over the long run.

Moving to the final dimension of the measuring instrument, we need to answer the following questions:

4.3d What is the venue and mode of interaction among actors? Is it formal (hierarchically organized) or informal (horizontal and deliberative)?

Actors interact eminently within formal venues featuring highly certified actors organized hierarchically through precise task allocation. Hence, the venues of this mode of learning are typically not only formal but also strongly institutionalized. In substantive terms, the venues of the regime-specific interactions are the programmed meetings between the Member States and the Commission in the context of the biannual presentation of economic programmes and budgetary figures. In case of EDPs, the venue is even more institutionalized, consisting of formal iterated meetings between the Council and the Member States to verify the quality of the corrective measures implemented to adjust their deficits. As the formal provisions regarding the EDP clearly show (TEU, Article 104c, 3-13), the level of formalization of these venues is extremely high indicating that they are far away from fora and much closer to arenas suited for distributive bargaining. Nonetheless, the hierarchical, coordinative role of rules, mostly in the presence of healthy incentives and conditionality, decreases the potential for conflict, supposedly fostering the cooperative traits of the policy arena even when the venue of interaction is within the context of the Council's evaluation of Member States' eligibility for Stage III.

A final consideration is in order about the "where" dimension of the implementation of Stage II of EMU. The formality of the venues surely constrains the openness of the learning process but does not nullify it. This means that the expected learning process within formal institutionalized venues will not have the format of an open discussion among actors in the context of a forum, but rather the format of an official exchange of mandated information in the context of a *probation* venue. Again this does not curtail learning; it simply restricts it to a variety of instrumental, process-based learning procedures.

With the characterisation of the venues of policy interaction, the account of the case study according to the policy learning measuring instrument is complete. The findings are uncontroversial: the prevalent mode of learning under Stage II of EMU is hierarchical.

The following table summarizes this conclusion by showing how the different analytical dimensions of the policy learning measuring instrument were characterised.

Table 4.1 The "policy learning measuring instrument" applied to the fiscal policy coordination regime under Stage II of EMU

WHO Actor certification, constellation and mode of interaction	WHAT Problem tractability and content of the learning process	WHEN Timeframe of the policy interactions	WHERE Venues of the policy interactions and their nature
12 EU Member States, Commission, EMI, Council, Eurostat. High certification. Vertical, hierarchical constellation. Formal mode of interaction.	Highly tractable implementation problem. Actors learn "how to comply "or "how to sustainably defect". Learning is a by-product of the policy interaction. The aim of the learning process is to co-produce and use a public good (sustainable monetary union).	From January 1994 up to December 1998. Iterated and formalized interactions. Pre-defined, conditional time-frame with pre-set deadlines for evaluation.	Hierarchical, vertically shaped, institutionalized arenas organized around formal rules and roles. Low room for comparative bargaining (constrained by conditionality and implicit/explicit sanctioning).

4.4. Substantive policy process and outcomes

4.4a Expected implications of hierarchical learning

In the previous sections, I have gone through the theory-driven characterisation of the case study according to its scope conditions for learning. It found, quite un-controversially, that such scope conditions indicate that the typology of learning specific to stage II of the EMU convergence process is hierarchical. The following and final step of my investigation consists of verifying whether the expected implications of hierarchical learning occurred empirically.

Under the shadow of hierarchy, learning is a by-product of policy/regime implementation, since the powering dimension of the coordination regime prevails over the puzzling one. Hence, we cannot expect that learning dynamics directly *determine* policy outcomes but rather we expect that they influence the process leading to the outcomes.[34]

[34] In other words, as already pointed out, the "product" of hierarchic learning does not involve learning about substantive aspects of a policy but learning about its process of implementation.

With regard to the latter, the implementation scheme of fiscal policy coordination set up under Stage II of EMU is strictly conditional, i.e. based on binding criteria and deadlines. The actors themselves designed the "rules of the game", the "contract" (getting engaged in a preceding ideational convergence – see previous section) and freely decided, in a second phase, whether to abide by the implementation scheme, i.e. whether to enforce the fiscal criteria, subject to third party monitoring. Such a scheme (conditional but binding only on consent) chimes with the indications stemming from optimum contract literature (Furobotn and Richter 1997; Inman 1997: Langlois and Langlois 2007), whereby the necessary conditions for successful compliance/enforcement are the presence of ex-post monitoring and of means to sanction defections.[35]

With regard to this last point, the power held by the third party (i.e. the Council) in allowing access to Stage III (i.e. to the common currency) replicates the effects of self-enforceable contracts whereby lost profits stemming from repeatedly interrupted cooperation make opportunistic behaviour unlikely and unprofitable. In a sense, the presence of conditional access to the monetary union makes the implementation scheme of Stage II of EMU *nearly* self-enforcing: it is not possible for an actor to free ride, i.e. to reap gains from others' compliance effort without delivering the effort in turn. Simply put, being the access to the gains related to the public good conditional to compliance, defection would not allow enjoying them.[36] In theory, actors would prefer not to face the costs of compliance (restrictive fiscal policies are costly, most of all for those Member States further from the German standard of fiscal restraint), but acting non-cooperatively, that is, breaching the fiscal policy ceilings by the end of Stage II, would not have allowed Member States to reap the gains related to

[35] To cite an influential publication of the ECB on the issue of well-designed contracts under soft laws like those imposed by the TEU's transitional provisions: "Soft law reduces political transaction costs (by improving transparency and providing a forum for peer pressure). Moreover, if well-designed, such law can boost incentives towards making the rules 'self-enforcing'. Evidence speaks in favor of this view: while EU fiscal rules were bent in a number of cases and compliance is undeniably of concern, major and rapid fiscal balance deteriorations have been largely prevented since the start of EMU" (Schuknecht 2004, p. 5).

[36] In a nutshell, the benefits of being part of a working and sustainable monetary union, besides the reputational gain of being a "member of the club", are the following: lower inflation (as the ECB pursues by mandate an implicit inflation-targeting policy), more stable exchange rates with respect to non-EU currencies (which is particularly beneficial for small open economies), increased international trustworthiness, lower interest rates for the whole union (with decreasing costs of financing on the sovereign bond markets), and lower transaction costs within the common market due to permanently fixed exchange rates.

the *usage* of the public good, as they would have been kept out of the monetary union.

As a matter of fact, under Stage II of EMU and in particular in 1996/1997, that is, before the final deadline of the convergence process, compliance with fiscal discipline has been widespread, resulting in successful (and in some ways unexpected) fiscal consolidation (see Table 2 below). The process of retrenchment observed under Stage II of EMU is known as the "Maastricht effect" and it effectively paved the way to Stage III and to the adoption of the Euro (Freitag and Sciarini 2001; Hughes Hallett and Lewis 2005).

To sum up, the Maastricht built-in conditionality and design under a hierarchical actor constellation largely account for the outcome of the regime, that is, compliance with the criteria for fiscal policy coordination. The challenge now is to explore the substantive policy process that led to this outcome in order to test the key expected implication of hierarchical learning, that is, in this case, that actors have instrumentally learned *how* to comply.[37]

To perform this empirical test, according to the theoretical posture put forth in Chapters 1 and 3, I concentrate on the policy interactions that have taken place along the process of implementation. As already argued when exploring the mode of interaction of the policy regime, the latter can be characterised as formal and based on institutionalized interactive procedures and documents. These circumstances orientate my methodological choice of empirical scrutiny toward document analysis (in line with Bowen 2009). Moreover, elaborating further on my methodological strategy, resorting to the policy learning measuring instrument has configured a deductive/inductive loop whereby theoretical and empirical historical analysis are strongly intertwined, in line with the seminal examples provided by the analytic narratives project (Bates et al. 1998) and by historical institutional scholarship (Thelen 1999).

Among all the policy documents produced by the actors within their hierarchical interaction, the Convergence Report drafted by the Commission in 1998

[37] With sound incentives that sustain a cooperative mode of interaction, conditionality can become *healthy* and induce learning to comply with rules and cope with instructions (Chayes and Chayes 1993). On the other hand, improper strategic incentives leading to rules' defection is likely to bring about effects of learning in the form of political/strategic learning, learning how to defect without retaliation or joint-decision trap.

(Commission 1998), due to the legal obligation stemming from Article 109j(1) of the TEU, can be seen as the key text subsuming and summarizing the overall four-year process of interactive implementation of fiscal discipline. Focusing on the content of that document can hence disclose whether instrumental hierarchic learning has indeed taken place in the process of implementation.

4.4b The technical, instrumental aspect of hierarchical learning

The first element substantiating the claim of an instrumental learning dynamic concerns the efforts made by the Member States, the Commission and by Eurostat for the establishment of "comparable time series for budgetary data in all Member States" (European Commission 1998, p. 87, 144-150). Without reliable data and homogenous accounting standards, budgetary surveillance would simply be unfeasible or symbolic. Apart from the Greek case (see Von Hagen and Wolff 2006), the process of harmonization of national budgetary figures has been extremely successful under Stage II of EMU, bringing about both equal treatment of Member States and effective enforcement of fiscal discipline. Learning how to comply has undeniably a technical dimension and the emergence of sound accounting techniques for the purpose of regime implementation can be seen quite unequivocally as an effect of learning dynamics. In particular, within this dynamic the Member States acted as learners and the Commission, and most of all Eurostat, worked as teachers. The content of this learning process has been substantiated in the establishment of the European System of Economic Account (ESA). To cite the Commission Convergence Report (European Commission 1998, p. 146): "The obligation by Member States to report ESA based budgetary figures twice a year in a timely way has put more focus on the technical aspects of the production of data. In this respect, it has been necessary to review closely the statistical quality of the figures reported to the Commission and their methodological compatibility with the accounting rules of the ESA system. This task has been performed by the Statistical Office of the European Communities (Eurostat) […] Member States and Eurostat have clarified accounting treatments and made sure that the ESA framework is correctly applied. A large number of methodological issues have been resolved and special attention has been given to areas where differing interpretations of the required accounting treatment could have had a significant quantitative impact on the size of budgetary variables". The indications that a process of "learning how" has taken place in this technical domain is eventually supported by the conclusion drawn by the Commission's Report: "A dynamic process has taken place whereby the technical provisions of the excessive deficit procedure have provided a strong incentive for Member States to set their respective practices of monitoring budgetary developments and of deciding budgetary priorities into a common framework" (*ibid*., p. 150).

4.4c The nature of fiscal consolidation

The second typology of evidence of a process of hierarchic instrumental learning is far less technical and fully substantive. In fact, it addresses the quality and nature of the domestic fiscal retrenchment processes that led to the adoption of the common currency. To prove my claim about learning, I adopt an analytical perspective already featured in Weyland (2005) whereby the implementation or diffusion of a policy can be explained via various cognitive phenomena like emulation, symbolic/opportunistic compliance, heuristics, or rational learning *depending on the nature of the policy process* that brings them about (pp. 268-271).

To start with, Member States faced a legal obligation to abide by the provisions of the TEU and its protocols in order to be eligible to progress to Stage III of EMU. These legal foundations of the policy regime, as we saw, set precise quantitative targets for fiscal policy coordination within Stage II of EMU. In any case, the exact nature of the budgetary reforms needed to comply with the quantitative criteria was not established in the treaties, leaving room for one-off, temporary measures, and for opportunistic, non-sustainable compliance. Indeed, the definition of sustainability is not clearly featured in the TEU or its protocols (European Commission 1998, p. 100). It is true that according to the letter of Article 104c, paragraph 3 "the report of the Commission [as regards a potential EDP] shall also take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State" and that the transitional provisions for Stage II encapsulated in Article 109j, paragraph 1, state that "the [Commission's and EMI's] reports shall also examine the achievement of a high degree of sustainable convergence". Nonetheless, when it comes to the substantive evaluation of Member States' eligibility for Stage III, at least for budgetary discipline, the only binding requirement is that Member States enjoy "sustainability of the government financial position; this will be apparent from having achieved a government budgetary position without a deficit that is excessive as determined in accordance with Article 104c (6)", that is, being compliant with the reference value of the 3% of deficit/GDP ratio.

Indeed, Member States, rather, were free to comply with the fiscal policy criteria (outcome) through different policy processes of retrenchment (McKinnon 1997). Nonetheless, the scrutiny of the course of implementation of these domestic retrenchments indicates that the Commission and the Members States, within the formal interactions and exchanges of data and inputs contingent on fiscal discipline enforcement, did not limit themselves to dealing with the quantitative dimension of the fiscal criteria, but openly and cooperatively dealt with the *qualitative* dimension of the retrenchment needed for Member States to come up with a sustainable compliance with the budgetary provisions. Indeed, the process of retrenchment and budget consolidation that led to the Council Decision of May 1998 was by no means a perfunctory one, indicating that Member States, with the support of the Commission in its *teacher's capacity*, realized a process of compliance through profound, structural budget adjustments that went beyond the mere letter of the TEU, crucially involving the acceptance of a new fiscal policy paradigm (European Commission 1998. pp. 99-101, and 105-107). One-off budgetary measures provide a good example of opportunistic compliance: "One-off measures only temporarily reduce the government deficit, by concentrating revenue in one year or a limited number of years only, postponing expenditure or asymmetrically recording the receipts and expenditure aspects of a budgetary operation; one-off measures thus do not generally correct underlying public finance imbalances" (*ibid*., p. 104). Within a "learning how to defect" scenario, one-off measures would be the first empirical candidate, but as a matter of fact "even though one-off measures have made some contribution to the deficit reductions achieved since the start of the second stage of EMU and several of them were concentrated in 1997, the scale of these measures can be regarded as small relative to the overall adjustment effort" (*ibid*.).

Borrowing from Weyland (2005), such a process of policy implementation taking place through deep policy changes enacted by Member States at national level could not be explained by drivers like emulation or short-term opportunistic/symbolic compliance, and neither by cognitive heuristics (reminiscent of the reflexive learning process underpinning EMU), but rather by the commitment to a process of rational learning. To again cite the Commission:

> "The convergence criterion concerning the government budgetary position imposed by the Treaty has undeniably set off a *genuine* budgetary adjustment process in the Member States […] Even though the adjustment process has been difficult and gathered pace mainly towards the end of the period, it represents a *genuine* break with past budgetary behaviour and constitutes a *major step* towards budgetary discipline among Member States. The scale of the adjustment has been particularly important in those Member States which at the start of the second stage of EMU experienced the most serious public finance imbalances […] The budgetary targets set by the Member States in their convergence programmes indicate that *Member States are committed to reducing their government deficit and debt ratios further in coming years*" (*ibid*., pp. 89-90, emphasis added).

The very fact that the monitoring party (i.e. the Commission) required stable budgetary adjustment, beyond the targets set in the TEU, and the fact that Member States agreed on this adjunctive effort, indicates the presence of a wish not only to comply but also to rationally and instrumentally "learn how to comply" in sustainable terms. Moreover, the Commission's role in the implementation process of fiscal discipline was not as coercive and conditional as the Council's one. Hence, the call of the Commission that "it would not be sufficient for budgetary adjustment efforts to concentrate solely on respect of this criterion in a single year, perhaps followed by a relaxation of budgetary policies and a renewed widening of budgetary imbalances" (*ibid*., p. 91) was not strictly binding and the fact that a large majority of Member States complied with it anyway is a tangible sign of dynamic learning having taken place, beyond the imperatives of interest-based compliance. This argument is further supported by the enthusiastic, yet formal, remarks of the Commission about the nature of

Member States' fiscal adjustments featured in its fundamental 1998 report: "Budgetary adjustments strongly based on cuts in current primary expenditure are often more difficult to implement and their adoption is therefore a clear sign of the *government's commitment* to budgetary discipline and of its determination to maintain these efforts in the future" (*ibid*., p. 105, emphasis added).

Such a dynamic, as well as the prediction of compliance, is further supported by the observation of fiscal developments throughout Stage II of EMU, as shown in the following table.

Table 4.2 Government Surplus/Deficit to GDP ratios (percentage) under Stage II of EMU

	1993	1994	1995	1996	1997	1998
B	-7,1	-4,9	-3,9	-3,2	-2,1	-1,7
DK	-2,8	-2,8	-2,4	-0,7	0,7	1,1
D	-3,2	-2,4	-3,3	-3,4	-2,7	-2,5
EL	-13,8	-10	-10,3	-7,5	-4	-2,2
E	-6,9	-6,3	-7,3	-4,6	-2,6	-2,2
F	-5,8	-5,8	-4,9	-4,1	-3	-2,9
IRL	-2,7	-1,7	-2,2	-0,4	0,9	1,1
I	-9,5	-9,2	-7,7	-6,7	-2,7	-2,5
L	1,7	2,8	1,9	2,5	1,7	1
NL	-3,2	-3,8	-4	-2,3	-1,4	-1,6
A	-4,2	-5	-5,2	-4	-2,5	-2,3
P	-6,1	-6	-5,7	-3,2	-2,5	-2,2
FIN	-8	-6,4	-4,7	-3,3	-0,9	0,3
S	-12,2	-10,3	-6,9	-3,5	-0,8	0,5
UK	-7,9	-6,8	-5,5	-4,8	-1,9	-0,6

Source: European Commission 1998.

Note: The shadowed cells represent those budgetary positions that prompted an EDP in the following year; Austria, Finland and Sweden were subject to EDPs starting from 1995.

4.4d The influence of the economic cycle (or lack thereof)

A further element indicating instrumental hierarchic learning spawned by hierarchical conditionality is the analysis of the influence of the economic cycle on the implementation courses of budgetary policies. The argument is the following: if compliance becomes non-costly due to an accommodating economic cycle, it would be difficult to claim that actors have learned anything at all, as the enactment of compliant fiscal policies would stem from facilitating exogenous economic circumstances (e.g.: a "growth dividend" that leads to healthier budgetary stances without retrenchment and structural reforms).

This has not been the case anyway under EMU, as is demonstrated by two interrelated circumstances. First, all Member States incurred at least one EDP during the convergence process, clearly indicating that retrenchment entailed fatigue and that the path to compliance has been costly (Von Hagen et al. 2002). Second, throughout Stage II of EMU, the influence of the economic cycle on budgetary stances has been heterogeneous, hence ruling out *automatic,* costless compliance, even for Member States not burdened by large fiscal imbalances at the outset of the convergence process or by a long-term tradition of fiscal profligacy and inflation bias.

This argument emphasizing the genuine efforts of Member States in fiscal retrenchment regardless of the economic cycle acquires even more strength if we look at those countries that had to exert major efforts to consolidate highly deteriorated budget positions at the beginning of Stage II (see again Table 2). For these Member States (e.g. Italy, Belgium), the fiscal convergence process has indeed been extremely costly, also because the economic cycle did not support the retrenchment (Hughes Hallett and Lewis 2005). This is because, ceteris paribus, during negative economic cycles the budget worsens. Nonetheless, actors have been able to stick to the standard set in the reflexive learning process and comply anyway, putting in place structural (as opposed to temporary, one-off) adjustments to government budgets (*ibid*.).

Indeed, the case for a genuine and successful (at least in the short/medium term) EU-wide retrenchment effort - the so called "Maastricht effect" - is generally supported by economic literature (Freitag and Sciarini 2001; Von Hagen et al. 2002; Briotti 2004; Hughes Hallett and Lewis 2005) and single-country studies. In particular, the latter work highlights how traditionally deficit-biased Member States resolutely changed their attitude toward budget deficits and swiftly applied a full-blown U-turn to their budget process and institutions as a result of the convergence process (for Italy see Radaelli 2002, Hallerberg 2004, p. 182-195 and Stolfi 2008; for Belgium see Von Hagen et al. 2001, p. 26-

28; for southern Europe in general see Blavoukos and Pagoulatos 2008; for Britain, Greece and Spain see Dellepiane and Hardiman 2012).

With regard to the influence of the cycle on the process of implementation, the Commission itself noticed that "the starting positions [of fiscal imbalances] differed markedly among Member States" (European Commission 1998, p. 93). Moreover, "during most of this decade, the cycle has had an adverse impact on Member States' government deficits […] With the recovery in 1994 and 1995, cyclical conditions improved slightly in most Member States and more than half of the deficit reduction in the Community as a whole during this period originated from improving cyclical conditions. Cyclical conditions worsened again, however, during the growth pause between mid-1995 and mid-1996 and held back the reduction in government deficits which took place in almost all Member States" (*ibid*., p. 101-99). This evidence tells us that the hypothesis whereby homogenous and successful fiscal retrenchment during Stage II has been the fruit of conducive exogenous economic conditions has to be ruled out. Member States complied with the fiscal criteria of Stage II through costly adjustments: "For most Member States, the largest part of the progress in reducing budget deficits which has been achieved over the period 1993-97 results from discretionary tightening while only a minor part can be ascribed to the cyclical upturn since 1993" (*ibid*., p. 99). Hence, compliance with fiscal criteria, most of all if achieved through structural reforms, cannot be attributed to the effect of the cycle and, as we argued previously, neither to opportunistic, temporary budget consolidation. These arguments have a function *ad excludendum*. Ruling out exogenously driven and perfunctory compliance, the latter can only be explained in terms of sound incentives for successful coordination and conducive conditions for instrumental learning that fostered the implementation process.

4.4e The SGP as a fruit of learning in the shadow of hierarchy and rules

The last evidence concerning the implications of hierarchical learning on the substantive outcomes of Stage II of EMU revolves around the creation of the SGP that took place *during* the process of implementation. In order to present such evidence, I need to introduce a new actor that did not exert a relevant role during the implementation process of Stage II but indeed resulted in being essential to the negotiation and the signing of the SGP, that is, the Monetary Committee.[38] This body was established with advisory status by TEU's Article 109c. It was composed of two members appointed by each Member State plus two members nominated by the Commission, with the latter crucially hosting the Committee's Secretariat. Its main tasks were to review, deliver opinions on and examine the monetary and financial situation of the Member States during the convergence process and then regularly (i.e. at least once a year) report its findings to the Council and the Commission. This advisory activity also fed into the Commission Convergence Reports, but what matters most from my perspective is the role it had in negotiating and passing (together with the Ecofin Council) the SGP regulations (Heipertz and Verdun 2004 and 2010).

In 1995, there were already concerns about the future of fiscal policy coordination after the beginning of Stage III. The German government in particular, through its Ministry of Finance, in November 1995 put forth a memorandum for an intergovernmental "stability treaty" intended to establish, on the one hand, an independent authority for fiscal policy supervision and, on the other hand, a series of binding rules and automatic sanctions in case of non-compliance with a set of binding budget ceilings (Stark 2001). A large majority of Member States agreed in principle to the need to create a sort of fiscal pact to be at work once the monetary union was in place. Nevertheless, the German proposal was considered too sharp and *rigorist* for two reasons. First, the fact that the new pact as foreseen by the German memorandum was to be signed outside the scope of the TEU, that is, in the form of a new intergovernmental agreement, was viewed with suspicion. Second, and related to the first point, the proposed automaticity of sanctions was considered to not be in line with the broader EMU paradigm, both from the legal point of view and most of all from the political one (Heipertz and Verdun 2010, p. 32). In particular, less fiscally austere Member States (like France and the Mediterranean countries) were in favour of creating a multilateral rule-based regime for fiscal policy surveillance that acted as both a political counterpart of

[38] The Monetary Committee belongs to the transitional bodies specific to the convergence process. After the inception of Stage III, it will become a steady institution called the Economic and Financial Committee.

the ECB and as an embryonic *gouvernement économique* of EMU. Nevertheless, they thought that Member States' self-commitment *within* the EMU framework would have been enough to guarantee long-term fiscal discipline under the monetary union and was a more politically sensitive way to address EMU's fiscal asymmetry (Costello 2001).

In order to deal with these criticalities and contrasting views, Member States (in the context of the European Council of December 1995) tasked the Ecofin Council to come up with a proposal within the boundaries of the TEU, this is, in the form of secondary EU legislation. At that time, preliminary discussions on the will-be pact were already underway within the Monetary Committee, with the supervision of the Commission. What followed was a complex and multi-layered process of negotiation lasting from late 1995 until June 1997 and taking place parallel to the implementation of Stage II of the convergence process described above (see Costello 2001 and, most of all, Stark 2001 for a detailed and informed account of the negotiation process). This process finally led to the signing of the SGP in July 1997.

Various theoretical lenses have been employed to make sense of the signing of the SGP (namely intergovernmentalism, domestic politics, functional spill-overs and the role of experts – see, *inter alia*, Heipertz and Verdun 2004 and 2010). Nonetheless, none of them is considered to be able to fully account for it as such. According to this multi-causal argument and reading the SGP creation through my analytical perspective, an important causal role can also be assigned to the implications of the mode of hierarchical learning observed during the implementation of Stage II of EMU. Indeed, that the SGP was designed to be part of secondary legislation and to broadly reflect the TEU's provisions (hence partially departing from the original German proposal) can be considered as a sign that its signatories learned via hierarchical conditionality both the technical and substantive aspects of fiscal policy coordination and included them in a steady supranational agreement (strictly embedded in and drawing from EMU's framework). In this regard, it is worth noting that the SGP was a highly technical document, the bulk of which was negotiated and agreed within the Monetary Committee acting in its technical (rather than political) capacity.[39] Only a few aspects of it (though of crucial relevance, as we shall see in the next chapter) were fruit of political bargaining, whereas its detail and broad paradigm fully belonged to the hierarchical tenet of EMU and of the convergence process. In a way, Member States, through the implementation of Stage II, learned the benefits of “tying hands” in the fiscal realm through hierarchical coordination and hence (self)committed to a long term pact reinforcing the stability paradigm underpinned by EMU.

This learning-informed explanation borrows from both functional end expertocratic accounts of the SGP (Heipertz and Verdun 2010). To be more precise, “learning how to comply” (the key implication of hierarchical learning) fruitfully accommodates a functional explanation of the SGP whereby the latter emerged from economic and legalistic spill-overs engrained within EMU architecture. The latter was broadly considered asymmetric (that is, open on its fiscal flank, both from a legal and substantive point of view), hence the SGP would represent the fruit of actors learning (via the implementation of Stage II) the most suitable way through which to address these asymmetries. Similarly, the fact that a great deal of the SGP is fruit of expertocratic negotiations within the Monetary Committee is fully compatible with the technical implications of hierarchical learning. Further, and connecting the SGP to the ideational dimension, the SGP can be seen as the result of the resilience and reassertion of EMU paradigm due to the shadow of hierarchy of Stage II and the learning dynamics unfolding thereof (Princen and Van Esch 2015), as well as the continuation of ideational convergence that led to the creation of EMU (Heipertz and Verdun 2010, p. 83 and 105).

This brief discussion of the SGP creation concludes the empirical validation of the expected implications of learning in the shadow of hierarchy. Moreover, it is also instrumental in completing the diachronic account of fiscal policy coordination under Stage II of EMU, allowing me to proceed to the following case-study that will be scrutinised in the next chapter: the implementation of the coordination regime emerging from the SGP.

[39] “[M]ost of the content of the SGP, perhaps as much as 95 per cent of the text (estimated by some of our interview partners) was agreed to in the Monetary Committee without further discussion at the political level” (Heipertz and Verdun 2010, p. 41).

4.5 Conclusions

This chapter offers two conclusions. First, the analysis of the scope conditions shows that the mode of learning specific to Stage II of EMU was hierarchical. Second, the scrutiny of the substantive policy process points to evidence of instrumental learning in the form of “learning how to comply”.

Namely, the key actors of learning (i.e. the Member States) were not limited to opportunistic, temporary compliance merely meant to reach the final reward (i.e. access to the common currency) but, drawing on a prior process of ideational convergence that crafted the regime, they showed instrumental rationality and learned how to comply in four main ways. First, they learned about technical aspects of the implementation process (with the support of Eurostat and the Commission as monitors/teachers); second, a portion of them learned how to comply in a sustainable way and beyond the formal requirements of the TEU; third, they complied with the regime’s arrangements, notwithstanding an unsupportive macroeconomic environment; and finally, they learned how to reinforce the disciplinarian paradigm and make it a stable aspect of EMU by agreeing on the SGP. In sum, a hierarchic learning dynamic informed the process of regime implementation and influenced its outcomes. That being said, it is always worth repeating that learning mechanisms, although present and empirically proved, were not the exclusive causal forces at work. The analysis of learning complements, rather than substitutes, other explanatory constructs.

Substantively, the policy regime stemming from Stage II of EMU convergence process was robust enough to foster - via hierarchical and instrumental learning - the ideational convergence achieved in the design of the TEU. To quote an ECB researcher, “soft law can be a first step towards better enforcement/hard law when it helps *learning* and trust-building across politicians” (Schuknecht 2004, p. 16, emphasis added).
Thus, more generally, within hierarchical policy coordination regimes, conditions conducive to policy learning can emerge as a result of strong conditionality. In this first empirical case, actors learned to comply *through* conditionality.

Learning under the shadow of hierarchy is naturally constrained by the presence of the hierarchy itself; it is hence a by-product of the policy interactions and mostly explains the policy process rather than its outcomes. Nonetheless, drawing on the findings of this chapter, it is hard to deny that instrumental rationality and hierarchical learning participated in informing the process of fiscal policy coordination during stage II of EMU, even if learning was not the only causal driver.

Chapter 5. Fiscal policy coordination under the Stability and Growth Pact: Bargaining and learning thereof

5.1 Introduction

On 1st January 1999, eleven Member States of the European Union (EU) entered Stage III of Economic and Monetary Union (EMU).[40] According to the Council Decision of 2nd May 1998, these Member States "fulfil[ed] the necessary conditions for the adoption of the single currency" and hence officially reneged on their monetary sovereignty in favour of a supranational authority – the European Central Bank (ECB) – that from then on became the only institution entrusted with the prerogative of the conduction of the unified monetary policy of the eleven "participating Member States". The eurozone, or euro area, was born.

The centralisation of monetary policy, its full integration at supranational level through power delegation to a unified authority, represents the very core of EMU's architecture as devised in the Treaty on European Union (TEU). Nonetheless, already during the convergence process (see previous chapter) the overall EMU architecture, foreseeing a single monetary policy alongside different national macroeconomic policies, was increasingly considered as dangerously asymmetric on its "fiscal flank" (Dyson and Featherstone 1999; Dyson and Quaglia 2012). In particular, the lack of a clear tenet for budgetary restraint *after* the adoption of the common currency looked problematic, most of all for fiscally conservative Member States like Germany and the Netherlands. Their key concern was that outside the scope of the convergence criteria for budgetary policy of Stage II, idiosyncratic deficit-biased fiscal policies run at national level might have endangered the smooth functioning of monetary policy, resulting in higher interest rates for the currency union as a whole (Begg et al. 2003).

In other words, a new collective action problem emerged that was similar, but clearly distinguishable, to the one tackled under Stage II. Key EMU Member

[40] Namely, Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland. They were then followed by Greece (2001), Slovenia (2007), Cyprus (2008), Slovakia (2009), Estonia (2011), Latvia (2014) and Lithuania (2015).

States (Germany in particular) grasped this new challenge and started reasoning on and putting forth several proposals for a possible institutional arrangement to be enforced after the adoption of the common currency (Stark 2001). During the convergence process (i.e. in 1995), official negotiations for a fiscal pact were already being launched, first at the level of the Monetary Committee and later within the Ecofin Council. These negotiations revolved around the approval of a new legal mechanism meant to permanently entrench supranational fiscal policy coordination within the architecture of EMU (*ibid*.), or, to put it differently, to steadily "tie governments' hands" in the realm of budgetary policies in order to avoid risks of moral hazard and free riding on the common good (i.e. monetary union) by single Member States (Larch et al. 2009). This process, that was analysed in the previous chapter, eventually led to the signing of the Stability and Growth Pact (SGP) in 1997.

From a legal point of view, the Pact took the form of two regulations based on the TEU provisions that established, respectively, a preventive and a corrective arm for the supranational coordination of domestic macroeconomic and budgetary policies. The signing of the Pact and its format were fruits of the acknowledgement that a coherent set of multilateral (soft and hard) rules to lead to sound government finances across the new-born Eurozone was not simply a pre-condition for the viability of the monetary union to be pursued during the convergence process, but also a crucial means to guarantee its proper functioning and long-term sustainability, which can be considered the *new* coordination problem (Breuss 1998).

The causal motives that led to the approval of a pact substantiating a permanent regime of multilateral discipline and coordination in the realm of macroeconomic and budgetary policies were various. According to Heipertz and Verdun (2004 and 2010), an eclectic approach drawing on different theoretical lenses can provide a coherent and complete casual account of the genesis of the SGP. Namely, they focus on four different lenses to explain the institutionalization and stabilization of fiscal policy coordination within EMU's framework via the SGP: intergovernmentalism and domestic politics, and functional spill-overs and the role of expert and ideas. In the previous chapter, I drew on the two latter explanatory constructs to argue that the emergence of the SGP can be considered as one of the implications of the mode of learning specific to the regime in place under the convergence process.

Analysing once again the forces that led to the genesis of the SGP is not, however, the aim of this chapter. It instead seeks to explain the process of implementation of the Pact and the learning dynamics that unfolded thereof. In fact, the contemporaneous entering into legal force of Stage III of EMU and of the SGP inaugurated a brand new regime for fiscal policy coordination. This regime was in a way similar (i.e. drawing on an analogous paradigm, rationale and overarching objective) to, but totally distinguishable from, the one based on the transitional convergence criteria of the TEU. This regime shift, legally based on the adoption of the common currency and on the entering into force of the SGP, can be conceptualised as the passage from a phase of *production* of a public good (the monetary union) to a phase of *usage* and multilateral consumption.

In particular, while under the production phase (Stage II of EMU) the key incentive for compliance with fiscal discipline was represented by the threat of exclusion, under Stage III the latter simply became unfeasible since no mechanisms for exclusion after the adoption of the common currency exist in the TEU. The establishment of a rule-based enforcement regime for macroeconomic policies therefore emerged as a necessity if budgetary restraint was to be safeguarded and maintained under the monetary union (Hughes Hallett and Lewis 2005; Hodson and Maher 2004).

Both regimes - Stage II of EMU and SGP - shared a common overarching goal, that is, sound government finances and Eurozone-wide budgetary discipline. Nonetheless, in the first case the objective of sound fiscal positions in *t* was a *conditio sine qua non* for becoming a member of a club entitled to use a co-produced public good in *t+1*. In other words, non-compliance with costly fiscal adjustment in *t* was posed to lead to the exclusion from the benefits generated by the *consumption* of the public good in *t+1* (as happened to Greece in 1998). On the other hand, in the second case, i.e. after the *club* is established, the benefits arising from the monetary union are no longer excludable in *t+1*, while the same policy objective of budgetary restraint becomes functional to the sustainability of the common good.

Since compliance with fiscal discipline remained *costly* for implementing parties and exclusion was ruled with the launch of the Euro, the only way to guarantee proper incentives was to establish a legally binding, rule-based policy regime based on multilateral monitoring and sanctions. The SGP, in particular its corrective arm, served this purpose and constituted a brand-new paradigm of fiscal policy coordination, and more. Noticeably, in fact, a sanctionative infrastructure including substantial fines to violators (up to the 0.5% of the GDP of the breaching country) represented a “fundamentally different instrument than any other instrument used thus far in the EU” (Heipertz and Verdun 2010, p. 101). Nonetheless, the face value of such a binding, rule-based regime of policy coordination needs to be evaluated in practice rather than drawing solely on its legal/formal nature, which is the purpose of the present chapter.

To sum up and proceed, the aim of this chapter is to account for the implementation course of the coordination regime for fiscal policy stemming from the SGP. This will be done by characterising the regime according to the key dimensions of learning featured in the “policy learning measuring instrument” (see Table 3.3). In terms of case-specific research questions, this chapter addresses the following:

1) What are the scope conditions for policy learning within the regime for fiscal policy coordination generated by the preventive and corrective arms of the Stability and Growth Pact?

2) Are these conditions conducive to a specific, prevalent mode of learning?

3) How does the prevalent mode of learning contribute to explain the substantive implementation of the Pact? In other words, do the expected implications of the case-specific mode of learning bear out empirically? Do they help in explaining the poor compliance record of the Pact, its crisis and reform?

The remainder of the chapter is organized, in terms of structure, like the previous one. In Section 2, I define the empirical scope of the case study and briefly describe and contextualize the SGP in the broader picture of EMU and macroeconomic coordination. In Section 3, the different dimensions of the policy learning measuring instrument are addressed for the new regime, with a detailed discussion of its agency covering much of the analysis. This allows a precise characterisation of the SGP regime as a case of learning via bargaining.

Then, in Section 4, I contrast the expected implications of the case-specific mode of learning with the substantive policy processes and outcomes. In particular, I find that the implications of learning via bargaining were markedly visible and explanatory of the policy outcomes. Section 5 concludes by summarizing the key findings.

5.2 Scope, format and nature of the Pact

5.2a Distinguishing among (and delimiting) different coordination regimes

The policy regime based on the SGP has effectively been in place from January 1999, that is, as soon as the Council Regulation 1467/97 entered into force, substituting the transitional provisions of the TEU for the application of the excessive deficit procedure (EDP) – i.e. the core of the so-called corrective arm of the Pact.[41] By January 1999, Stage III of EMU officially began and hence the eleven Member States eligible to adopt the common currency were no longer under the conditionality typical of the convergence process, but were rather full-blown *members of the club*. In the light of this, January 1999 is our starting point for the investigation of the SGP coordination regime.

While it is fairly easy to detect the "date of birth" of the SGP regime, it is much harder to delimit its temporal scope. In fact, from a strictly formal point of view, the SGP is still legally in force at the time of writing. However, its present version bears very little resemblance to the original one. In fact, after its adoption the SGP underwent a number of major amendments. Aside from the 2005 reform (discussed in Section 4), the transformations of EMU economic governance occurring as a reaction to the global financial and sovereign debt crises have been so profound and substantive that they have arguably altered the very nature of economic policy coordination under EMU, bringing about an innovative governance architecture and hence a brand-new regime (Buti and Carnot 2012; Kamkhaji and Radaelli 2013). These reforms are the object of analysis for my third and fourth case studies.

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[41] The first legal obligation related to the SGP imposed upon Member States, apart from the general obligation to avoid excessive deficits, was the submission to the Ecofin Council, by 1st March 1999, of national stability programmes (see Section 3).

Arguably, one could set as a “time limit” of the SGP regime the moment in which those crisis-driven reforms entered into legal force. Nonetheless, the SGP regime was substantially over, or in abeyance, well before a new legal basis for economic policy coordination was laid out in the period 2010-2013. This, as we shall see in more detail below and in the following chapters, is mainly because of two reasons. First, the 2005 reform of the Pact - spawned by German and French prolonged non-compliance and by the subsequent conflict between those countries and the Commission - provided for a severely weakened version of the EDP, calling into question the very existence of an effective policy coordination regime (Morris et al. 2006). Second, and strengthening the first point, the explosion of the global financial crisis in 2007/2008 showed in practice how the renewed SGP was little more than a symbolic device at that time (Larch et al. 2010; Chang 2013). This circumstance is epitomized by the fact that in 2009 no Eurozone Member State was out of an EDP (except Luxembourg and Finland), yet no sanctions were issued vis-à-vis the objective slowness of the adjustments formally required under the EDP. This staggering situation leads me to consider the period 2009/2010 as a distinct case study whereby a new paradigm was emerging and the old one was only symbolically in place.

To sum up, the SGP-based regime that I analyse in the present chapter covers the period 1999-2008. The third case study in which the SGP was effectively *frozen* and a new framework was suddenly developed spans from 2009 to 2010 and is tackled in the two following chapters.

5.2b Legal foundations and the nature of the Pact

The legal base of the SGP is the same as the coordination regime that emerged under Stage II of the EMU, that is, the TEU articles dealing with economic policy convergence. Multilateral surveillance in the TEU is meant to address both economic policies broadly intended (Article 99) and budgetary policies (Article 104),[42] with the former governed by peer-pressure and the latter covered by a

[42] The numbering of EU treaties' articles is a thorny issue. In this chapter, I will often refer to Articles 99 and 104 of the TEU, whereas in the previous I was using, for the same articles, were numbered 103 and 104c. The articles are the same, but in the meantime the Treaty of Nice (signed in 2001 and ratified in 2003) reshuffled their numbering. The choice to use the numbering 99 and 104 stems from the fact that

much more coercive set of hard enforcement procedures and binding rules. In other words, the coordination of macroeconomic policies under EMU as laid out in the TEU is governed by a mix of soft and hard provisions.

During the convergence process, this dual nature of economic policy coordination was operationalized through TEU's transitional provisions (in particular Article 109j). This article foresaw periodical multilateral assessments of domestic budgetary positions based on the one hand on non-binding recommendations and opinions, and on the other on the compliance with obligatory numerical criteria. Noticeably, the set of coercive mechanisms stemming from TEU's transitional provisions was particularly watered down with respect to the original provisions of Article 104. Nonetheless, as we saw, the lack of sanctioning tools was effectively accommodated by the Council's conditionality in the form of the threat of exclusion from Stage III.

After the Council decision of May 1998 that called an end to Stage II of the EMU convergence process and established the beginning of Stage III, the transitional provisions of TEU were automatically substituted by the two SGP regulations, which in the meantime were agreed on in 1997 and entered into legal force in 1998 (for the preventive arm) and 1999 (for the corrective arm).

The SGP consists in practice of these two Regulations, namely Regulations 1466/97 and 1467/97 (both amended in 2005 – see Section 4 of this chapter). They constitute the so-called preventive and corrective arms of the SGP. These Regulations are part of the EU's secondary legislation and draw their legitimacy from TEU's Articles 99, paragraph 5, and 104, paragraph 14, in which it is stated that the Council is entitled to adopt specific rules providing further detail to the multilateral surveillance procedures laid out in Article 99, paragraphs 3 and 4, and to the corrective framework laid out in Article 104, paragraphs 1-13, and the related Protocol on the EDP, respectively.

The fundamental difference between the framework stemming from the TEU's transitional provisions and arising out of the SGP regulations is that the set of

for most of the period analysed in this chapter, this is how these articles were known. The same holds true for the numbering used in the previous chapter. The Treaty of Lisbon/Treaty on the Functioning of the European Union (signed in 2007 and entering into force in 2009) changed the numbering once again, with Article 99 renamed Article 121 and Article 104 renamed Article 126. At the time of writing (2015) this is the legally valid numbering.

coercive enforcement options spelled out in paragraphs 9, 11, and 14 of TEU's Article 104 (those dealing with the sanctionative options that the Council has against Member States that repeatedly do not comply with the measures proposed to correct an excessive deficit) is brought back into full legal force under the SGP.

This legal/formal difference might seem marginal, but it actually underpins one of the key problems that characterised the whole implementation of budgetary discipline after the adoption of the common currency, that is, the problem of credible commitment and effective enforcement vis-à-vis supposedly binding and quasi-automatic rules.

Compliance and implementation research, both in general (Chayes and Chayes 1993; Langlois and Langlois 2007) and specifically applied to the EU (Collignon 2004; Falkner et al. 2005), has conceptualised and empirically proven the existence of a key problem of dynamic consistency and credible commitment in the context of multi-lateral policy coordination. In fact, in the presence of autonomous parties with heterogeneous preferences (mixed motives), a regime aimed at coordinating decentralised policies is effective only inasmuch that actors are credibly threatened by exclusion from common benefits or sanctions in the case of non-compliance (Collignon 2004; Schuknecht 2004). In such a setting, soft or voluntary rules theoretically fail in internalising the externalities due to disjunct preferences. Binding rules and sanctions, whether in kind/automatic or administered by a third party, hence become necessary. However, even with the presence of a third party to sanction non-compliance, the issue of its credibility emerges. If an independent third party credibly administers sanctions to defectors in a quasi-automatic way, the coordination problem can successfully be solved through hierarchy and coercion. If instead discretionary enforcement is established, implementing actors are incentivized to bargain over compliance, potentially leading to a coordination failure (Dimitrova and Toshkov 2009).

The latter case is relevant for us as the SGP can be portrayed as a case of non-enforceable rules (De Haan et al. 2004; Larch et al 2009). The fact that economic sanctions stemming from the EDP were never applied and the occurrence of a so-called period of abeyance (2003-2005) followed by a reform that made the whole regime much less stringent provide strong anecdotal evidence in favour of this argument. To quote a successful and appropriate expression coined by Martin Heipertz and Amy Verdun (2004), the SGP was a "dog than never bites".

Next to these canonical accounts of the SGP's failure, drawing on the problem of credible commitment and rules' enforceability, I argue that the observed breakdown of the coordination regime was not only due to dynamic inconsistency and lack of means to internalise the externalities of disjunct preferences, but is also to flaws in its institutional and incentives' architecture. Indeed, this outcome might have also occurred because the mode of learning underpinned by the regime has led the actors to learn in a dysfunctional way with respect to the objectives of budgetary discipline and sound government finances. In fact, a weakness in the incentive structure of a coordination regime cannot predict its failure *per se*. Even from a purely rational choice perspective, examples of successful coordination in absence of coercion abound, as well as cases of optimal contracts whose enforcement fail. A (non-exclusive) learning-informed lens on the policy process can help us understand how the observed outcomes occurred as a sum of weaknesses in the structural *and* learning dimensions of the SGP regime.

To evaluate this potential explanation (that would add up to and enrich the canonical ones in the context of a multi-causal and multi-ontological framework), in the following sections I explore, through the measuring instrument, the key dimensions and scope conditions for policy learning implicit to the SGP regime. Although the letter of the SGP and its formally rule-based nature would intuitively lead to envisaged implementation courses informed by fairly sound incentives for compliance and hierarchical learning dynamics, this has not been the case empirically. Let us wear our learning-informed lenses to see how and why this outcome occurred.

5.3 The "policy learning measuring instrument" in action

As we saw, the SGP coordination regime bears strong similarities with respect to its predecessor but also includes legal, institutional and substantive novelties that emerged most of all in its implementation. To unpack these novelties, let us look at the different dimensions of policy learning featured in the measuring instrument to pin down the case-specific scope conditions of the regime.

5.3a Who learns? What are actors' certification and role in the policy and learning processes? How is the actor constellation shaped?

In order to distinguish and characterise the actors involved in the implementation process of the SGP regime, their modes of interaction and constellation, it is worth looking first at the formal features of the regime as laid out in the regulations that represent its legal foundations. Then the focus will move on to the way these formal provisions have been translated into substantive implementation practices.

5.3a1 Functioning and actors of the preventive arm

Let us start discussing the agency by looking at the preventive arm of the SGP. According to the legal provisions substantiating the Pact's preventive infrastructure (Regulation 1466/97 based upon TEU Article 99), the key actors were the Commission, the Council and the Member States. In more detail, the eleven Member States eligible for Stage III[43] on the one hand and the Commission and the Council[44] on the other were officially embedded in a top-down constellation whereby the former were called to comply with a set of rules and formal procedures and the latter monitored and evaluated them. In fact, the SGP regulations emphatically reaffirm that Member States are "under a *clear* Treaty Obligation to avoid excessive general government deficits" (Regulation 1466/97, Paragraph 3, italics added). Moreover, with the overt intent of linking the new framework and its tools to those of the previous regime, Paragraph 7 of Regulation 1466/97 highlights the "need to build upon the useful experience

[43] This chapter, like the previous one and the whole study, focuses solely on Eurozone Member States, or, to put it in the jargon of the treaties, on "participating Member States".
[44] Note that in the remainder of the section the terms "Council" and "Ecofin" are used interchangeably. In fact, I refer to the Economic and Financial Affairs Council, that is, the configuration of the Council of the EU composed of the economics and finance ministers of the EMU Member States, both "participating" and "non-participating".

gained during the first two stages of economic and monetary union with convergence programmes".

Convergence programmes remained in place for "non-participating Member States", that is, for those EU countries that did not take part to Stage III (*ibid*., Par. 9), while for the "participating Member States" the new instruments of inter-institutional communication with the monitoring authorities (Commission and Council) were called stability programmes (*ibid*., Par. 8).

The reference values that operationalized the obligation to avoid excessive deficits under Stage II (the 3% deficit to GDP ratio and the 60% debt to GDP ratio) were complemented by a new benchmark in the form of a commitment to a "medium term objective [MTO] of budgetary positions of close to balance or in surplus [CTBOIS]" (*ibid*., Par. 2). The achievement of this new target was assessed by the Commission and monitored by the Council, in the context of its periodic evaluations of the stability programmes (*ibid*., Par. 6 and 8) that had to be submitted by Member States before March 1999 and thenceforth every year (*ibid*., Art. 4(1)).

The content of the stability programmes, the new regime-specific form of institutional interaction between the parties, was then clarified in the remainder of Regulation 1466/97. In particular, Member States were required to include in their stability programmes:

- MTOs for CTBOIS and expected path of debt/GDP ratio (Art. 3(2)a);
- Detail on expected economic developments and important economic variables (Art. 3(2)b);
- A description of budgetary and economic measures towards MTOs and an assessment of their economic impacts (Art. 3(2)c);
- A sensitivity analysis (Art. 3(2)d).

Moreover, the figures and estimates provided in the stability programme had to cover at least the following three years (Art. 3(3)).

The Council's final opinion on these detailed stability programmes[45] was based on a preliminary assessment provided by the Commission. In addition, Article 5.1 also established a newly created body with advisory status, the Economic and Financial Committee (EFC). Drawing on the assessment of the EFC and on subsequent Commission's recommendations, the Council in practice evaluated, for all the participating Member States, whether the MTOs featured in stability programmes allowed to avoid excessive deficits.[46] The Council's examination had to be carried out, and an opinion on the Commission's assessment delivered, no later than two months after the submission of the stability programmes (Art. 5(2)). In the context of the evaluation of the stability programmes that eventually led to the Council's opinion, the latter could also invite the Member States to adjust their programmes in case that "the objectives and contents of a programme must be strengthened" (*ibid*.). Updated programmes were then examined again by the EFC on the basis of new Commission assessments and, if necessary, by the Council (Art. 5(3)), before a final opinion was issued.

The role of the Commission and the Council was not limited to an *ex-ante* static evaluation of the programmes submitted by the Member States but also extended to monitoring the progresses in the implementation of the measures featured in the stability documents, with particular consideration to the achievement of CTBOIS budgetary positions (Art. 6(1)). In case the Council identified discrepancies with respect to the MTOs, it was entitled, within its preventive prerogatives and always drawing on a Commission's recommendation, to issue private recommendations (in the form of an early warning) regarding the necessary adjustment measures to the concerned Member State (Art. 6(2)). In case divergences between actual economic and budgetary developments and MTOs persisted, again with a preventive and moral suasion function, the Council could issue further recommendations in the form of a public early warning (Art. 6(3)). Early warnings were only issued by

[45] Stability programmes were and are rather detailed and technical documents, spanning 15 to 35 pages. Following the instrumental learning dynamic conceptualised in the previous chapter, their format has become increasingly standardized over time.

[46] Moreover, the Council also assessed the stability programmes' consistency with Broad Economic Policy Guidelines (BEPGs) that were *inherited* from Stage II and also remained in place for broad macroeconomic coordination under the SGP, adding up to the corrective infrastructure set up by Regulation 1466/97 (see Table 5.1 for more details on the BEPGs).

the Council but always drew on the Commission's assessment of the information and budgetary developments provided by the Member States (Art. 6(1)).

These procedures constitute the preventive arm of the SGP as laid out by Regulation 1466/97. Crucially, its implementation involved the Member States, the Commission and the Council as the main implementing and, for us, learning actors. They were organized hierarchically, with clearly certified roles and tasks: namely, the Member States implemented the rules, the Commission assessed their performance, and the Council, drawing on the Commission's recommendations, monitored and provided (non-binding) opinions. The mode of interaction was clearly a rule-based, formal one, relying on the exchange of official documents (stability programmes, recommendations and opinions) and inter-institutional official communications.

The preventive arm of the SGP drew on the tenet that peer pressure, moral suasion and naming-and-shaming measures (mainly early warnings, i.e. soft law means) were *necessary* tools to nudge Member States toward compliance with budgetary discipline (Schuknecht 2004; Hodson and Maher 2004). Nonetheless, soft laws and preventive instruments were deemed *insufficient* to enforce budgetary discipline upon Member States. Due mainly to the concerns of Germany and other historically fiscally prudent Member States (Heipertz and Verdun 2004), soft laws and means alone were viewed as inadequate to provide credible safeguards and sound incentives for Member States to stick to fiscal discipline.

The legal basis for more coercive enforcement instruments was already embedded in the TEU, in particular in Article 104 and the Protocol on the EDP. Drawing on them and on the experience developed during the implementation of Stage II (see Chapter 4), Member States and EU institutions decided to complement the preventive arm of the SGP with a further regulation strengthening the regime for fiscal and budgetary discipline through binding policy instruments and procedures. This corrective dimension of the SGP is detailed in Regulation 1467/97 that draws on TEU Article 104.

5.3a2 The functioning and actors of the corrective arm

Before describing the corrective arm of the SGP in greater detail, it is important to take stock of the fact that whereas the tools available to the Council in the context of the preventive arm were not legally binding, hence belonging to the domain of soft law instruments (broad guidelines, recommendations, opinion, early warnings, public warnings etc.), the provisions featured within the corrective arm of the Pact had the nature of hard laws, that is, of binding legal obligations subject to financial sanctions in case of defection, a Copernican revolution for the EU.

The key objective of Regulation 1467/97 was to impose rule compliance, that is, to bring about “prompt correction” (Reg. 1467/97, Art. 1) of excessive deficits, when preventive tools failed in averting budgetary slippages. Granted that “in stage three of EMU Member States remain responsible for their national budgetary policies, subject to the provisions of the Treaty”, CTBOIS budgetary positions were the central long-term criterion for effective compliance and sound budgetary policy (*ibid*., Par. 3 and 7), and hence stable and durable convergence such as to safeguard price stability (*ibid*., Par. 8) - i.e. effective monetary policy.

Under this arm of the SGP, the role of the Commission was more significant than under the preventive one. The scope for this greater role was originally set out in TEU Article 104, paragraph 2: the Commission was in fact charged of monitoring budgetary developments of the Member States “with a view to identifying gross errors” with respect to the 3% deficit/GDP and 60% debt/GDP criteria (*ibid*.). In case a Member state did not, or even risked not to (*ibid*., Par. 3), fulfil one of these criteria, the Commission had to prepare a report and address an opinion to the Council (*ibid*., Par. 5). This represents the potential beginning of an EDP.

Building upon this Commission’s *kick-off* to the EDP, the corrective process followed that described in Chapter 4.2 based upon TEU’s Article 104, Paragraphs 6-13. To summarize it, the Council, constantly acting upon successive Commission recommendations, enacted a progressively harsher probation sequence whereby the concerned Member State was expected to correct its excessive deficit, first under the pressure of recommendations/warnings (initially private and, if no effective responses emerge, public), and then, in the case of persistent non-compliance, under the pressure of economic sanctions (initially in the form of non-interest bearing deposits and then in the form of full-blown fines). Crucially, in issuing recommendations and fines (and also with regard to the required corrections and their timbering, and to the termination of the EDP), the Council took its decisions acting with "a [weighted][47] majority of two thirds of the votes of its members […], excluding the votes of the representative of the Member State concerned" (TEU, Article 104, Par. 13).

Departing from the letter of the TEU, several technical "clarifications" were added by Regulation 1467/97, namely:

- The definition of the circumstances that made an excessive deficit "exceptional and temporary" and was allowed to avert the Commission's report and hence the commencement of the EDP. In particular, arising out of lengthy and complex negotiations between Germany and France (Heipertz and Verdun 2010, p. 101-99 and 121), Article 2(1) of Regulation 1467/97 established that government deficits above the reference value (i.e. the 3% of the GDP) were to be considered exceptional and hence not subject to an EDP when resulting from unusual events (e.g.: natural catastrophes) or from a "severe economic downturn", whereby "severe" meant a fall in real GDP of at least 2% (*ibid*., Art. 2(2)).
  This apparently automatic criterion of exceptionality that apparently seemed to leave little room for Council discretion, was however immediately qualified and *softened* by the following indent (2(3)) in which

[47] Qualified majority voting (QMV) in the Ecofin Council was a key aspect of the whole policy coordination regime. I will explore its effects on implementation in greater detail in the remainder of the chapter. For now, it is sufficient to briefly take stock of its functioning under TEU Articles 104 and 205(2) before 2005. First of all, within the out and out sanctionative mechanisms of the EDP (TEU Article 104(9) and following paragraphs involving repeated non-compliance and leading to fines) only "participating member states" (i.e. Eurozone members) were allowed to vote, acting upon a recommendation from the Commission. The Member State involved in the EDP could not vote. Votes were allocated to countries according to their population. In order to obtain a qualified majority it was necessary to reach at least two thirds of the votes in the Council (TEU Article 104(13)). After 2005, new treaties and the enlargement led to amendments to the allocation of votes in the Council and raised the threshold for a qualified majority to 74% of the votes, also including a provision whereby this qualified majority needs to represent at least 62% of the European population. This further strengthened the intergovernmental nature of the Council.

it is stated that the Council shall also take into account those cases in which GDP falls less than 2%, but the downturn was abrupt and determined an "accumulated loss of output relative to past trends" (*ibid*.). As we shall see below, this represented early inroads into Council discretion.

- The complex timeline for the different successive steps of the EDP (Articles 3 to 10).
- The nature and amount of the sanctions vis-à-vis persistent non-compliance and lack/ineffectiveness of adjusting measures (Articles 9 to 16). In this respect, it is crucial to stress that the passage from progressively stronger sanctioning measures had to be systematically ratified by successive qualified majority votes (QMV) by the Council.

Other noteworthy aspects of the EDP were the reverse burden of proof for exemption clauses[48] and its multi-layered, multi-actor nature. In fact, the Council was continuously backed, within the whole probation sequence, by the EFC, acting as an advisor, and most of all by the Commission, whose role was not simply one of initiating the EDP, but also of constantly monitoring its development by evaluating the adjustments recommended to the concerned Member State.

This descriptive account of the SGP's arms serves two purposes with regard to my investigation of policy learning. First, it allows me to identify the actors that officially took part in the implementing (and learning) process of fiscal policy coordination under the SGP. Secondly, and more importantly, it shows us how, from the narrow legal perspective of the letter of the two SGP regulations, the actor constellation and mode of interaction of the regime had apparently reproduced the hierarchical ones observed under Stage II of the EMU convergence process.

Yet again, also under the corrective arm of the Pact, we see different highly certified actors organized hierarchically through clear tasks and roles. They interacted formally via the exchange of official documents within a multi-layered

[48] "Regarding the excessive deficit, once it is identified to be excessive, the burden of proof is reversed. It would be up to the Member State to make a case for the need of the exemption clause" (Heipertz and Verdun 2010, p. 102, drawing on Costello 2001).

legal procedure. In more detail, Member States were called to comply with reporting procedures and numerical targets (MTOs of CTBOIS budgetary positions and the reference values). The Commission in turn was meant to play a crucial monitoring and watchdog role. It was the only actor endowed with the right to initiate an EDP. Moreover, each further corrective step foreseen by Article 104 always had to take the moves from a Commission assessment and subsequent recommendation to the Council. The latter actor, finally, both monitored, backed by the Commission, and discretionarily (i.e. by voting upon them) enforced the rules, applying increasingly harsher measures.

It is worth noting that the Council was the only body entitled with effective sanctionative prerogatives if non-compliance emerged. Similarly, it was also the only body entitled to suspend, delay or nullify the corrective measures, even against the opinion of the Commission. These prerogatives, however, were not fully ‘autocratic’, meaning that the Council could not independently issue its own opinions on an ongoing EDP or close it without the assent of the Commission (as clarified by the 2004 ruling of the European Court of Justice - ECJ). In fact, each opinion of the Council was always to be issued “in response” (positive or negative, depending on the result of the vote) to a Commission’s recommendation. This, yet again, gives an idea of the crucial role played by the Commission under the corrective arm, a role that put that institution in the line of fire when conflict between commitment and discretion emerged within the Council (see Section 4 of this chapter).

To sum up, the regime stemming from the SGP’s twin arms, from a strictly legal/formal perspective, seems to involve only highly certified (learning) actors organized in a hierarchical, top-down constellation whereby interactions are strongly formalized and regulated. The following table summarizes the functioning, actors, tools and legal basis of the coordination regime laid out in the SGP.

Table 5.1 Economic policy coordination under the SGP

Policy area to be coordinated	Legal basis (soft/hard law)	Tool	Means of implementation and actors involved
Macroeconomic policy coordination	Article 99 TEU Soft law	Broad Economic Policy Guidelines	Country-specific recommendations issued by the Commission and examined by the Council
Budgetary discipline (preventive)	Article 99 TEU and Regulation 1466/97 Soft law	National stability programmes and MTOs for CTOBOIS budgetary positions herein provided	Member States submit programmes subject to the Commission's assessment and the Council's examination. Recommendations can be issued by the Council in case of discrepancies with MTOs
Budgetary discipline (corrective)	Article 104 TEU, EDP Protocol of TEU and Regulation 1467/97 Hard law	Excessive Deficit Procedure potentially resulting in economic sanctions	Initiated by the Commission via the submission of a report to the Council. The latter enforces the procedure in successive steps, deciding via QMV upon successive Commission recommendations

5.3a3 Beyond the SGP legal dimension

The above characterisation of the actors and regime-specific mode of interaction of the SGP, although useful and based on a fair reading of the legal dimension, was not reflected in the substantive process of implementation of budgetary discipline. To understand why, we need to make the characterisation of the SGP more coherent with its real-world functioning. In other words, the discussion of the regime's agency needs to be complemented and problematized, most of all in the light of the fact that hindsight allows us to know that the *on paper* features of such a hierarchical regime did not bear out in the policy process and outcomes.

In fact, the set of rules, procedures and related incentives stemming from a legalistic understanding of the SGP seem, in theory, to be coherent with the normative indications of optimal contract theory (Inman 1997; Furubotn and Richter 1997). In particular, the presence of a third monitoring party with sanctioning prerogatives in case of actors' non-compliance would make the SGP *contract* a nearly self-enforcing one (Schuknecht 2004). Therefore, if fully and credibly enforced, the SGP regime was theoretically suited to successfully coordinate policy.

Nonetheless, the portrayal of the SGP based on its legal foundations is fairly misleading, even without the hindsight of its poor record (Fatás and Mihov 2003; Hughes Hallett and Lewis 2005; Marinheiro 2008). This is because several substantive and practical circumstances of the SGP concurred in making its actual work relevantly distant from the letter of its legal base. Let us then consider the elements that hinged on the nature, implementation record and learning dynamics of the regime.

First, we need to integrate the set of actors participating in the implementation process of the SGP by adding to the picture a crucial institution that was kept out of the legal scope of the coordination regime, but that since its creation exerted a great deal of influence on implementation and the overall economic governance of EMU (Puetter 2004)[49], that is, the Eurogroup. The Eurogroup was formalized within the EU legal *corpus* only in 2007.[50] The single official reference to it before its formalization was the following:

> "The Ministers of the States participating in the euro area *may meet informally* among themselves to discuss issues connected with their shared specific responsibilities for the single currency. The Commission, and the European Central Bank when appropriate, will be invited to take part in the meetings" (European Council 1997, p. 44, italics added).

The Eurogroup was agreed in the context of the negotiation of the SGP and was designed to function as an "informal forum for discussion among euro area finance ministers" (Puetter 2004, p. 854). There were mainly two reasons behind the creation of a new informal body with similar membership and tasks

[49] "We can say that the Eurogroup is *the core* of EU economic governance" (Anonymous interview reported in Puetter 2004, p. 867, emphasis added).
[50] Treaty of Lisbon, 2007, Protocol on the Euro Group.

to those of the Ecofin Council. First, the need to have a forum whereby only the representatives of the Member States participating in the common currency could meet and discuss, hence focusing specifically on Eurozone issues rather than on the overall economic governance of the EU (it is not a case that the President of the Eurogroup was known as “Mr Euro”).

Second, the need to mediate, in the context of the SGP negotiations, between German and French positions regarding the creation of additional institutions suited to counterbalance, in the fiscal policy domain, the authority of the ECB, hence representing its *political counterpart*. The point of equilibrium of these different pressures was found in the establishment of an informal (and secretive) body located outside the scope of EU official legislation and broadly tasked with pre-agreeing, among Eurozone members only, the official decisions of the Council in the field of fiscal policy coordination, that is, in the domains covered by the SGP.

Vis-à-vis the well-known transparency of EU institutions and decisional processes, the nature, role and functioning of the Eurogroup was rather surprising. Indeed, as the primary legal sources regarding these issues are rather slim and vague, I turn my attention to secondary sources, in particular the valuable work of Puetter on the functioning and role of the Eurogroup (*ibid.* and Puetter 2006). Drawing on anonymous expert interviews with officers who took part in Eurogroup meetings (which are, by rule, private and confidential), Puetter was able to disclose crucial information on its actual functioning.

To start with, the Eurogroup lacked formal decision making powers and as a result of this, voting within it simply did not take place. Regarding its structure, the Eurogroup was formed by the finance ministers of the Eurozone Member States. One representative of the Commission (usually the Commissioner for economic and monetary affairs) and the President of the ECB regularly attended the meetings as well. Other occasional participants were invited by single ministers. The Eurogroup met the day before the Ecofin Council sessions, hence roughly once a month. Its key task was to “pre-agree all critical Council decisions with relevance for the euro area member States” (Puetter 2004, p. 854), including crucial decisions about early warnings, their publicity, and ongoing and new EDPs.

The impact of this mechanism of "informal governance" (*ibid*., p. 857) on the binding decisions and policy outcomes of the Council was critical, as the Eurozone Member States control the majority of the votes in the Council. This circumstance practically emptied the influence of the formal policy interactions taking place in the hierarchical context of the Council and the credibility/automaticity of its corrective powers in favour of behind-doors, confidential, informal agreements among Member States: "Consequently, agreement there [in the Council] is only a formality whenever euro area ministers reach a consensus among themselves prior to a Council meeting" (*ibid*.).

Although this decisional format can be seen as suitable to foster open discussion, deliberation and consensus-building and although it might have worked in the first years as a means of mutual convergence and peer pressure (as argued by Puetter himself), with the benefit of hindsight (that is, drawing on the substantive effect of this form of confidential negotiations on rule-based multilateral surveillance and hence budgetary discipline), it is hard to deny that this informal setting worked as a perfect arena for multilateral horizontal bargaining and power politics.[51]

It is hence no wonder that the interviewed participants to Eurogroup meetings praised its format, as it freed them from the hierarchical constraints (and publicity) laid out in the formal provisions of multilateral surveillance of the SGP, leaving room for political discretionary behaviour over the commitment to binding rules, often taking place on the basis of the so-called "escape clauses" and "unusual events" foreseen by the EDP and systematically exploited by Member States.[52] A clear instance, among many, of this undue leeway that Member States created through "informal governance" mechanisms is the case

[51] "Notably, ministers debate the euro area's fiscal stance with a view to the formulation of country-specific policy recommendations" (*ibid*., p. 862).

[52] "[…] the Eurogroup has also developed into the key handler of cases of non-compliant behavior. Formally, the decisions in the context of the reprimand mechanism of the SGP's so-called early warning system are the prerogative of the ECOFIN. *De facto*, the discussions within the Eurogroup have rendered the ECOFIN debates less important. In addition, the Commission consults the Eurogroup prior to its decisions in the context of the SGP procedures. Under the Pact the Commission is obliged to initiate an early warning procedure whenever a country is at risk of breaching common rules and policy objectives. On the basis of a Commission recommendation, the Council then decides on an early warning for the respective member state. The Eurogroup pre-discusses each step of the formal proceedings informally" (*ibid*., p. 865).

of the pending early warning on Germany in January 2002, a case that I shall present and explore in Section 4 of this chapter.

To sum up, the presence, features and role of the Eurogroup call into question the nature of the framework arising out of the SGP legal provisions. The Eurogroup was in fact the perfect venue for negotiating and bargaining over early warnings, their publicity and the various steps of the EDP (or lack thereof). Such horizontal bargaining, in the public and highly regulated context of the Council's proceedings, would have been hierarchically constrained by the mandatory provisions of Regulation 1467/97 and by their arguably quasi-automaticity character (Stark 2001) – always pending a QMV.

Coupling this with its legal elusiveness, the key role played by the Eurogroup suggests that the certification of the actors taking part in the implementation process might not have been unequivocally governed by formal tasks and powers. Hence, the resulting constellation could not be considered fully hierarchical. Similarly, the mode of interaction in the Eurogroup more resembled the behind-door negotiations of bargaining arenas rather than the formal rule-based interactions of a (quasi)court.

The second element to consider beyond the formal SGP's provisions is the nature and composition of its key enforcing actor, that is, the Ecofin Council. The question here is whether the sanctioning procedures embedded in the EDP, whose enforcement rested on the Council's deliberation via QMV, were credible, that is, likely to be activated in cases of non-compliance.

We saw how within the Eurogroup, owing to its behind-doors *mitigation* role, political discretion and compromise could easily prevail over automaticity and a commitment to rules. In the light of this, the credibility of sanctions vis-à-vis non-compliant budgetary policies rested crucially and solely on the Council's proneness to enforcing its coercive powers. And, in fairness, the expectations regarding the watchdog role of the Council were low since the beginning in light of its composition and intergovernmental *ethos* (see among others: De Haan et al. 2004; Morris et al. 2006; Seng and Biesenbender 2012) that made it, to be generous, an imperfect third party, even leaving aside the controversial position of the Eurogroup. This clearly emerges when looking at the development of the EDPs occurring under the SGP regime (see Section 4).

As a matter of fact, the Council was and is composed by the ministers of finance of the EU's Member States who are the same actors that implement budgetary policies at national level. This configured a well-known situation of "sinners judging sinners" (Buiter 2003; European Parliament 2005). Looking more closely at the voting procedures of the EDP, it appears that, notwithstanding the sit-out provision for the Member State subject to it, it was extremely easy to form relatively small minorities that, in the light of the QMV, result in blocking minorities (Tsebelis 2002; Gros et al. 2004; Seng and Biesenbender 2012). In other words, large Member States or coalitions of one large Member States and a handful of small countries could easily block an EDP, like the German and French cases of November 2003 showed (more on this in section 4).

Moreover, making things worse for credible enforcement, this blocking strategy could even take place secretively within the Eurogroup, that is, even before the EDP was formally and publicly discussed in the Council sessions. If it was clear that a QMV in the Council would have failed due to a private pre-agreement reached in the context of the Eurogroup or in the context of private negotiations among powerful (in terms of the allocation of votes) Member States, it was very likely that voting in the Council would not have taken place.

Section 4 will focus on some of these bargaining practices, but the role and credibility of the Council (on the grounds of its composition and vote distribution), along with those of the Eurogroup (on the grounds of its secretive practices and ambiguous role), can already lead us to argue that the binding profile and coercive nature of the EDP and of the whole coordination regime was seriously threatened by the nature of its agency and lack of credibility of its enforcer (Buiter 2003; De Haan et al. 2004). The hierarchical constellation previously hypothesized, drawing on the legal dimension of the SGP, hence seems to have existed only on paper.

In contrast to these tendencies, it is important to note that the Commission grew increasingly more assertive about its role and powers (Heipertz and Verdun 2004, p. 118, 133 and 141-142). In other words, this actor tried to expand its monitoring tasks and to limit the grand intergovernmental bargaining by means of its exclusive right of initiative in EDPs. Nonetheless, the way in which the ensuing inter-institutional conflict was resolved by the ECJ in 2004 and the subsequent reform of the SGP (see Section 4 for details) marked a clear victory for the Council and the Member States over the disciplinarian stance of the Commission, providing further evidence of strategic implementation rather than a commitment to multilateral surveillance.

All things considered, the hierarchical actor constellation implied by Regulations 1466/97 and 1467/97 was strongly mitigated by the broad opportunities for bargaining provided by the ambiguous position of the Eurogroup and by the voting procedures of the Council in the EDP. The high certification of the actors implied by a purely legalistic reading of the SGP is hence to be rejected in favour of a low certification whereby actors' legitimacy, roles and powers were determined by Member States' powering resources rather than by legally binding (and quasi-automatic) procedures and rules. In other words, actors taking part in the SGP implementation were no longer highly and formally certified like they were under the conditional and hierarchical framework of Stage II. It follows that their constellation was also no longer vertical/top-down, but rather characterised by horizontal intergovernmental dynamics and bargaining. Furthermore, their mode of interaction no longer spoke the official language of formal, public evaluation within highly institutionalized venues, but rather the language of political concessions and strategic interplay, whereby the *size of nations* (i.e. their implicit power resources and number of votes in the Council) and their advocacy capacities shaped the implementation courses more than the legal framework (Buti and Pench 2004).

Reasoning on the learning processes taking place among actors within this constellation and through this mode of interaction, the opportunities for instrumental learning which were fostered in the previous regime by conditionality and hierarchy inevitably look curtailed. In fact, the implementing and learning agents of the SGP regime were much closer to the strategic bargaining parties rather than the treaty signatories operating in the shadow of hierarchy.

The above discussion of the agency governing the SGP inevitably hinged on other dimensions of learning, such as the nature of the venues of policy interactions. The preliminary findings point compellingly to a specific mode of learning, that is, learning via bargaining.

Therefore the remainder of the analysis will be kept short in order to leave more room for the scrutiny of those elements of the substantive implementation process that can be causally connected to the expected implications of learning informed by bargaining.

5.3b What is the tractability of the problems tackled in the policy process? What is the content of the learning process?

In a sense, the coordination problem tackled by the SGP and the one addressed by the convergence process were in nature the same (Begg 2002, pp. 3-4). Indeed, both the regimes drew on articles 99 and 104 of the TEU and on the EDP Protocol whereby it is clearly stated that the objective of coordination is that of avoiding Member States indulging in fiscal profligacy ("Member States shall avoid excessive government deficits", TEU Article 104, 1) so to achieve, through economic policies coordinated at supranational level, a "sustained convergence of the economic performances" (TEU, Article 99).[53] The two regimes simply sought to achieve the same policy objective through (and within) different institutional and legal infrastructures and instruments.

The experience gained under Stage II of EMU made the Member States and their monitoring counterparts even more aware of the various challenges of policy implementation and coordination, due to a trivial, yet undeniable, process of experience-based learning-by-doing (Schuknecht 2004). This leads me to argue that the problem tractability of the policy regime has also remained high under the SGP.

The lack of external discipline imposed by financial markets on sovereign debts (Mosley 2004) reinforces this conclusion. As a matter of fact, for almost a decade, fiscal and budgetary policies had no external market dimension, mainly remaining a disciplinarian problem of internal coordination among EMU Member States. This circumstance changed dramatically and abruptly as a consequence

[53] The SGP Regulation 1466/97, Par. 1 reads: "The SGP is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth" chiming with TEU transitional provision 109e, 2(a) that reads: "Each Member State shall […] adopt […] multiannual programmes intended to ensure the lasting convergence necessary for the achievement of economic and monetary union, in particular with regard to price stability and sound public finances".

of the financial crisis of 2008/2009. Only then did financial markets eventually start to discount the adverse effect of fiscal and macroeconomic imbalances that were left growing during the Great Moderation of the first decade of the millennium, and only then did high budget deficits and unsustainable debt stocks start to weigh on sovereign risk premia (see, among other, Barrios et al. 2009.) But this is a story for another chapter.

To conclude this line of reasoning, the coordination problem tackled by the SGP regime was not ambiguous, it did not require the creation of a new policy paradigm or tools, but rather it revolved around the well-established paradigm of sound money and on the instrumentation for coordination designed in the TEU.

Having established that problem tractability under the SGP was high, the following question is: what is the typical content of learning under high problem tractability in general and under the SGP regime in particular? Like in the shadow of hierarchy of Stage II, when actors are called to implement a set of rules aimed at solving an unambiguous policy problem, learning does not revolve around the ideational paradigm on which the regime is based, but is limited to the procedural dimension of implementation.

Under low problem tractability, the characteristic problem solving nature of policy interactions typically leads to paradigmatic change (Bennett and Howlett 1992; Hall 1993). Actors puzzle and learn thereof, very often by changing their deep-rooted set of beliefs. On the other hand, under high problem tractability (and most of all under bargaining) the puzzling nature of policy interaction is much less salient and different courses of action belong to well-established repertoires with well-known payoffs. As a result actors tend to engage in strategic behaviours, with learning dynamics emerging as a by-product of strategic implementation (Dunlop and Radaelli 2013). However, while under hierarchy and vertical constellations actors find it hard to act strategically due to the retaliatory nature of the regime (like under Stage II of EMU), under horizontal bargaining (like within the setting having emerged in the Eurogroup, for instance, or in the presence of non-credible sanctioning) the implementing parties are less constrained and engage fully in horizontal distributional conflict and in the strategic attainment of their goals. The content of learning of such a process is hence advocacy and strategic sophistication and mutual adjustments that can easily turn into *political* (and potentially dysfunctional) learning (May 1992; Gilardi and Radaelli 2010).

5.3c Are the policy interactions observed in the regime one-shot or iterated? How frequent and formalized are the iterations of the interactions?

The policy interactions under the SGP were not only multi-layered but also iterated and governed by formal deadlines and timeframes. This circumstance is plastically demonstrated by the extremely detailed description of successive deadlines and time limits established in Articles 3, 4 and 5 of Regulation 1467/97.

Furthermore, whereas Stage II of EMU was a transitional regime, the SGP was instead meant to substantiate a virtually permanent regime of multilateral surveillance. The policy interactions taking place in its context were in theory subject to be repeated *infinitely* or at least indefinitely. In this scenario, actors were hence embedded in a stable coordination framework and their policy interactions were constantly iterated, by rule (e.g.: national stability programmes to be regularly delivered, EDP successive deadlines) and practice (e.g.: regular and extraordinary Eurogroup and Council sessions). Within iterated policy interactions, the expected outcome is mutual adaptation and adjustment, whether cooperative or conflictual, depending on the nature of the *contract* binding the parties

In the SGP case, bargaining practices and strategic implementation could have been tamed by hierarchy and credible sanctions for defectors, leading to a long-term cooperative equilibrium over time. Nonetheless, as already argued, the most crucial policy interactions among actors were mainly iterated in the informal and *liquid* context of the Eurogroup, rather than in the highly regulated and public context of the Council, with an increasingly negative impact on the iterations of the interactions, as suggested by the argument of cumulative distributive conflicts (Dunlop and Radaelli 2016). This leads us to reason on the last analytical dimension of the policy learning measuring instrument, that is, the nature of the venues of policy interactions.

5.3d What is the venue and mode of interaction among actors? Is it formal (hierarchically organized) or informal (horizontal and deliberative)?

Owing to the dual nature of the Pact (preventive and corrective), the venue whereby regime-specific interactions took place was not unique. Within the preventive arm, governed by soft means of coordination, the key venues of interaction between Member States and the monitoring authorities were the first three Ecofin Council sessions of each year, a formal institutional venue resembling a court where roles and decisional prerogatives are given and hierarchically organized and monitored.[54]

In short, the Council was the evaluator and its sessions were the formal venues of its assessment. If the opinion of the Council was that the stability programme of a country "should be strengthened" (Regulation 1466/79, Art. 5,2) and/or that its implementation would lead to divergences with respect to its MTOs, an early warning could be issued by the Council. Following a warning, the Council then further examined the implementation of stability programmes throughout the year, again in the highly formalized context of its regular monthly meetings. Under the preventive arm, therefore, national stability programmes were the mode/tool of interaction and the highly formal Ecofin Council meetings were the venue of monitoring and evaluation, always noting that the latter had to draw on the Commission's recommendations and hence on continued exchanges with the officials of the Economic and Financial Affairs Directorate General of the Commission.

Importantly, the Ecofin Council formation included the representatives (i.e. the ministers) of all the countries whose programmes were evaluated from time to time, making it the central forum for the implementation of fiscal coordination (along with its Eurozone *brother*, the Eurogroup). In that context, ministers personally interacted with their colleagues from other Member States and with the Commission throughout the whole cycle of evaluation of the national stability programmes that lasted for the whole year.

[54] "The EFC [Economic and Financial Committee – the already mentioned advisory body] and the ECOFIN should examine the SCP [Stability and Convergence Programmes] updates in a maximum of three sessions. The whole process should be completed before the end of March each year" (Opinion of the Economic and Financial Committee 2001).

Moving to the corrective arm of the Pact, we note that the Commission played a more important role than simply submitting recommendations to the Council. In fact, it was tasked with the independent evaluation of Member States' budgetary figures and, in cases when an excessive deficit was detected, was entrusted with the exclusive prerogative of issuing a report to the Council regarding the deviating Member State. The complex and multi-layered adjustment process foreseen by the EDP (described in Chapter 4 and in the first sections of this chapter) followed, providing that the Council agreed - by a QMV - on the existence of an excessive deficit for the concerned Member State and on the successive steps of the EDP. The venue of this hierarchical, rule-based decision was again the monthly sessions of the Council. In other words, all successive stages of a corrective action initiated by the Commission and approved by the Council were highly formalized and again took place in the context of Ecofin meetings and through formal communications between the latter and the concerned Member State.

Yet again, the *de jure* setting of the venues of regime-specific interactions points toward a hierarchical decision making context. However, vis-à-vis a formal venue that looked as fully institutionalized and governed by rules we have to consider the two elements that questioned the hierarchical structure of the actor constellation: first the role of QMV and lack of sanctions' automaticity and, second, the informal role of the Eurogroup, which in practice, drawing on the private and unregulated nature of its interactions, very often emptied the role of the formal set of procedures and potential sanctions in place within the Council's EDP (Heipertz and Verdun 2010, pp. 128-149).

In this light, the assessment about the nature of the venue of policy interaction and learning of the corrective arm is that along with formal hierarchical settings like the Council sessions we also observe informal ones like the Eurogroup, which represents a bargaining arena governed by political discretion whereby actors' roles were not certified but power politics and players' resources broadly prevailed.

The conclusion is hence that under the SGP the venues of interactions were of mixed nature. On the one hand there were highly institutionalized venues where formal, institutional communication and decision-making prevailed (but vis-à-vis the lack of binding enforcement instruments, like under the preventive arm). On the other hand, where formally coercive procedures existed (like under the corrective arm and the EDP) they were watered down by behind-door political bargaining within informal venues (the Eurogroup) and QMV-based strategies within the Council. Therefore, the venues of SGP interactions were both formal/rule-based (though leading to typically vague recommendations to implementing parties, like under the preventive arm) and full-blown political bargaining arenas.

With the above account of the venues of interaction under SGP implementation,[55] the scope conditions of the different dimensions of the policy learning measuring instrument are now fully characterised. The following table summarizes them and leads to the conclusion that the prevalent mode of learning under SGP implementation was indeed **learning via bargaining**.

Table 5.2 The "policy learning measuring instrument" applied to the SGP regime

WHO **Actor certification, constellation and mode of interaction**	**WHAT** **Problem tractability and content of the learning process**	**WHEN** **Timeframe of the policy interactions**	**WHERE** **Venues of the policy interactions and their nature**
Mixed certification: highly certified implementing (learning) and monitoring (teaching) actors along with differently certified bargaining parties Mixed constellations and modes of interaction: coexistence of vertical and horizontal constellations and formal (rule-based) and informal (power-based) interactions	High problem tractability: low puzzling dimension of the policy regime and interactions Content of the learning process: by-product of (strategic) implementation investing the procedural dimension of implementation and near-core beliefs (potentially leading to "political learning" and increased strategic sophistication under horizontal bargaining).	Formally iterated, i.e. taking place "under the shadow of time". Potential for mutual strategic adaptation over time and cumulative conflicts.	Mixed nature of the venues: both hierarchical and rule-based official monitoring venues and horizontal power-based bargaining arenas.

[55] The characterisation of the SGP carried out in the previous section draws on the pre-2005 non-amended provisions of the Pact. The provisions stemming from the 2005 reform are not covered here as they reinforced the bargaining elements of the coordination regime, providing for a weaker version of the SGP (see below).

In the following section, we explore the observable implications of this mode of learning and provide empirical evidence of their presence and influence in the implementation of the SGP.

5.4 Observable implications of learning via bargaining and substantive policy processes

5.4a Expected and (anecdotally) observed implications of learning via bargaining

What is the impact on a regime's outcomes of learning mechanisms and processes informed by strategic implementation/bargaining? What is the nature of policy learning implications under cumulative bargaining over time? Only in an apparently tautological way, the key empirical manifestation/expectation of learning via bargaining is, indeed, bargaining. Or, more specifically, that actors learn *how to bargain and refine strategic sophistication over time and mutually adjust*. Substantively, after an initial period of uncertainty about the room for discretionary application of the common rules (1999/2001), Member States learned two things, and remember that under hierarchy and bargaining the puzzling dimension of policy making is not prevalent, the powering one is, and learning is a by-product of the policy process, not its key objective.

First, they learned that bargaining over compliance was actually feasible, most of all for those actors with relevant political resources and weight in the Council's voting system. In their *reaction function*, non-compliance, if not sanctioned but if it nevertheless allowed access to the benefits of monetary union, became a dominant strategy. Second, they learned, by doing it, how to bargain, that is, they learned how to pursue non-compliance in a sustainable way *politically*. The ideational convergence reached in the TEU for a paradigm of sound money and fiscal restraint, as the monetary union continued to function properly without widespread compliance with the supranational surveillance framework, inevitably became looser. As a matter of fact, Member States lost interest in the benefits of "tying one's hands" and, besides starting to breach the rules of the game, even managed to negotiate a new, weaker arrangement for coordination.

The trigger of this shift lies in the changes that occurred in the agency and venue of the regime-specific interactions. The regime's agency morphed from a rule-based, vertical constellation with high/formal actor certification into a horizontal constellation where political power resources (in the form of votes in the Council, capacity of forming blocking minorities, and the *de facto* disparity of influence between big and small Member States) substituted formal roles. We also observed a shift from a highly formalized and conditional venue governed by rules to bargaining arenas characterised by political compromise and discretion. In a nutshell, under such a scenario, we should not be surprised that the underlying learning dynamic tilted toward *political learning* outcomes rather than toward *policy learning* ones.

One may argue that this account conflates learning and bargaining because it is predicated on and skewed toward a rational choice/power-based account of the policy process. This is in part true, but it is due to the fact that learning under bargaining is a modality whereby the strategic/powering dimension of the policy interactions admittedly prevails over the puzzling one. Drawing on Hall's tri-partition of learning outcomes (1993), learning via bargaining (comparable to his first and second-order change) does not entail policy actors puzzling over a reconsideration of the policy paradigm but, also in line with the advocacy coalition framework conceptualisation of Sabatier, it involves actors pursuing strategic adjustments over "near core beliefs" and secondary aspects of the policy. These latter clearly hinge on the strategy that allows the achievement of core beliefs in the policy process.[56] As also argued by Dunlop and Radaelli (2013, p. 611), "the actors involved in the process set their own goals – they are strategic about where they want to go with their learning process".

Within this setting, neither hierarchy can fully nudge learning toward non-political outcomes. In fact, hierarchy, high actor certification and top-down constellations (as we saw in the previous chapter) can mimic a teacher-learner relation: actors at the top (hierarchically entitled to monitor, enforce and sanction) can be seen as those detaining legitimacy and hence drive the process toward "learning to comply" outcomes that are functional to their core beliefs. However, if the constellation is horizontal and actor certification

[56] "Policy-oriented learning is an ongoing process of search and adaptation motivated by the desire to realize core policy beliefs" (Hall 1993, p. 151).

uncertain, no one enjoys superior legitimacy, neither hierarchically/legally, nor substantively (except for bargaining resources and power), and hence actors fully engage in distributional bargaining and gradually learn how to make their advocacy more sophisticated and successful.

A final aspect to consider is the gradual nature of the process, an empirical element that strongly corroborates the presence of a learning effect. Bargaining did not immediately emerge as the rule of the game during implementation. Let us recall that in 2001 the Pact was still termed a "quasi-automatic mechanism" by a key actors of EMU policy (and politics), like Jürgen Stark (*ibid*. 2001). Rather, the political nature of the SGP became a lesson gradually learned by both the larger Member States and supranational actors as a result of the early years of functioning of the regime. This gradual element will clearly emerge from the narrative account of the SGP provided below.

Let us move now to the final part of the chapter where I show how the expected implications of a mode of learning based upon bargaining broadly apply to the empirical developments of the SGP regime.

5.4b Substantive policy processes and outcomes: Presence of bargaining and learning thereof

Producing a complete account of the implementation courses of the SGP from 1999 up to 2007/2008 for all the Member States participating to the common currency clearly goes beyond the scope of my investigation and analytical aims. The objective of this section is instead that of resorting to the abundant empirical evidence available with regard to the SGP[57] in order to verify whether and in what way the expected implications of learning via bargaining have manifested themselves within the substantive policy process of SGP implementation, influencing its outcomes.

To this end, in line with the previous case study, I will focus specifically on a set of macro-level evidence that characterised the process of regime implementation. In line with the evidentiary eclecticism put forth in the

[57] In particular, along with the official documents of EU institutions, I will resort in large part to the following secondary sources: Buti et al. (2001); Buti (2003); Gros et al. (2004), Morris et al. (2006); Leblond (2006) and Heipertz and Verdun (2010).

introductory chapter, I resort to different empirical aspects of SGP history[58] that, matching the expected observable implications deduced from the policy learning measuring instrument, represent clear proofs of the fact that learning via bargaining not only took place during the SGP practice but also contributed in influencing its outcomes, reinforcing the strategic dynamic implied by bargaining. This interconnected substantive evidence is:

- An overview of the poor record of Member States' budgetary performances featuring a learning-informed narrative account of the grand bargaining that occurred between 1999 and 2003;
- The 2005 reform of the Pact.
- Finally, an overview of the developments that occurred after the 2005 reform of the Pact.

5.4b1 Budgetary performances and the "dog that never bites" – an overview of the SGP record

As argued by the large majority of scholars that have analysed the pre- and post-Euro budgetary performances of the "participating Member States", the contemporaneous entering into legal force of the SGP and of EMU Stage III determined an undeniable slowdown of the retrenchment efforts that characterised Stage II, a so-called "consolidation fatigue" (see, among others: Fatás and Mihov 2003). Whereas by 1999 all Member States were compliant with the deficit-to-GDP 3% rule, in 2000 we already observe initial pressures on this key parameter (that is the key reference value monitored under the EDP) and in 2001 we have the first actual violations of the deficit ceiling by Portugal and Germany (nonetheless, the first EDP would have been only enacted in late 2002 and for Portugal only – see below).

From 2001 until 2008, violations of the deficit ceiling became increasingly common, even though there was no direct correspondence between violations and enacted EDPs (see Table 3). In particular, in the period of 2002-2008, a

[58] The form of empirical validation and logic of inference draw on narrative. This is in line with both the process-tracing tradition (Beach and Pedersen 2013) and the empirical methodology, typical for the investigation of strategic domains, of Analytic Narrative scholarship (Bates et al. 1998).

total of 8 EDPs were initiated.[59] Throughout that period, France, Germany, Greece and Italy were involved in one EDP each for 4 consecutive years. The Netherlands was involved in one EDP in 2004 only and it immediately corrected its imbalance by 2005. The case of Portugal is remarkable as it incurred two consecutive EDPs in the period of 2002-2008 (and being under a third procedure from 2009 until 2013 - in practice, Portugal has *never* been complying with the 3% criterion).

The only EDP closed due to the swift adjustments enacted by the concerned Member States was the Dutch one in 2004. All other EDPs run for a much longer period, calling into question the fact that the procedure was able to spawn “prompt corrections” and the commitment of the defecting Member State to adjust its imbalances according to the measures recommended by the Commission during the successive stages of the EDP. Yet, the truly sanctionative provisions of the corrective arm involving deposits and economic sanctions never entered into play. Moreover, several situations whereby the deficit ceiling was broken did not lead to EDPs but simply to early warnings. The tenet according to which EMU would work as a collective retrenchment device (McKinnon 1997), at least in the period of 1999-2008, clashed with a reality characterised by a Europe-wide lower than expected growth and mounting domestic political pressures against fiscal consolidation and restraint. This situation indeed led to widespread disregard of fiscal discipline. In more detail, the reversal of the positive macroeconomic trend observed in 1999/2000[60] increased the internal political cost of budgetary consolidations for Member States that then started being increasingly weary of the paradigm of sound finance and gradually grew aware (and learned) of the possibility of preventing it in a *sustainable* way.

[59] It is important to note that the launch of an EDP is not a failure of the coordination regime *per se* because the EDP is there precisely to correct instances of failed coordination. The real failure of the coordination regime is when the EDP does not result in any correction, instead leading to protracted violations of the deficit ceiling.

[60] The higher than expected growth rates did not support moderation in the form of sustained consolidation processes but instead led to pro-cyclical policies that actually endangered the retrenchment efforts of Stage II and left too little room for fiscal manoeuvre when the cycle reversed. As we shall see in Chapter 8, this phenomenon was mainly due to revenue windfalls that were not used to cut the debt but to run pro-cyclical policies that increased expenditures.

Table 5.3 Euro area deficit-to-GDP ratios, 1999-2009

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Austria	-2.6	-2.0	-0.6	-1.3	-1.8	-4.8	-2.5	-2.5	-1.3	-1.4	-5.3*
Belgium	-0.6	-0.1	0.2	0.1	-1.8	-0.2	-2.6	0.2	0.0	-1.1	-5.5*
Finland	1.7	6.9	5.0	4.1	2.4	2.2	2.6	3.9	5.1	4.2	-2.5
France	-1.6	-1.3	-1.4	-3.1	-3.9*	-3.5*	-3.2*	-2.3*	-2.5	-3.2	-7.2*
Germany	-1.5	1.0	-3.1	-3.9	-4.1*	-3.7*	-3.3*	-1.5*	0.3*	0.0	-3.0*
Greece	:	:	:	:	:	:	:	:	:	:	:
Ireland	2.4	4.9	1.0	-0.3	0.8	1.4	1.3	2.8	0.3	-7.0	-13.9*
Italy	-1.8	-1.3	-3.4	-3.1	-3.4	-3.6	-4.2*	-3.6*	-1.5*	-2.7*	-5.3*
Luxembourg	3.6	5.7	6.0	2.3	0.5	-1.1	0.2	1.4	4.2	3.3	-0.5
Netherlands	0.3	1.9	-0.4	-2.1	-3.0	-1.8*	-0.3*	0.2	0.2	0.2	-5.5*
Portugal	-3.0	-3.2	-4.8	-3.3*	-4.4*	-6.2*	-6.2*	-4.3*	-3.0*	-3.8*	-9.8*
Spain	-1.3	-1.0	-0.5	-0.4	-0.4	0.0	1.2	2.2	2.0	-4.4	-11.0*

Source: Eurostat. The shadowed cells indicate a deficit-to-GDP ratio ≥ 3%. The asterisks indicate that an EDP was underway. The values for Greece are missing as the data extraction from the Eurostat dataset left them blank.

Two early episodes that occurred in the context of the preventive arm of the Pact were highly indicative of the bargaining tendencies that will eventually unfold in full force in 2003. The first one already occurred in 1999 when the Council *generously* conceded to Italy a relaxation of the deficit target set in its BEPGs.[61] That was the first hint that the policy regime was lenient on non-compliant behaviour by large Member States. This episode, though occurring under a soft law instrument like the BEPGs[62] and looking seemingly marginal, was in actuality a sort of original sin, most of all if contrasted with the case of the Irish warning of January 2001. On that occasion, the Council, acting upon a Commission's recommendation again under the BEPGs, adopted a totally different position with respect to the Italian case. In fact, it issued an opinion explicitly advising Ireland to cut its budget by 0.5% of the GDP. The paradoxical element of this decision was that Ireland was projected to run a *surplus* for the

[61] In May 1999, Italy had already been granted access to Stage III of EMU despite its impressive debt to GDP ratio and much doubt surrounding its conduct of economic policies. The relaxation conceded to Italy on that occasion took place under the preventive arm/BEPGs and consisted of allowing the country a higher deficit to GDP target for the following year (from 2 to 2,4 per cent deficit to GDP ratio). This happened because Italian Treasury Minister made clear reference to "adverse economic conditions" in the context of the Ecofin Council meeting. The decision was hence taken at the intergovernmental level and represented an early signal of the weakness of the *soft* preventive provisions of the Pact vis-à-vis discretion and political agreement reached within Ecofin. Moreover, it signalled that the preventive arm of the Pact would have been extremely hard to implement when adverse economic conditions emerged.
[62] See Table 5.1.

following year and that the Council's opinion was issued in order to curb potential inflationary pressures rather than to correct a potential excessive deficit. The Irish reaction to the rather assertive position of the Commission, backed by the Council, was to rebut the requests for adjustment keeping its budget stance unchanged for the year to come.

Another important aspect that emerged during the first two years of SGP implementation was that Members States, although increasingly dubious about the benefits of fiscal discipline and multilateral surveillance in general, were somehow reluctant to openly challenge the tenet underlying the reference values for the deficit ceiling that constituted the heart of the corrective arm and the EDP. Yet, through the enactment of pro-cyclical fiscal policies vis-à-vis the occurrence of revenue windfalls (Heipertz and Verdun 2010, pp. 113-117), they clearly signalled that they were not willing to abide by the MTO of CTBOIS budgetary positions during periods of accelerated economic growth, exploiting the asymmetry of the Pact during positive economic cycles. The corrective arm of the Pact was in fact the only one that Member States were *taking seriously*, initially. This was arguably due to the political/reputational and potential economic costs of an EDP, that is, due to the pressure of sanctions and coercion whose credibility was still not under question. Or, to put it differently, due to the fact that the bargaining lesson was still in the making.

From these episodes and from the latter point, we can distil two aspects that are worth our attention. First, the failure of the preventive tools (which the BEPGs are part of) in inducing compliance to the supranational coordination regime. Second, the barefaced disparity of treatment between Italy (a large, influential country, already poised to be a potential sinner due to a reputation of preference for inflation and historically profligatory fiscal policies) and Ireland (a small, fast-growing country with a good record of compliance and no overly alarming tensions over its budgetary stance).[63]

These interconnected episodes represented a noticeable "first blow" to the credibility and fairness of the SGP preventive architecture and to the tenet of commitment to rules over political discretion. The process involving the Member

[63] It is also worth noting that whereas Ireland was in an extremely safe position with regard to its debt-to-GDP position (36% in 2001), in 1999 Italy had a debt-to-GDP ratio of 116%.

States learning over the rules of the bargaining game underpinned by the coordination regime had started.

The picture would darken relevantly during the course of 2001, with the pressure of stagnating GDP growth looming large. The relevant cases here were those of Portugal and, most of all, Germany, both of which managed to circumvent an early warning in February 2002. In January 2002, the Commission, according to its right of initiative and also due to discomfort with regard to the spreading of fiscal laxity (only partially caused by the reversal of the macroeconomic trend), advised the Council to adopt early warnings under the preventive arm for Germany and Portugal, whose budgetary stances were rapidly deteriorating. At this juncture, we appreciate empirically, for the first time, the influence of the Eurogroup intergovernmental logic on fiscal discipline implementation. In fact, the Commission's recommendation did not even manage to reach an official vote in the context of the Council meeting as the Eurogroup succeeded in shunning it on the basis of a private intergovernmental pre-agreement. As a reported by Heipertz and Verdun (2010), a blocking minority against the Commission's recommendations was unofficially formed during the Eurogroup meeting. At this point, the Commission decided to avoid a showdown in the Council and withdrew its recommendation in favour of vague commitments by the concerned Member States.

After this critical episode, the situation worsened rapidly, with France added to the list of the potential sinners for 2002. At that time it was indeed already clear that the preventive infrastructure of the Pact had failed to bring about compliance to fiscal discipline. As a further proof of this, in June 2002 tensions between small Member States and the Commission on the one side, and France on the other, clearly surfaced. France, in fact, was granted a notable relaxation and postponement with regard to its MTOs for CTBOIS budgetary position under the BEPGs. This irritated many small Member States that were instead showing a high level of compliance to the rules of the multilateral regime.

Subsequently the Commission, also owing to the fact that Portugal, Germany and France were swiftly approaching the deficit ceilings for enacting an EDP, finally resolved to put into action the corrective framework of the SGP. Portugal (a small country) was the first Member State to incur an EDP in July 2002. In short, under the procedure, the involved countries "were expected to correct the excessive deficits within a year, and Portugal *duly* did" (Journal of Common Market Studies 2004, p. 1023, italics added).

The cases of French and Germany instead followed a remarkably different trajectory. Although the budgetary situation of France and Germany was not in principle better than the Portuguese one, these two countries managed to delay a Council decision under the truly *biting* provisions of the corrective arm until late 2003. They achieved this in various ways. First, resorting, under the already weakened preventive arm, to non-credible growth forecasts that made their budgetary positions look less problematic (see Buti and Pench 2004). Second, by systematically "preventing the preventive arm" (Heipertz and Verdun 2004; 2010, pp. 122-124) and in turn obtaining less harsh MTOs (that went neglected anyway). Third, by exploiting their political and voting power in the context of the Eurogroup. Fourth, by applying a "divide and rule" strategy that put small compliant Member States partially against the Commission that at that time had started reasoning on a general relaxation of the SGP, mainly to accommodate the *desiderata* of large Member States and to keep the coordination framework alive, notwithstanding the spreading of non-compliant behaviour. These episodes are all very much in line with the implications of learning via the bargaining process.

During that period, it was clear to all the relevant actors and most of all to the increasingly distressed small Member States that France and Germany (and perhaps Italy too) should have been put under an EDP. France's top politicians on different occasions even showed a challenging stance against the Commission, while Germany was more prudent and seemingly open to a compromise, that is, to consent to a "light" EDP. Nonetheless, from a learning perspective, a gradual (and dysfunctional) political learning process was already well underway, as the German position also stiffened pretty soon in a sort of bandwagon effect.[64] In this regard, it is also interesting to take stock of the account featured in De Haan et al. (2004) about the presence of a herd effect in

[64] "Observers noted that the French attitude not to honour European commitments seemed increasingly to influence a number of German actors, who became more used to the idea of relaxing the course of budgetary consolidation […] Both the German and the French courses reinforced each other to the extent that the 'seriousness' of Berlin's opposition to Brussels became clear to Paris and vice versa" (Heipertz and Verdun 2010, pp. 134 and 150).

violations. According to their game theoretical conceptualisation of policy coordination under the SGP, the probability of being sanctioned decreases if the number of defectors increases. Put simply, sinners are more lenient with other sinners. This explanation also fits very well to a process of gradual learning via bargaining, involving an increasing number of actors.

Amid this complicated situation, the stability programmes for 2003 of France and Germany showed a deteriorated budgetary situation. In fact, the Council meeting held in January adopted the Commission's recommendation and issued an early warning to France (which it rebutted, saying it would have not abided by the adjustment measured proposed) and EDP to Germany (which instead consented on it, but simply under the "light" provisions of paragraph 3 of Article 104). In June 2003, an EDP was also launched against France, but again under the relatively light paragraph 3 of Article 104. Nonetheless, even in the presence of two ongoing EDPs against them, both France and Germany refused to correct their budgetary positions, with France even officially asking for a further postponement for adjusting its deficit.

The showdown, within a situation including early warnings, lightly-worded EDPs and yet no real effort for corrective actions by the governments involved, took place on 25th November 2003. The Commission, backed by a coalition of small compliant Member States, came to the conclusion that the enactment of more coercive measures on France and Germany could not have been delayed any longer without threatening the credibility of the whole fiscal framework. The Commission explicitly recommended the Council to vote under the more coercive provisions of paragraphs 8 and 9 of Article 104 (those about iterated non-compliance and non-effective corrections - see above for details). A positive Council opinion under those indents would have implied substantive enforcement actions against the then long-term defectors, potentially leading to sanctions in the form of a non-interest bearing deposit.

Before the vote took place, Germany and France "mustered the coalition for a blocking minority" (Heipertz and Verdun 2010, p. 143), resorting to both private bi-lateral contacts and to Eurogroup sessions. As a consequence of this strategy, the vote in the Council did not reach a qualified majority thanks to the efforts of the two countries in forming a blocking minority also involving Italy, the UK, Ireland, Luxembourg and Portugal. The two EDPs were officially suspended, dropping the final bomb on the credibility of the Pact that from then on was punt in ‘abeyance’. This outcome represented the result of a gradual process of increasing bargaining sophistication whereby large Member States learned how to prevail over small ones and the Commission by means of the loopholes provided by the Eurogroup intergovernmental formula and through strategizing QMV.

A key explanatory role of the events that occurred in the period 2002/2003 has to be attributed to domestic politics and intergovernmentalism. As for the latter, the November 2003 episode is to be attributed to “the arbitrariness of power politics seen in the behaviour of the large countries” (Heipertz and Verdun 2010, p. 151). As for the former, political and electoral motives were seen as central drivers of the behaviour of France and Germany (*ibid*.). My investigation acknowledges the importance of domestic explanations, yet it looks to complement them with the causal forces and learning mechanisms ensuing at the supranational level of policy coordination.

From this perspective, it is clear that domestic politics explanations could not have exerted a great deal of influence *outside* the scope of a weakened coordination regime whereby sanctions gradually proved unenforceable. Moreover, these weaknesses did not come from outer space but were context-specific, i.e. they arose out of the first three years of experience with the Pact’s implementation. In other words, the blows to the preventive arm observed in the period of 1999-2002 and the struggle between small and large Member States (resolved in favour of the latter) were thought to be important lessons to those Member States interested in defecting from the rules.

When reasoning on the implications of learning via bargaining, I argued that the gradual increase of strategic sophistication was one of the key expectations and this aspect was clearly reflected in the implementation practice. Such a learning mechanism did not only regard the Member States but also the other key actor of the regime, that is, the Commission. In fact, in the first three years of implementation of the SGP, the Commission also gradually learned about the weakness of the preventive arm and when widespread defections by powerful Member States started endangering the whole fiscal framework, resorted to the corrective arm to attain its own goals. When it became clear that the key leverages of the regime were in the hands of large Member States endowed with voting power within the Council, the Commission further "learned via bargaining" and tried to resort to the judiciary weapon in its capacity of watchdog of the treaties. This legal conflict, its result and the subsequent reform of the Pact represent the final set empirical evidence that corroborates the implications of learning via bargaining, a sort of smoking gun of the fact that actors bargained and learned thereof under the SGP.

5.4b2 The reform of the Pact and its nature: a late son of 2003 grand bargaining

The 2004 European Court of Justice pronouncement over the November 2003 decisions of the Council reasserted the right of initiative of the Commission in EDPs, but also stressed that the final decision maker within the coordination regime was the Council and that its political discretion over the application (or lack thereof) of enforcement measures could not be challenged by the Commission.

Already before the ECJ's ruling, a process of reform had been enacted by the Commission and the Council. A detailed discussion of the reform process and of the features of the new SGP would go beyond the purpose of this chapter. Moreover, various sources, both in law and political science, have already comprehensively addressed the issue. Nonetheless, it is important to notice, and extremely telling of the nature of the new SGP, that almost all the informed observers (and even the ECB) agreed in considering the new Pact as a weaker version of the previous one that failed in bringing about sound coordination (see, among others: Calmfors 2005; Feldstein 2005; Morris et al. 2006; Heipertz and Verdun 2010; Schucknecht et al. 2011).[65] To quote an occasional paper of the ECB,

> "the proliferation of escape clauses and the shift in emphasis towards conditional as opposed to unconditional compliance implies that the rules are now less well-defined and less simple. The new framework is also less transparent insofar as it is now harder for outsiders to assess whether or not decisions taken by the Council are consistent with a rigorous application of the rules. In addition, it has to be recalled that the reform has not changed the governance structure of the SGP in any fundamental way. The basic incentives for all parties involved and the

[65] Quite obviously, the Commission and the Council endorsed the new Pact as a positive shift in fiscal policy coordination and economic governance of EMU.

> voting rules in the ECOFIN Council remain as they were before the reform" (Morris et al. 2006, p. 23).

The failed opportunity to reform the Pact in a functional way, that is, having regard for the overarching objective of sound policy coordination instead of allowing for even more discretion in implementation, can be considered as further proof of how the Member States (i.e. the most powerful actors within the strategic interplay arising out of the first years of implementation) effectively learned how to bargain and exploit the loopholes of EMU architecture to *untie* their hands. Whereas the 1997 version of the SGP arising out of the EMU convergence process was arguably the result of hierarchic instrumental learning, the reformed Pact was the result of the bargaining lesson from which Member States gradually learned how to regain relevant room for discretion vis-à-vis the purported hard disciplinarian nature of fiscal policy coordination.

5.4b3 After the 2005 SGP reform: smoothly sailing toward the storm

The budgetary performances of the period of 2005-2007 and part of 2008 were considered by EU institutions, against broadly negative expert opinions about the reformed framework, as proof that the renewed SGP was a better, more flexible and sensible instrument of policy coordination than its much criticized predecessor. In fact, in its report on "Public Finances in EMU – 2008", the EU Commission proudly states that "[i]n spite of the still significant differences across countries, last year the headline deficit in the euro area and the EU as a whole reached its lowest level in decades" and that this was due to the fact that "Member States subject to the dissuasive arm of the Stability and Growth Pact have made considerable advances toward correcting their excessive deficits" (pp. xiv and 1). Nonetheless, these noticeable budgetary performances were hardly comparable to the "genuine consolidation" of Stage II.

As argued in Chapter 4, the genuineness of retrenchment efforts by Member States needs to be tested against a relevant "bad weather test", that is, vis-à-vis an unsupportive macroeconomic environment. In other words, the strong economic growth observed over the period of 2005-2007 (bringing about so-called windfalls and "buoyant revenue developments" – *ibid*. p. 1) made compliance to the corrective provisions of the SGP *quasi-automatic* and did not allow evaluation of whether nominally healthy public finances were the result of Member States discretionary restraint and genuine implementation of the supranational framework or merely the fruit of a supportive business cycle. Indeed, although lacking final evidence on this point, there are reasons to believe more in the latter account.

In fact, even without drawing on the staggering fiscal deterioration of 2009 to assess negatively the new SGP, one can argue that its inherent flaws were already apparent during the 2005 and 2007 honeymoons. These flaws were not reflected in widespread defections to the corrective arm's ceilings, as we saw, but in a slightly more subtle circumstance, that is, the systematic postponement of MTOs of CTBOIS under the preventive, forward-looking arm of the Pact aimed at guaranteeing long-term sustainability of the fiscal framework.

Like during the robust economic growth of the period of 1999-2001, the renewed SGP also proved unable to curtail pro-cyclical budgetary policies across the Eurozone. The Commission acknowledges this in its 2008 report by stating that: "If more progress had been made towards sustainable fiscal positions over the past years of high economic growth it would certainly have diminished potential risks to public finances in the medium term" (p. xiv). In other words, higher than expected economic growth was instrumental in keeping the fiscal houses in order vis-à-vis the hard provisions of the corrective arm, yet virtually no Member States succeeded in exploiting growth windfalls to build up credible buffers against future downturns or, in other words, to collect "rainy day funds" and consolidate their budgets while also lowering their debt stock, that is, to move toward long-term fiscal sustainability.

Was that true glory then? Hindsight guarantees it was not, but already in 2010, Heipertz and Verdun (with a much more limited hindsight with respect to the one we can draw upon today) were able to argue that "most observers were adamant that it was not possible to assess the usefulness of the reformed SGP, given the 'good times' and the absence of a 'bad weather test'" (p. 174). Such a "bad weather test" would have come soon, as early as late 2008, and by the end of 2009 its effects were more than apparent, with virtually the whole Eurozone (Finland and Luxembourg excluded) formally involved in EDPs, plastically showing that the renewed SGP was far from being more effective than its predecessor in guaranteeing fiscal discipline regardless of the economic cycle.

In the following chapter, I will pick up my diachronic account of fiscal policy coordination under EMU from the “quiet before the storm” of 2008. The introduction of the so-called “European Economic Recovery Plan” in late 2008, mainly consisting of a set of national anti-cyclical fiscal stimuli, literally put fiscal policy discipline in abeyance for good or, to use Council jargon, allowed the Member States to use the built-in flexibility of the SGP owing to “exceptional situations”. With a Stability Pact still officially in place but merely *casually* (Heipertz and Verdun 2010, p. 190), or symbolically applied and with the Eurozone on the brink of disintegration, we can safely move to analyse the rise of a new macroeconomic coordination framework and fiscal policy regime thereof.

5.5 Conclusions

The analysis carried out in this chapter has accounted for the regime shift that occurred from Stage II to Stage III of EMU and for the corresponding shift in the mode of learning. Namely, under Stage II of EMU the prevalent mode of learning was hierarchical, whereas under Stage III and the SGP learning via bargaining emerged, as demonstrated by the “measurement” of the different dimensions of policy learning. In more detail, I showed how the shift in the mode of learning was mainly due to changes in the venues of interaction and most of all in the agency of the new regime.

When it comes to the implications of these two different modes of learning and their impact on the observed policy outcomes, it is fair to say that whereas hierarchical learning proved functional and instrumental to the objectives of the convergence regime, learning via bargaining reinforced the strategic/opportunistic nature of the policy interactions under the SGP, *nurturing* unilateral action. This, together with domestic factors, contributed to an increasingly poor degree of compliance with the rules of the policy regime. Indeed, the non-biting nature of the Pact was not only engrained in the regime’s structure, but was also socially constructed by a process whereby the Member

States gradually learned how to act strategically during the course of implementation and even, at a later stage, to reform the regime's framework to make it conform more to their preferences by increasing the degree of political discretion in the enforcement. In light of this new weakened coordination framework, the financial crisis of late 2008, and the enactment of fiscal stimuli, eventually triggered the *de facto* suspension of the Pact.

In both of the first two case studies it is important to stress that learning emerged as a by-product of the policy interactions, as the powering dimension was indubitably more salient. This circumstance gradually reversed with the diffusion of the financial crisis in late 2008 and, most of all, with the explosion of the sovereign debt crisis in 2010. These twin crises in fact brought EMU in to uncharted territory, prompting a process of emergency-driven policy making and change under acute uncertainty and pressing time constraints. In particular, the 2010 Eurozone crisis added a crucial aspect to the puzzle of fiscal policy coordination, that is, the disciplining role of the external market on sovereign risk premia, transforming an internal and highly tractable disciplinarian problem in a hardly tractable one. At this critical juncture, a change in the paradigm of the policy regime and of EMU in general ensued, allowing us to enter a domain in which learning mechanisms are no longer a by-product, but rather a key product, of the policy interactions.

Chapter 6. The sovereign debt crisis as an *intervening* variable

6.1 Introducing the *beast*: a primer on the eurocrisis

The crisis faced by the EU, and EMU in particular, starting from 2008 has lent, and still lends itself nowadays, to a myriad of theoretical and empirical approaches. Already during the early, initial phases of the crisis, political scientists (both EU scholars and political economists) have acknowledged its role as a crucial driver of change for the EU and EU integration and have therefore dedicated a great deal of attention and publications to its nature and its short and long term effects (see, among others: Hooge and Marks 2009; Hodson and Quaglia 2009; Jones 2009, 2010a and 2010b; Hallerberg 2011; Scharpf 2011; Schelkle 2011; Marsh 2011).

This earlier wave of research on the EU crisis, as well as the more recent one on which I elaborate below, was characterised by a great deal of internal diversity. Such a variety of perspectives is commonplace within a highly segmented discipline like political science. Yet, beyond the usual divides typical of the field, the deeper reasons for this diversity relate to the multi-dimensional and markedly exceptional nature of the crisis itself (Jones 2009 and 2010a; Matthijs 2014; Parsons and Matthijs 2015). As Copelovitch et al. (2016, pp. 17-18) argue, "[…] the crisis has taken place - as no previous sovereign debt crisis had - within the unique economic and political context of an extensive yet incomplete regional integration scheme, where monetary and fiscal policy authority is divided between actors and institutions at both the supranational and national levels. While complicating the resolution of the crisis, these unique features make the Euro crisis a useful and fascinating case".

In fact, the crisis has constantly mutated during its progression, hitting new and different policy domains and involving, as a consequence, different subsets of domestic and supranational actors, institutions, structures, and policy areas and regimes. Moreover, and crucially, the euro area crisis has posed an unprecedented existential threat to the E(M)U. And, as rightly argued by Parsons and Matthijs (2015), inaction vis-à-vis that threat would have likely led to the end of the EU integration project as we know it.

In short, the ambiguity, pervasiveness and uniqueness of the crisis has, unsurprisingly, fascinated political scientists, inducing them to distil, conceptualise and analyse a vast number of case studies all broadly related to different aspects and impacts of the crisis. As a consequence, they have also deployed (and employed) an abundant variety of theoretical, methodological and empirical postures to answer very diverse research questions.

Several authors have focused on the financial dimension of the crisis analysing the relevant changes it prompted in the realm of domestic and supranational financial regulation and banking supervision (see, among others: Begg 2009; Hodson and Quaglia 2009; Grossman and Leblond 2011; Howarth and Quaglia 2013a and 2013b; Jones 2015). Other scholars, mainly belonging to the neo-functionalist tradition, have looked at the EU economic governance architecture at large and at how the weaknesses and asymmetries latent within EMU's original design have left the EU unprepared when hit by such a profound shock (Jabko 2011; Hall 2012; Dyson and Quaglia 2012; Vilpišauskas 2013; Lefkofridi and Schmitter 2014; Schimmelfennig 2014a; Niemann and Ioannou 2015). Hence, they explained the multifaceted policy changes that occurred in response to the crisis as being driven by path dependency and functional pushes and spillovers.

Some other researchers, mainly belonging to the intergovernmentalist school, have taken a different perspective and have tried to explain how the EU has reacted to the crisis by focusing on its agency. They have therefore distinguished between instances whereby the measures adopted in response to the crisis have been fruit of the community method and supranational agency, and episodes where they have been approved in the context new treaties or treaties' amendments laid out through different forms of intergovernmental bargaining (Chang 2013; Hodson 2013; Bauer and Becker 2014; Krampf 2014; Schimmelfennig 2015a).

One of the (yet controversial – see Schimmelfennig 2015b) conclusions this scholarship draws is that a hybrid process of policy change labelled as "deliberative" or "new" intergovernmentalism has been at play (Puetter 2012; Bickerton et al. 2015), whereby integration-without-supranationalism has been steered by intergovernmental institutions like the European Council and the Eurogroup. The latter bodies, once informal and on the margins of the EU institutional architecture, took centre stage as both fora for discussion and decision making venues, marking a relevant departure from both the community method and intergovernmental decision making. In a way, reflecting a common and decades-long divide, the functionalist approach has mainly focused on the role of the structure to explain failure and change, while the intergovernmentalist scholarship has dealt with the causal role of the actors involved in crisis management and in the subsequent wave of reforms.

Institutionalist scholars have looked, perhaps more pragmatically, at the tasks covered by the EU and EMU before and after the crisis and specifically at the way in which these tasks have expanded and changed (Buti and Carnot 2012; Salines et al. 2012; Schwarzer 2012; Gocaj and Meunier 2013), concluding that the conceptual categories of historical institutionalism are fit for the purpose of explaining abrupt change after relative stability and of making sense of the nature of this change (Verdun 2015).

Although political economists have been somewhat slower in developing a consensual understanding of the crisis' causes and an explanatory account of policy change that occurred thereof (Copelovitch et al. 2016, p. 14), as of now we can also rely on a number of different studies focusing on the interplay between economic and political factors before, during and after the crisis (*ibid*. introducing a special issue of Comparative Political Studies on the political economy of the Euro crisis; Hughes Hallett and Jensen 2012; Blyth 2013; Matthijs 2014; Matthijs and Blyth 2015; Mabbett and Schelkle 2015; Howarth and Quaglia 2015; Jones and Torres 2015).

It is hard to briefly condense the various findings of this literature. However, it is fair to say that political economists have broadly maintained that EMU faced an asymmetric shock characterised by a number of Member States undergoing a classic balance of payment crisis (swiftly followed by sudden stops and capital reversals), the effects of which were magnified by the specific and unique features of EMU: a decade of accumulation of public debt due to artificially favourable borrowing conditions, wasted tax revenue windfalls, the build-up of real imbalances that could not be offset by currency devaluation, limited credibility of the no bail out clause of Maastricht, diverging national preferences about the burden of the adjustment (that eventually took the form of internal deflationary adjustment), lack of a proper lender of last resort and of fiscal solidarity (i.e. lack of a substantial EU budget able to partially ease and stabilise asymmetric imbalances), fragmented economic governance, etc.

Finally, a share of EU scholars have looked forward, reflecting on the meaning and impact of the crisis on (economic) integration and integration, and integration theories at large (Hooge and Marks 2009; Habermas 2012; Majone 2012; Moravacsik 2012; Overbeek 2012; Menz and Smith 2013; Tosun et al. 2014; Jones et al. 2016).[66]

To sum up, the crisis has generated a massive and diverse scholarship and it can be easily anticipated that its salience (and its termination, which is somehow still looming large) will continue to feed an impressive stream of research.

My own analytical perspective builds upon modes of policy learning as casual mechanisms suitable to explain fiscal policy coordination regimes, processes and outcomes. In this connection, the crisis unavoidably adds to the analysis a case-specific layer of complexity. In fact, while it can be safely argued, even before carrying out a detailed investigation of the underlying process, that the regime for fiscal policy coordination has effectively undergone a major shift as a result of the crisis (in other words, the crisis has been a *causal driver* of policy change), it is much more difficult to gauge the exact relationship existing between the crisis, learning and change. This is also because, as far as I am aware, no scholar apart from Daniela Schwarzer (2015 – see the following sections for a detailed review of her article and arguments) has directly addressed the learning dimension of the responses to the crisis. That said, a learning-informed evaluation of causality within the “crisis-case-study” cannot be limited to the isolated influence of learning dynamics on the one hand, or crisis-related factors on the other. It is necessary that a complete explanatory account of policy and regime change draws on the dynamic relationship between crisis and learning.

Hence, the aim of the present and the following chapters is to characterise the process and nature of such policy change(s) through the analytical lens of

[66] The many scholarly contributions devoted to putting forth solutions to the euro area crisis are ignored here as they play a prescriptive, normative game that often lacks in analytical gravity. Those contributions that, along with solutions for the future, also propose a stringent analysis of the crisis (see Hallerberg [2011] and Hughes Hallett and Jensen [2012] as examples) are instead included in my review.

policy learning under crisis management. It follows that the strategy that I propose to employ, in line with the lessons and practice of process tracing methodologies based on causal mechanisms (see the introductory chapter), is to treat the crisis as a case-specific intervening variable and, hence, to carefully characterise it (according to specialised literature) and embed it within learning-based causal mechanisms.

This approach, admittedly, presents one major disadvantage along with several advantages that will become apparent in the remainder of the chapter. When it comes to the former, the key drawback of such an approach is that crises and their different typologies are not explicitly conceptualised/theorised within the "policy learning measuring instrument" and within the mainstream mechanisms/modes of policy learning systematized in Chapter 3. Variations in problem tractability are surely a good proxy of crises, yet they fail to fully grasp the specificities and idiosyncratic effects of a critical juncture of the proportion of that which hit EMU starting from 2008. In short, the key drawback of characterising the crisis as a case-specific intervening variable and using it to refine the explanation is the loss of generality of modes of learning as externally valid and broadly generalizable causal mechanisms. Nonetheless, failing to explicitly embed the crisis (actually, *this crisis*) and its specific features within the explanatory causal mechanism would lead to greater problems of internal validity.

The 2008-20?? (2013, according to Jones 2014) crisis in fact impinged on EMU and on its overarching paradigm in an idiosyncratic way, that is, by showing variation in space (i.e. by hitting different policy domains) and time (i.e. by posing existential threats both to the short term survival of the euro area and to its long term sustainability).[67] The latter circumstance, must not only be reflected in the construction of the causal explanatory mechanism, but also needs to be carefully considered in designing the strategy for case selection/construction. In the light of this, a specific section of this chapter (Section 3) is devoted to motivate and justify the need to include the crisis as an intervening, case-specific variable within learning-based causal mechanisms, and the need to distil two separate case studies from the broader "crisis-case-study", one

[67] See Parsons and Matthijs (2015) for a highly provocative and original argument about the Euro crisis having been the only *real* crisis faced by the EU in its decades-long history.

related to short term effects and policy measures and another dealing with long term responses and regime change or, to put it like Schwarzer (2015, p. 605), one dedicated to the *policy dimension* of the crisis and one to the *institutional dimension*. The first of these cases will be the object of Chapter 7, while the second case will be dealt with in Chapter 8.

This chapter, instead, does not revolve around a specific case study, but serves the purpose of preparing the ground and setting the scene for the analysis featured in the following ones. It does so by introducing and characterising the crisis.

Hence, the chapter proceeds as follows. Section 2 briefly connects the narrative of the previous chapter with the inception of the financial crisis in 2007/2008 and with its gradual (yet rather fast) transformation in an economic and sovereign debt crisis. Once having sailed through the first two years of the crisis, where we will see that a *de facto* regime for fiscal policy coordination was only formally in place, Section 3 introduces the Greek crisis of autumn 2009. The section then elaborates on the deep and idiosyncratic effects of such a crisis on EMU's paradigm and characterises it according to crisis management categories and literature. The multiple analytical tasks covered in that section allow us to motivate a specific focus on the crisis as a case study of policy change; split the "crisis-case-study" into two separate cases, one focused on the short-term, intracrisis measures adopted to guarantee EMU survival and another related to the long-term reforms undertaken to address the long-term effects of the crisis and strengthen EMU sustainability (dealt with in Chapter 8); and justify and put forth an argument for a novel, case-specific learning mechanism suitable to explaining the process and nature of policy change observed under the first of the two crisis case studies.

Before proceeding with the chapter, a few words on the overall balance of the case studies within my dissertation are in order. Initially, that is, when designing and dealing with the "crisis-case-study", my idea was to analyse it as a single case (by resorting to my policy learning measuring instrument) and then to proceed with the characterisation of the new coordination regime emerging thereof as a final case study. While working on this chapter, however, I came to the conclusion that the *mainstream* modes of learning discussed and systematized in Chapter 3 are unsuitable to explain how the observed crisis-driven policy changes really unfolded, most of all in the context of intracrisis management.

Hence, I decided to reason more carefully on the nature and temporal sequence of such changes by crafting a two-pronged case study covering, respectively, short and long term policy changes that, according to my argument, were driven by distinct (yet complementary) learning mechanisms. This analytical strategy has its roots in my original, learning-based interpretation of the crisis, but it is also reflected in a number of recent contributions that distinguish between short term and long term impacts of and responses to the Euro crisis (Schwarzer 2015, pp. 605-606; Copelovitch et al 2016, p. 16).

As for the last (potential) case study, i.e. the implementation of the newly emerged coordination regime, two major facts militate against its salience vis-à-vis the relevance of achieving a more thorough and complete account of policy change. Frist, the new regime is in a way still under construction, with recent uncertainties surrounding the management of the third Greek rescue package, the establishment of the banking union and the always-debated interpretation of *flexibility* in the enforcement of fiscal discipline (Dunlop and Radelli 2016 – eurozone). True, the European Semester and Six-Pack Rules are in place since and have been implemented for six years now, yet a number of EMU Member States have not been fully subject to the new policy regime, as they still were under the different discipline and rules stemming from the Memorandums of Understanding designed within their country-specific bail out packages. Second, the initial years of implementation of the new regimes cannot be considered as extremely telling when it comes to the influence of learning, as the regime was far from stable, that is, it was still undergoing further waves of reform until at least 2013, and even at the time of writing, it is hard to say whether the overall regime can be defined as stable, with the lengthy negotiations on the banking union being a strong point in case.[68] Finally, the conclusive chapter will provide a characterisation of the new regime according to the policy learning measuring instrument. The conclusion of this categorization exercise is that the new regime (with its new disciplinarian paradigm based upon long term sustainability, budgetary consolidation and, arguably, rules prevailing over

[68] http://www.bloomberg.com/news/articles/2016-04-14/sovereign-debt-conundrum-sets-up-eu-for-banking-union-stalemate

discretion) is in a way a return to the (healthy) hierarchical conditionality of Maastricht. Anyway, given the idiosyncrasies in the implementation of the new regime and its short lifespan, an empirical analysis aimed at verifying the influence of hierarchical learning on implementation would unavoidably be incomplete. In other words, it might still be too early to call.

6.2 Sailing toward the storm

The narrative of the Stability and Growth Pact's (SGP) history carried out in Chapter 5 roughly ended up with the first signs of the worsening of the macroeconomic environment due to the US financial crisis of 2007. Back then, EMU was in *good shape*, at least according to numerical benchmarks and to the qualified opinion of the Commission. The latter, although acknowledging the presence of wide margins of uncertainty with regard to short term prospects (mainly due to the ongoing US financial turmoil and to the aging EU population), stated in its Editorial to the "Public Finances in EMU" Report of 2008 that "[i]n spite of the still significant differences across countries, last year [i.e. 2007] the headline deficit in the euro area and the EU as a whole *reached its lowest level in decades* […] The general government deficit fell to 0.6% of GDP in the euro area and 1.0% of GDP in the EU. Structural fiscal deficits are estimated to be at their *lowest levels since the early 1970s*" (Commission 2008a, pp. xiv – 1, emphasis added). Moreover, with the abrogation of several Excessive Deficit Procedures (EDP) in June 2008, no euro area country was subject to the corrective discipline of the Pact. In general, compliance with Medium Term Objectives (MTO) and with the debt reduction criteria and budgetary consolidation plans included within the Stability Programmes was less satisfactory (*ibid*.), yet it is not unfair to argue that EMU reached its best record ever at the beginning of 2008. As already pointed out in the previous chapter, this was unlikely to be true glory (and the crisis largely proved it) since compliance with fiscal discipline was fostered by a supportive business cycle and temporary revenue windfalls (Morris et al. 2009; Barrios and Rizza 2010).

This dynamic, in actuality, was also acknowledged by the Commission that, vis-à-vis the generally positive picture, repeatedly urged Member States to exploit the supportive macroeconomic environment to construct budgetary buffers (i.e. *rainy day funds*) such to guarantee bigger margins of manoeuvre in case the US crisis turned darker.[69] In particular, the main recommendation was to run more consistent counter-cyclical budgetary policies, that is, to use unexpected revenue windfalls to reduce deficit and debt ratios. This indication was largely ignored, as in that period governments consistently run pro-cyclical polices by using extra revenues to further feed expenditure growth (Morris et al. 2009; Hauptmaier et al. 2010; Barrios and Rizza 2010). Nonetheless, all caveats and relative weaknesses considered, EMU looked robust in 2007 and early 2008 and the prudent assessment of the Commission indirectly confirmed this fact since its key concerns, when it came to elaborating on potential ways to strengthen fiscal discipline, were oriented toward guaranteeing long term sustainability of public finances (i.e. improved adherence to MTOs) and toward limited, *technical* improvements to the SGP framework (Commission 2008a, pp. 3-5).

To sum up, in late 2007/early 2008 EMU looked in reasonably good shape and no big change in fiscal/economic policy coordination was either in sight or considered to be necessary. The US financial crisis was surely a source of concern, yet it remained somewhat in the background at the beginning of 2008, as the overall economic outlook in the EU was (moderately) optimistic. Matthijs (2014, p. 202) even documents a diffused sentiment of *europhoria* on the occasion of the ten-year anniversary of the Euro in January 2009.

The critical juncture of Lehman's default (October 2008) changed that picture dramatically. Although its actual impact would have been fully understood much later, most of all in terms of sovereign bonds' risk premia differentiation (Schuknecht et al. 2010; Van Riet (ed.) 2010), the stress it sparked on a number of European financial institutions of "systemic importance" (Goddard et al. 2009) and its fast propagation to the real economy (European Central Bank 2009, p. 61) were strong wake up calls for EU actors. The reaction to these calls was twofold (Commission 2009c, pp. 90-91). On the one hand, euro area

[69] "While the fiscal position of the euro area and the EU attained in 2007 is the best in decades, the short term outlook is overshadowed by a number of downside risks which, if they materialize, could give rise to a setback on the way towards sustainable fiscal positions [anyway] assuming that current achievements are preserved, most Member States managed to narrow the budgetary gap to ensure sustainable public finances" (Commission 2008a, pp. 11-12).

governments decided to rescue endangered financial institutions and banks through a concerted "European Action Plan" agreed right few weeks after Lehman's default (Commission 2008b).

The massive implicit and explicit budgetary liabilities linked to the rescue measures were justified on the grounds of contagion risks stemming from banks' defaults, potentially leading to dramatic bank runs and to the disruption of the whole EU financial system. On the other hand, faced with the crisis' effects on real economy and output contractions, EU actors decided to imitate, to a lesser extent, the US response to the economic downturn by enacting a (mild) Keynesian discretionary fiscal easing – beyond that already guaranteed by the working of automatic stabilisers. Given the heterogeneity in fiscal positions, the room for manoeuvre for fiscal expansions differed sharply across different Member States. In short, those that could afford it (Germany, most of all) enacted relatively large discretionary fiscal packages, while other more constrained Member States (like Italy, for instance) solely relied on automatic stabilisers (Van Riet et al. 2010, p. 25). This new fiscal activism, although sparse and country-specific, was framed within a coordinated EU effort known as the European Economic Recovery Plan (EERP – Commission 2008c).

The EERP was proposed in November 2008 and adopted in December 2008, a few weeks after Lehman's default and shortly following the action plan for bank bailouts. The overall size of the expansionary measures proposed in the plan was about 1,5% of the euro area GDP (*ibid*., p. 6). Given the little room for fiscal manoeuvre of a number of euro area countries and the limited epistemic consensus for Keynesian discretionary interventions (see Chapter 8 for a thorough discussion of the epistemic influence on EMU policy making and change), the EERP was rather timid, most of all when compared to its American counterpart, the American Recovery and Reinvestment Act of January 2009. Largely following *new* Keynesian lessons and due to the presence of relevant macroeconomic imbalances hidden within EMU's public finances and heterogeneity in fiscal positions across countries, the EERP was not only timid, but was also designed to be temporary and swiftly reversed (*ibid*., p. 7). This approach reflected the typical *fear* (smoothly transmitted to EU policy makers) of the dominant New Neoclassical Synthesis[70] scholarship towards the effects of permanent or largely protracted fiscal stimuli on the so-called expectation channel.[71]

To proceed, autumn 2008 represented a turning point with respect to 2007. The default of Lehman and the consequent transformation of the US financial crisis in a global (financial and economic) turmoil also intruding in the EU prompted two distinct reactions. First, the enactment of heavy public interventions in the financial system (negatively impinging on sovereign debts' stocks) and second, the implementation of discretionary fiscal stimuli framed within the EERP (negatively impinging on government deficits). The combined effect of these two measures, together with the impact of automatic stabilisers on government budgets, determined a sharp and sudden deterioration of euro area public finances in 2009 (see Table 6.1 below).

[70] New Neoclassical Synthesis is the technical definition of the mainstream, orthodox approach that has dominated in the last fifteen years, and still dominates nowadays, the macroeconomic scholarship. In a nutshell, it is a "synthesis" as it integrates the key tenets of the New Keynesian School (imperfect/monopolistic competition and nominal rigidities) with those of the Real Business Cycle tradition (rational expectations and intertemporal maximization) to make sense of short and long-term fluctuations of the economy. Although pigeonholing scholars into narrow schools of thought is almost always inappropriate, it is hard to think of a more representative figure of the New Neoclassical Synthesis (most of all on methodological grounds) than Professor Jordi Gali of Pompeu Fabra University.

[71] In short, a permanent fiscal expansion would provoke an almost complete crowding out of the newly available extra income due to the anticipation of future raises in tax to balance the budget, making the stimulus itself less effective in terms of output growth and more burdensome in terms of long term public finance sustainability. See Chapter 8 for a thorough discussion of this macroeconomic paradigm.

Table 6.1 General government balance and gross debt as a percentage of the GDP in euro area countries

Table 9 General government balance and gross debt in euro area countries

Percentage of GDP	Balance				Debt			
	2007	2008	2009	2010	2007	2008	2009	2010
Belgium	-0.3	-0.9	-3.0	-4.3	83.9	88.3	91.2	94.0
Germany	-0.2	-0.1	-2.9	-4.2	65.1	65.6	69.6	72.3
Ireland	0.2	-6.3	-11.0	-13.0	24.8	40.8	54.8	68.2
Greece	-3.5	-3.4	-3.7	-4.2	94.8	94.0	96.2	98.4
Spain	2.2	-3.4	-6.2	-5.7	36.2	39.8	46.9	53.0
France	-2.7	-3.2	-5.4	-5.0	63.9	67.1	72.4	76.0
Italy	-1.6	-2.8	-3.8	-3.7	104.1	105.7	109.3	110.3
Cyprus	3.4	1.0	-0.6	-1.0	59.4	48.1	46.7	45.7
Luxembourg	3.2	3.0	0.4	-1.4	7.0	14.4	15.0	15.1
Malta	-1.8	-3.5	-2.6	-2.5	61.9	63.3	64.0	64.2
Netherlands	0.3	1.1	-1.4	-2.7	45.7	57.3	53.2	55.2
Austria	-0.4	-0.6	-3.0	-3.6	59.5	59.4	62.3	64.7
Portugal	-2.6	-2.2	-4.6	-4.4	63.6	64.6	68.2	71.7
Slovenia	0.5	-0.9	-3.2	-2.8	23.4	22.1	24.8	25.8
Slovakia	-1.9	-2.2	-2.8	-3.6	29.4	28.6	30.0	31.9
Finland	5.3	4.5	2.0	0.5	35.1	32.8	34.5	36.1
Euro area	-0.6	-1.7	-4.0	-4.4	66.1	68.7	72.7	75.8

Source: European Commission's January 2009 interim forecast.

Source: European Central Bank 2009, p. 76.

The euro area sovereign debt crisis had officially begun. Although its conventional beginning normally corresponds with the update of Greek budgetary figures in October/November 2009 (see below), the key critical junctures for its inception were in actuality Lehman's default (Schuknecht et al. 2010) and the early EU response to its consequences.

This situation notwithstanding, the Commission's reports and Communications of that period neglected and largely failed to foresee that the above sketched mix of adverse factors would have triggered a strong reaction from market participants that would have put at serious and unprecedented risk the solvency of euro area members (first of Greece, the major *fiscal sinner,* then, shortly thereafter of Ireland and Portugal). The most staggering circumstance of this misconception is for sure the fact that the abrupt and massive fiscal deterioration of 2008 and 2009 (see Table 1 above) was deemed to be *in line with the SGP discipline*. In this regard, the Commission's Communication endorsing the EERP stated: "Extraordinary circumstances combining a financial crisis and a recession justify a co-ordinated budgetary expansion in the EU. It may lead some Member States to breach the 3% GDP deficit reference value.

For Member States considered to be in an excessive deficit, corrective action will have to be taken *in time frames consistent with the recovery of the economy*. This is fully consistent with the procedures of the Stability and Growth Pact which guarantee that the excessive deficit will be corrected in due time, ensuring long-term sustainability of the budgetary positions” (Commission 2008c, p. 9, emphasis added).

Although the Commission foresaw that by 2009 a wave of new EDPs, involving virtually all EMU Member States, would have been enacted (Commission 2009a, pp. 5-6), this was not considered too much of a long term threat. The EERP in fact stated that “restoring confidence will depend on Europe's ability to boost demand by making use of budgetary policy *within the flexibility offered by the revised Stability and Growth Pact*. In the current circumstances, budgetary policy has an even more important role to play in stabilising economies and sustaining demand” (Commission 2008c, p. 7, emphasis added). In other words, the need to sustain the financial sector and to stabilise the output via discretionary and automatic fiscal stimuli could rely on the flexibility (read: political discretion) embedded in the reformed version of the SGP. In substance, fiscal discipline was subordinated to political objectives and was only formally in place.

This exploitation of the SGP’s flexibility, contrary to what was argued by Hodson (2010 and 2011), actually put fiscal discipline in abeyance, exactly *when it was most needed*. If it is true that from a formal point of view fiscal rules have been resilient (*ibid*., p. 239), their enforcement toward non-compliant Member States did not reflect their real aim, that is, to bring about a disciplined conduct of public finances such to guarantee EMU’s and Member States’ macroeconomic stability and sustainability (Van Riet (ed.) 2010; Schelkle 2011).

In particular, given that in 2009 many Member States were facing a “severe economic downturn”, the corrections and deadlines recommended under the respective EDPs, far from including sanctions and harsh consolidation plans, were *flexible*, that is, unrealistically based upon overly optimistic growth forecasts and in general too timid to bring about a restrictive overhaul in the conduct of domestic budgetary policies (Hauptmeier et al. 2010) such to restore the market’s confidence in EMU public finances. When Hodson (2011, p. 239) claims that in 2010 “all countries concerned [in EDPs were] deemed to have taken effective action with a view to restoring compliance with the EU's fiscal rules" this reflects only a formal/legalistic reading of the enforcement of the (weakened) fiscal regime (needless to say, such understanding would soon be contradicted by the Greek crisis and by the Irish, Portuguese and Spanish bail outs of 2010 and 2011).

The SGP's substantial suspension did not in fact determine the actual suspension of the supranational monitoring procedures required by the Pact, it just emptied them from their disciplining aims. This circumstance is also acknowledged by Hodson himself when he deems the Greek and Irish solvency crises to be examples of the *limits* of EU fiscal coordination (2011, p. 240), when he refers to the SGP as bruised and muddled through rather than properly implemented (pp. 240-241), and when he implicitly attributes the failure of forestalling the sovereign debt crisis to the malfunctioning of the SGP (p. 241).

To show how profound the mismatch between the expected effects of the SGP's discipline and its real outcomes was, it is worth reporting the strongly held belief of the Commission – a belief stated in October 2008 and that remained virtually unchanged until the decision to bail out Greece in spring 2010. This statement was part of a Communication released in October 2008, right after Lehman's default and right before the EU officially launched its Action Plan to rescue financial institutions and then the EERP. Many detractors of the EU's management of the crisis will find it illuminating to highlight the short sightedness of key decision makers right before the beginning of the storm:

> "The Stability and Growth Pact provides the right policy framework, balancing short-term stabilisation needs and long-term structural reform requirements, notably supporting the adjustment process. Implementation of the Pact should ensure that any deterioration of public finances is accompanied by structural reform measures adequate to the situation, while ensuring that sustainable positions are being restored. Budgetary policies should draw fully on the degree of flexibility permitted by the Treaty and the revised Stability and Growth Pact" (Commission 2008b, p. 5).

To sum up, at the beginning and during the course of 2009, the following risk factors were weighing on EMU's sustainability: accumulation of non-performing loans within financial institutions and, as a consequence, shortage of liquidity in the financial and interbank sector and a credit crunch in the real economy; large government interventions to rescue the impaired financial institutions, prompting a severe accumulation of debt in a number euro area countries; shrinking GDPs bringing about falling government revenues and growing expenditures due to the effect of automatic stabilisers and discretionary fiscal interventions; and a severe deterioration of public finances with growing deficit and debt ratios vis-à-vis shrinking GDPs in several EMU Member States.

How did the EU custodians of EMU and fiscal discipline (namely, the Commission and the Council) react to these multiple threats? The response lies mainly in the 2009 Commission's report on EMU public finances (Commission 2009a). This document is of particular importance because it epitomises once again the unpreparedness of the EU vis-à-vis the dramatic events that would be triggered by the disclosure of the disastrous Greek budgetary stance in October 2009. This unpreparedness and genuine sense of surprise involving EU and domestic decision makers is also acknowledged in a number of scholarly contributions (among others: Jones 2010a; Gocaj and Meunier 2013; Matthijs 2014; Parsons and Matthijs 2015).

These studies agree in that the understanding of E(M)U actors of the above sketched risk factors, just few months before a concrete possibility of a sovereign default of an euro area member emerged, was still strongly inward looking.

In other words, drawing on more than ten years of experience in bargaining in the shadow of the SGP, EU actors still perceived the policy coordination problem stemming from EMU as an internal disciplinarian one. They failed to see that the potential negative externalities for which a coordination regime was built in the first place would have soon materialized in the form of market discipline and sharp risk premia's differentiation according to domestic budgetary stances and debt sustainability prospects. As a consequence, before the unfolding of the Greek crisis in autumn 2009, the fiscal policy coordination *game* was still driven by a bargaining rationale, whereby the implementation of the SGP did not serve its main statutory purpose but was actually adapted to the political imperatives of the moment.

Reading this transition period through the lenses of modes of policy learning, EU actors failed to see the change in the tractability of the coordination problem (see the following section for a detailed discussion of this point) and continued to bargain politically over the SGP's implementation. At that juncture, the SGP (and the *political* approach toward its implementation) failed in internalising the negative spillovers stemming from the upcoming bonds' risk premia differentiation in the euro area. Or, to use the words of the then Economic and Monetary Affairs Commissioner Almunia, it failed in coercing "[…] Member States [to] explicitly commit that they will reverse the deterioration of public finances as soon as we return to normal economic times so as to ensure the medium-to-long term sustainability of public finances" (Commission 2009d). Therefore, if one can say that the SGP's formal implementation proved resilient, the opposite holds true for the substantial dimension of its enforcement. Hence, the politicisation of the SGP's implementation did not bring about the desired outcome (sustainable public finances such to restore market's confidence) but its exact contrary: widespread public finances' deterioration that can actually be considered one of the con-causes of the sovereign debt crisis.

Let me go back to EMU actors' unpreparedness and short sightedness vis-à-vis future existential threats. A statement like the following, that praises the effectiveness of the framework for coordination of the reformed SGP exactly when the biggest crisis ever faced by the EU was in the making, looks impressively myopic:

> "Today's challenging times have also been a stress test for the Stability and Growth Pact. With the newly built-in flexibility of the reformed Pact in 2005, the EU fiscal framework has allowed on the one hand, to provide the appropriate support to the EU economies in exceptional times while, on the other hand, set a *clear path for future fiscal adjustments* [sic!]" (Commission 2009a, p. xi, emphasis added).

Moreover, when looking ahead and foreseeing possible improvements of the SGP regime, the only deficiencies detected by the Commission, as late as of June 2009, were:

- its limited preventive effectiveness (*ibid*., p. 6);
- its lack of attention to the growth of macroeconomic imbalances (*ibid*., pp. 6-7);
- the lack of counter-cyclical provisions imposing more stringent discipline during positive business cycles (*ibid*., p. 7).

On the other hand, the (flexible) corrective arm of the Pact was considered fit for purpose and no strengthening of the coercive nature of the SGP was proposed or endorsed.

Finally, recommendations regarding the sheer necessity to proceed with fiscal consolidation were put forward, yet they were mainly related to the benefits linked to enforcing swift exit strategies from fiscal expansions, rather than to the long term sustainability risks posed by the combined effects of deep budgetary deterioration and incoming market participants' *awakening* (Schelkle 2011; see also European Council 2009). Yet again, sustainability risks were not seen as a potential threat to the short term solvency of euro area's Member States but rather as long term challenges for which the SGP's tenet was the right answer.[72]

To conclude this section that introduced us to the events of October 2009-May 2010, the EU came weak and unprepared to its meeting with the risk of a Greek sovereign default and the related threat of a euro area-wide contagion and collapse. The change in tone detectable in the report on 2010 EMU public finances (the publication of which was delayed to allow the consequences of the Greek bailout package to be embedded in its overview) tells it all:

> "The external financial support necessitated by the fiscal situation in Greece and the unprecedentedly high sovereign risk premia in other countries have underlined once again the importance of *prudent budgetary policies* […] High and rising public debt raise questions on governments' solvency and a *credible commitment to a sustainable path for public finances is instrumental to durable output and employment growth*" (Commission 2010a, p. xii, emphasis added).

Over the course of a few months, the same Commission's report passed from mildly praising expansionary fiscal policies as the key driver of economic recovery to advocating fiscal prudence and budgetary retrenchment as the new recipe for stabilisation and long term economic growth (see Chapter 8 for an in depth discussion of this change of *sentiment*).

[72] "Preparing a coordinated exit strategy now, not only for fiscal stimulus, but also for government support for the financial sector and hard-hit industries, will enhance the effectiveness of these measures in the short term, as this depends upon clarity regarding their eventual withdrawal. The strategy must be comprehensive and ready to be implemented as soon as recovery is firm" (Commission 2009b, p. iii).

The following section attends to three main tasks. First, to introduce the Greek crisis. Second, to reason on the threat posed by that crisis on EMU's short term survival, long term sustainability and overarching paradigm. Third, to characterise the crisis, seen as a case-specific intervening variable, according to the conceptual categories of crisis management literature. Dealing with the two latter analytical tasks will enable me to provide solid motivations for the construction of a case-specific causal mechanism (dealt with in Chapter 7) and for the subdivision of the "crisis-driven-policy-change" episode in two distinct case studies, one concerning the short term shock measures employed to halt the risk of EMU's collapse and one covering the process of reform initiated shortly thereafter to strengthen EMU and guarantee its long term sustainability (dealt with in Chapter 8). Even without a thorough analysis of crisis management literature, it in fact looks reasonable (even commonsensical) that measures and decisions taken to guarantee survival during a crisis differ and have to be analysed separately from reforms meant to avoid and/or cushion the emergence of another crisis in the future and the former have a crucial influence on the latter (Schwarzer 2012).

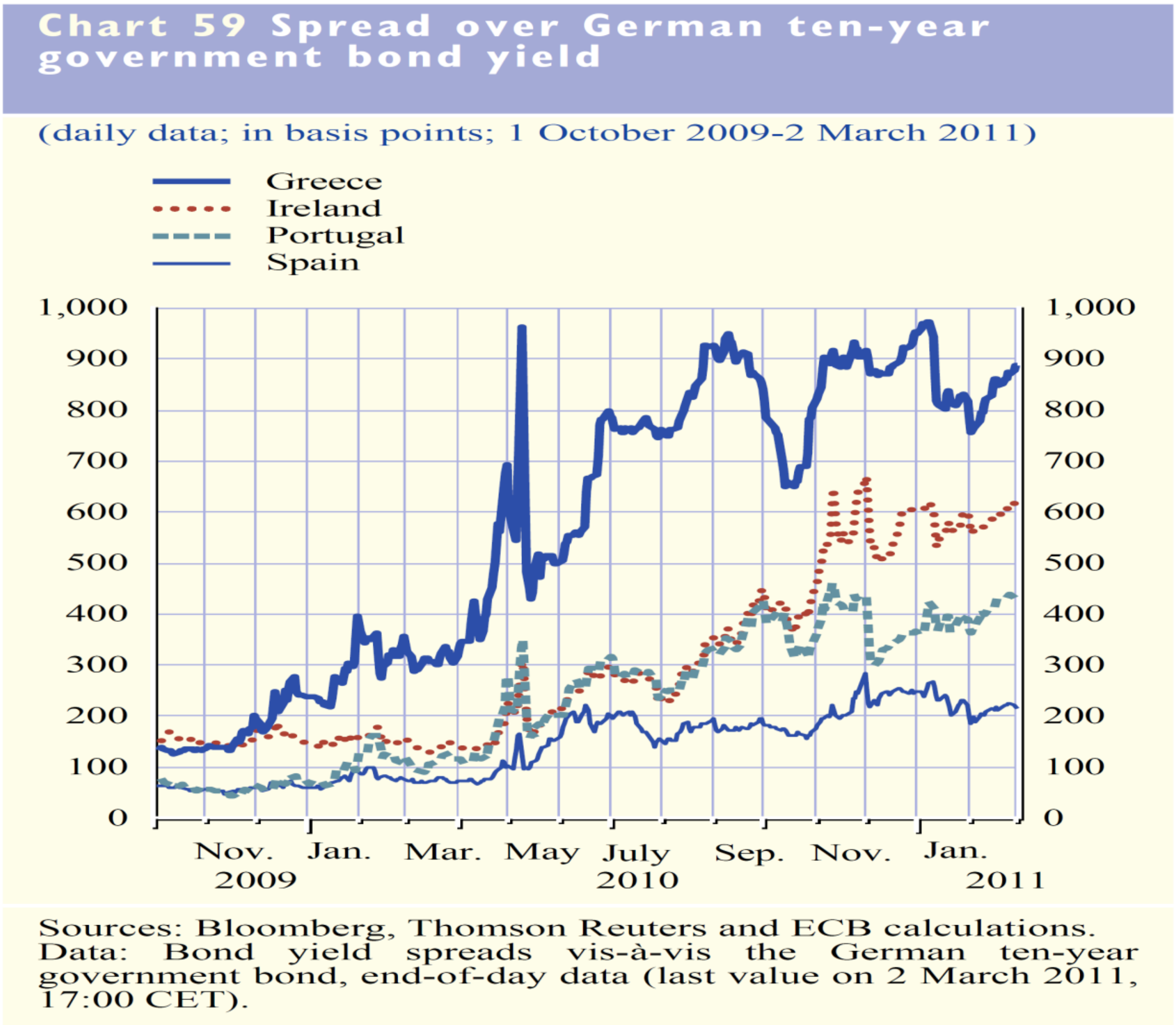
6.3 The Greek crisis, its impact on EMU paradigm and its characterisation

6.3a The unfolding of the Greek crisis

Against the uncertain and unarguably risky macroeconomic background described in the previous section, the first tensions on the sustainability of EU Member States' public finances had already surfaced in late 2008/early 2009 outside the euro area. In that period, the Ecofin Council approved Balance of Payments (BoP) assistance for Hungary, Latvia and Romania (respectively, in November 2008, January 2009 and March 2009).

It is worth noting that BoP assistance is a form of financial support specifically for non-euro area Member States. Members of the euro area, on the other hand, cannot be directly supported as they are subject to the prohibition of the European Central Bank's (ECB) monetary financing and the no bail out clause of the TEU (Articles 123 and 125). The importance of this differential arrangement for ins and outs of the euro area became clear on November 2009 when the newly elected Papandreou government started to gradually disclose the increasingly problematic budgetary situation of Greece. By resorting to fraudulent accounting practices, Greece in fact managed to hide the real status of its public finances until then (Jones 2010a; Matthijs 2014). But with the election of the new government, new budgetary figures were soon released. In particular, in November 2009 the deficit-to-GDP ratio forecasted for 2010 was corrected, peaking to an astounding 12,7%, vis-a-via a previous figure of 6,5%. Shortly after this hefty correction, in December 2009 the three major rating agencies downgraded the Greek debt below investment grade. This swiftly led to a steep increase of the spread between risk premia of Greek and German bonds that traditionally worked as a key benchmark of solvability (see Table 6.2 below).

Table 6.2 Spread over German ten-year government bond yield, 2009-2011, selected countries



Source: European Central Bank 2011, p. 90.

As early as January 2010, the Papandreou cabinet, strongly pushed by the Commission and the Council, enacted a vast consolidation plan based on a mix of tax rises and expenditure cuts (Commission 2010b, p. 8). In the period from January 2010 until May 2010, the sustainability of Greek debt was increasingly put under market scrutiny and the spread between Greek and German bond yields continued to grow (see Figure 1 above). This circumstance not only abruptly changed the tractability of the coordination problem arguably addressed by the SGP (as we shall see below), but also threatened the whole architecture of EMU and, in particular, the credibility of the so-called no bail out clause of the TEU.

Faced by such a radically new policy problem (a potential sovereign default of an EMU member), EU and domestic actors reacted to this shock in a strongly inconsistent way, as vividly depicted by Jones (2010a and 2010c), Gocaj and Meunier (2013), Schwarzer (2105) and Parsons and Matthijs (2015), among others. The differentiation of sovereign risk premia in the euro area's bond market had begun much earlier than the Greek crisis (i.e. right after the Lehman default of October 2008 – Schuknecht et al. 2010). In any case, the risks of a sovereign default due to the disciplining role of private markets on the borrowing conditions of a EMU member was at the end of 2009/beginning of 2010 still considered as a remote possibility rather than a concrete threat (Jones 2010a, p. 23). This uncertainty and unpreparedness was reflected on the one hand in the swinging position of the most important EMU member (Germany) and on the other hand in the lenient, almost impotent reaction of EU institutions to the Greek turmoil (see the *lunar* quotes in the previous sections). As for the former, Germany kept an extremely ambiguous position with regard to Greece's deteriorating creditworthiness, playing on alternate days the role of the good, ready-to-bail-out cop and the role of the bad, no-bail-out-clause-enthusiast cop (Jones 2010a, pp.21-22).

For some observers, this was a clear proof of German bargaining acumen and brinkmanship (Schimmelfennig 2015a), but according to a more realistic interpretation, this ambiguity was most of all the fruit of the emergence of a new, unknown and unprecedented policy problem (Matthijs 2014; Parsons and Matthijs 2015), which defied long-held preferences and blurred the payoffs related to alternative courses of action. A new preference formation, weighing the costs and benefits of a sovereign bailout versus a possible Grexit, was underway (Van Esch 2015), making outright bargaining over policy measures both too risky and too uncertain. As for EU actors, all they could do and actually did was to reassert the role and importance of the corrective arm of the SGP (right after having *de facto* suspended it) and to urge and closely monitor, through almost monthly Commission's and Council's recommendations and assessments, a prompt and more ambitious Greek adjustment within the frame of its ongoing EDP (see, for instance, Commission 2010c). German and EU pressures coupled with market ones and painful consolidation plans were in any case insufficient to calm the markets down.

On April 11th 2010 it became clear that Greece, under the pressure of speculative attacks and buoyant spreads on its debt issuances, was on the brink of a sovereign default. To deal with this existential threat, the EU and its key Member States resolved, under a Greek request, first to provide direct (and conditional) financial assistance (together with the IMF and with the support of the ECB), and then on 8th/9th of May, due to the persistent lack of confidence within private markets, to create a temporary euro area bail out facility. In other words, the EU reneged on its euro area no bail out clause, abruptly agreeing on perhaps the most substantial change of EMU since its creation. The following chapter will narrate these events in more detail in order to empirically corroborate a new learning and crisis-informed causal mechanism. For now, it is important to reason on the impact of such a crisis on EMU paradigm and to its characterisation according to crisis management literature.

6.3b The Greek Crisis in the context of EMU regimes and regime changes. Why was this time different? Why focus on two cases of policy change?

In the introductory chapter of this dissertation I stated that my investigation consists of a diachronic learning-informed account of fiscal policy coordination under EMU. To navigate through more than twenty years of EMU history, I conceptualised and proposed to analyse different empirical case studies, corresponding to the emergence of different fiscal policy coordination regimes within the larger picture of EMU economic governance architecture. Clearly, this subdivision of the EMU's saga in *discrete* cases can be considered quite fictitious and arbitrary, but it has actually drawn on a solid scholarly consensus about the transformations undergone by the initial framework for fiscal policy coordination (Morris et al. 2006; Heipertz and Verdun 2010; Buti and Carnot 2012). Moreover, it has been instrumental in shedding light on the causal role of learning on regime implementation and regime change since, at least for the first two cases, a shift in the nature of the regime was accompanied by a clear shift in the learning dimension. Therefore, to achieve the explanatory goal of the thesis with regard to the first two cases (Chapters 4 and 5), I primarily focused on the interactive process of *implementation* of the coordination regimes.

For example, with regard to the first case surveyed (Stage II of EMU convergence process), I analysed the origin and overall rationale of EMU and of fiscal policy coordination within it, but my empirical focus was on the functioning of that regime, not on its much studied genesis. Similarly, with regard to the second case study, I addressed both the emergence of the SGP and its 2005 reform, yet the main analytical focus remained clearly oriented on the learning processes occurring in the context of regime implementation and enforcement. A question that might arise with regard to this strategy is why not conceptualise the signing of the SGP and its reform as distinct cases of policy/regime change. The answer lies in the fact that the regime shift from EMU Stage II to Stage III, based on the signing and entering into force of the SGP, has been interpreted as a distinct product of the implementation of Stage II (see Chapter 4). Since the SGP substantially anchored the fiscal criteria of the convergence process within Stage III of EMU, I argued that actors learned the benefits of tying governments' hands in an instrumental way and hence agreed to sign the SGP to complement and complete the monetary union. In short, the emergence of the SGP and the SGP itself have been interpreted as empirical, observable implications of the hierarchical mechanism of learning observed in the first case study.

Similarly, the 2005 reform of the Pact has been read as the outcome of the 2003 internal crisis and more generally as the bitter fruit of the learning-via-bargaining (and learning how to bargaining) that occurred in the context of the implementation of the SGP (see Chapter 5). Furthermore, the process of reform of the Pact did not give rise to a suspension of the old regime and hence to a new one, but rather to a *loosened* prosecution of the one that was already in place (Morris et al. 2006). The reformed SGP did not hence represent a substantial change of the regime, but rather epitomized its politicization and weakening, in the form of political discretion prevailing over rules and hierarchy (resulting from a years-long process of *learning how to bargain* described in the last sections of the previous chapter).

To sum up, the emergence of the two versions of the SGP in 1997/1998 and 2004/2005 were both endogenous products of the coordination regimes and hence fully explainable through the analysis of their implementation courses. In light of this fact, I dynamically accounted for the shifts between a regime and the following one, that is, I did not disregard policy change. Nonetheless, the focus of the analyses has remained firmly on implementation, since regime shifts could be considered largely endogenous to implementation processes. On the other hand, the case studies I survey hereafter are full-blown episodes of regime/policy change. Why this change of focus? Mainly because the vast reforms of fiscal policy coordination that have occurred since 2010 not only determined the emergence of a new regime, but also prompted an overhaul of the paradigm underpinning economic policy coordination, something that did not occur in the context of the previous regime shifts.

The emergence of a new EMU paradigm as a reaction to the existential threat posed by the crisis cannot be considered as endogenous to the implementation courses of the SGP. The sovereign debt crisis has surely been exacerbated by the *flexible* enforcement of the SGP, yet its root causes are far from being limited to poor fiscal coordination. In a recent contribution, Matthijs (2014) reviews seven interrelated causes of the Euro crisis, spanning from inadequate EMU institutional design and fragmented EU governance that did not allow timely and proper policy responses, to the accumulation of macroeconomic and real imbalances, markets' mispricing of sovereign risk and poor fiscal coordination bringing about budgetary profligacy thereof. His conclusion is that all of these crisis' narratives have some explanatory weight, yet the fiscal one, although highly influential in informing the design of crisis management, seems to not to be corroborated by the facts (i*bid*., p. 205). In short, the euro crisis had a prominent fiscal dimension, but it cannot be labelled as a fiscal crisis.[73]

[73] The same argument is put forth in a more detailed way in Jones 2015.

In fact, before the US financial crisis started to impinge on the EU in 2008, public finances in EMU were substantially healthy, or at least were considered so by the European Commission and Member States (see Section 2). Major political tensions among different Member States and between Member States and EU monitoring institutions were eased by the 2005 *flexibilisation* of the SGP and by a growth *bonanza* that led to sustained compliance with the new looser fiscal framework. When the crisis turned from purely financial to economic and the public finances of several EMU members started to quickly deteriorate in late 2008, as we saw above, the coordination regime was not reformed but actually discretionarily suspended to allow fiscal easing in the form of the EERP, a mildly Keynesian move that would have been highly criticized, in hindsight, for its further negative consequences on fiscal positions (Rother et al. 2010).

Nonetheless, as a consequence of the liabilities determined by the rescue packages disbursed to bail out financial institutions, of automatic and discretionary expenditure growth and of the transmission of the financial stress to the real economy (a circumstance further depressing government revenues and hence fiscal positions), fiscal discipline, for a number of countries, quickly again became a priority in late 2009. In other words, the sudden acknowledgment of the adverse effects of fiscal deterioration swiftly sparked a new emphasis on fiscal discipline and consolidation. This novel awareness was finally reinforced by the awakening of the markets that started to strongly differentiate among risk premia of EMU countries' bonds on the basis of the health of their fiscal houses. At this point, *substantial* compliance with the SGP again became necessary due to the fact that the externalities which the SGP was supposed to internalise eventually emerged due to exogenous causes. This reconstruction of the events converges with the argument of Matthijs (2014) and arguably demonstrates that fiscal laxity *per se* cannot be considered the cause of the crisis and of the regime change that followed.

At the critical juncture in 2009, SPG substantial implementation resumed, and even stiffened (Commission 2010a). In any case, a renewed commitment to fiscal discipline (plotted against a deterioration of overall EMU debt-to-GDP ratio of about 20 percentage points in less than three years and buoyant bond spreads) was not enough to internalise market-driven negative spillovers and shun the risk of the sovereign default of Greece. At that point, the violation of the no bail out orthodoxy was the only way to internalise the risk of default, together with a renewed commitment to a much stronger fiscal discipline that first implied compliance to the weak, existing SGP and, in parallel, a departure from the SGP's flexibility/discretion in the form of its overhaul. Therefore, throughout the period covered in the next two chapters (2010-2013), regime implementation and the process of regime change mutually influenced each other. It can in fact be argued that implementation inconsistencies both dictated and were determined by the speed of progression of the crisis. In any case, the latter had its roots in a set of additional causes (mainly financial – Jones 2015), not just in a coordination failure.

This considered, the fairly sudden and abrupt regime shift that occurred in 2010, solidified across the following three years of reform frenzy, cannot be understood solely within and through the analysis of regime implementation (or its lack thereof). In this light, the motivations for an *ad-hoc* focus on two case studies of crisis-driven policy change are the following:

- The *de facto* suspension of the SGP regime that draws on the distinction between legal and substantive dimension of regime implementation. Recall that although SGP monitoring procedures were still in place in 2009, virtually all EMU Member States were subject to (harmless) EDPs, yet were allowed to proceed with a massive financial rescue operation and to further their domestic fiscal expansions.
- The change in the nature and tractability of the coordination/collective action problem. The sovereign debt crisis in fact undermined the very foundations of EMU, complicating the tractability of the economic coordination/collective action problem that policy regimes were called to address. In other words, in line with the argument of Parsons and Mathhijs (2015), the Euro crisis of 2009/2010 was a different, *existential* one that cannot be reduced to functional spillovers, asymmetrical institutional architecture, economic factors or poor fiscal discipline alone.

The regimes for fiscal policy coordination that emerged under EMU were fundamentally geared to address a single, although big and pervasive, collective action problem: to curb fiscal profligacy and the perceived pitfalls of fiscal activism, enabling the smooth, non-inflationary conduct of monetary policy. Granted this policy mix, the creditworthiness of the new currency would have been preserved, allowing to foster economic growth mainly via supply side, structural policies (condensed in the Lisbon agenda and Europe 2020) and minimal fiscal activism through automatic stabilizers. In other words, fiscal policy coordination regimes served the purpose of guaranteeing the smooth functioning of the German economic policy template at EMU level. How has this regime fared with regard to its main objective? It is fair to say that for almost a decade, although coordination was far from perfect, the problem that the policy regime was meant to deal with never emerged: spillovers from unilateral actions did not materialize, no related liabilities for other Member States emerged, no risk of short or long term sustainability of public finances showed up, no undue pressure on the ECB occurred, and no differentiated risk premia arose among Member States (Ioannou and Stracca 2011; Barta and Schelkle 2015). This happened notwithstanding the fact that almost all EMU Member States breached the deficit-to-GDP rule for at least one year (see Chapter 5.4b1), that the corrections were systematically slower than foreseen (but still no fines were ever issued), and that the debt dynamic, even before the crisis, was not under control and was systematically above the parameters and targets set in stability programmes.

In the light of this set of circumstances, fiscal policy coordination under EMU before 2009 was mainly a problem of internal coordination among Member States, with no tangible spillovers but reputational and political ones. The proof of this is the almost total lack of responsiveness of market participants to public finances' imbalances in the course of the first ten years of EMU (De Grauwe and Ji 2012). The crisis dramatically changed the whole coordination problem. Why? Because markets eventually awoke and transformed a problem of internal coordination to an external disciplinarian problem, whereby sanctioning took place through market dynamics rather than through multilateral surveillance. Private markets and their pricing of sovereign risk became the catalysts of the crisis (Chang and Leblond 2015; Schwarzer 2015). All the spillovers that the SGP's discipline was meant to internalise emerged at once: heterogeneous and non-sustainable fiscal policies, asymmetric shocks driven by real imbalances, a necessity to bail out profligate countries and pressures on the monetary conduct of the ECB.

This situation is also acknowledged by one of the key involved actors, the ECB:

> "Country-specific macroeconomic imbalances and fiscal vulnerabilities which before the crisis were underestimated by policy-makers and financial market participants alike have now come to light as destabilising factors"; "[…] the financial and economic crisis has seen a resurgence of the role of fiscal fundamentals as key determinants of sovereign bond yields" (ECB 2001b, pp. 61 and 64).

In short, the Greek crisis of 2009-2010 represented much more than a disturbance to the fiscal policy coordination regime with no further external consequences (like the Franco-German crisis of 2003-2005). It actually represented an existential threat for EMU, a crisis whereby "[…] inaction would have brought disaster" (Parsons and Matthijs 2015), a change-or-die scenario.

This threat radically changed the level of tractability of the coordination problem of EMU and of its regime for fiscal policy coordination. It led its key decision makers in totally uncharted waters (*ibid*.; Jones 2009 and 2010a; Matthijs 2014 and 2016). Moreover, the new threat impinged on two different dimensions of the EMU architecture, that is, on its short term survival and long term sustainability. This latter argument, already put forward in the introductory section drawing on Scwarzer (2012) and Copelovitch et al. (2016), strongly suggests that the complex process of policy change enacted to cushion these two problems and cannot be treated within a single case study (see also Commission 2011). A similar argument is advanced by Schwarzer (2015, p. 605) that rightly distinguishes between a short term *policy dimension* of the crisis (emerging in the first months of 2010 and related to the decision to grant financial support to EMU members and to design such support) and a long term *institutional dimension* (emerging after the Greek bail out and related to the creation of new institutions, rules and paradigms designed to lock in and secure the initial "*ad-hoc* policy response").

Moreover, the unique nature and features of the existential threat delineated in this section preliminary indicates that the policy change emerging in response to the crisis could hardly be understood through a standard learning mechanism that treats the crisis as simply a change in problem tractability. Instead, a case-specific causal mechanism able to embed the profoundly unsystematic nature of this crisis is necessary. This is partially in contrast to Schwarzer (2015), who instead employs standard modes of learning and typologies of learning-driven change. Nevertheless, the contrast is only apparent as in that contribution (the findings of which largely converge with those of this study) the *explanandum* is rather different. In fact, whereas Schwarzer employs a learning lens to explain *how* the Greek bail out took place (its format, nature, key actors and technical features – in short, “the building of crisis management capacity”, *ibid*., p. 621), this thesis identifies a plausible decisional mechanism that explains *why* it happened. In a way, the two studies are complementary, with one exploring the causal dynamics explaining the *revolutionary* decision of EMU actors to get involved in a sovereign bail out and the other shedding light on how this paradigmatic change was implemented, i.e. translated into policy.

6.4 Conclusions

Proceeding with the diachronic account of fiscal policy coordination under EMU conducted in this study, in this chapter I have looked at the troubled period between the beginning of the US sub-prime crisis (2007) and the unfolding of the market’s and political turmoil over Greek sovereign debt (2009/2010). In addition to describing the events, the chapter has tried to factor the *crises* and their sudden idiosyncratic consequences into the EMU framework for fiscal and economic policy coordination.

The main aspect that has arisen out of this (unavoidably incomplete) account of the crisis is that it has been exogenous with respect to EMU policy dynamics and should hence be treated as an intervening variable for the sake of the change it spawned in EMU. The unpreparedness of key actors and the many weaknesses and asymmetries of EMU framework have surely contributed to the development and progression of the crisis but could not *explain* it.

The crisis hit in a moment in which EMU, after having turned 10, seemed to have reached its apex in terms of price stability, health of public finances and prospects for (moderate) economic growth. Noticeably, all this took place notwithstanding a substantial abeyance of fiscal surveillance occurring since the 2005 reform and the growth of different macroeconomic imbalances in various economies of the Union. Against an overly optimistic outlook on EMU future spelled out by EU actors and observers alike in 2007, the abrupt transformation of financial distress that emerged from the US mortgage market into a euro-wide sovereign debt crisis that endangered the survival of EMU was a very sudden and cold shower for many decision makers. Let us now see how they reacted in the short run, and under unprecedented pressures, to this brutal awakening.

Chapter 7. Contingent learning and intracrisis policy change[74]

7.1 Introduction: what is the relationship between crisis, learning and change?

In this chapter I attend to the task of constructing and testing a case-specific learning mechanism that applies to, and tries to explain, the tumultuous events of the first half of 2010 that eventually led to the Greek bail out and to the establishment of successive crisis resolution facilities at the EU level.

The first step toward the construction of this novel causal mechanism consists of the characterisation of the euro area crisis and of its policy responses. In other words, having in the previous chapter motivated the resort to a case-specific variable (the *crisis*) outside the normal scope of modes of policy leaning - and outside the policy learning measuring instrument - the next step is to characterise the new intervening variable. To this end, I will turn my attention to the literature on crisis management. Through this body of literature I will first explore the nature of the crisis and characterise it according to established models. Secondly, after having come up with a clear characterisation of the 2009/2010 crisis, I will investigate, again through that specialized literature and EU integration theories, the complex relationship between crisis and learning, coming up with a novel learning-informed causal mechanism.

The chapter is hence organized as follows. Section 2 is devoted to characterising the Greek crisis of 2010 and the policy responses to it as a case of intracrisis management. Section 3 then conceptualises a new case-specific mechanism (contingent learning) arguably at play during the key months of 2010 that led to the fundamental decision of reneging on the no bail out clause of Maastricht. In particular, the section shows how causality is expected to work within the new causal mechanism and develops observable empirical implications stemming from the novel explanatory device. Section 4 proceeds to empirically test the key implications of contingent learning in the key months of the 2009-2010 Greek crisis. To this end, a plausibility probe is employed along with a critical conversation with the explanations of the crisis drawn from

[74] Sections 4 and 5 of this chapter are largely based on Kamkhaji and Radaelli (2016).

mainstream EU integration theories. Finally, Section 5 concludes by arguing that contingent learning has passed the plausibility probe and is conversant with and complementary to other theories and explanatory mechanisms.

7.2 Characterising the 2010 Greek crisis and its policy responses

In the history of European integration, the presence of a major crisis (actual or politically constructed) has often been considered a necessary (yet not sufficient) condition for non-incremental change (for the classical argument, see Schmitter 1970; for more recent versions, see Tosun et al. 2014; Parsons and Matthijs 2015). Furthermore, crises are conventionally considered, in public policy literature, as important triggers of learning processes (Stern 1997). But what is the exact relationship that exists between crisis, learning and policy change? I will briefly unpack this complex relationship by starting from the first two elements – crisis and learning.

In general terms, crisis conditions are thought to have the potential to accelerate policy learning (Deverell 2009, pp. 180-181; Birkland 2004). Nonetheless, the concept of crisis is far from being mono-dimensional. In fact, there are crisis-specific conditions and crises' typologies that can indeed facilitate and accelerate learning, as well as factors that can hinder or even stop it (Smith and Elliot 2007). Different conditions of crisis development and termination, for instance, define its progression through time (fast or slow-burning, cathartic or long-shadow) and hence influence learning and decision-making processes unfolding thereof ('t Hart and Boin 2001). In particular, the distinction between inter and intracrisis interventions has specific explanatory relevance with respect to the emergence of policy learning processes (Birkland 2009; Deverell 2009). Intercrisis interventions occur when crisis management (i.e. policy making) takes place *after* a critical event and aims to prevent a future episode of the same kind. Although intercrisis learning processes are potentially hindered by increased media and public attention (Birkland 2004); the emergence of new lines of political conflicts, polarization and status quo biases (Stern 1997); political exploitation, blaming games and opportunistic crisis framing (Boin et al. 2009); and lack of/excess political leadership (Nohrstedt

2009), intercrisis decision making can rely on a less constraining timeframe and lower levels of immediate pressure for policy learning (and change) to emerge (Deverell 2009).

On the other hand, intracrisis interventions occur *when a specific crisis is still ongoing*. In those cases crisis management is critically focused on halting its effects (Moynhian 2009). On the top of the constraints to learning specific to intercrisis management, intracrisis situations pose additional limitations to decision makers' policy learning, most of all due the restricted time available for sense-making and the unavoidability of policy interventions.

Turning to the second component of the causal relationship - from learning to change - theories of learning in public policy (May 1992; Bennett and Howlett 1992; more recently Biegelbauer 2013; Dunlop and Radaelli 2013) have long discussed the determinants of policy change, finding that social and organisational learning processes have causal effects on it (see Chapter 2 for a discussion of learning as a driver of policy change). Although the exact nature of the causal relationship between learning and change is still debated, the combination of integration theories with theories of crisis management and learning in public policy shows a possible pathway between crisis, learning and change. And the pathway follows more or less a sequence that goes from the crisis as a trigger for learning, provided that some scope conditions are met, to forms of policy learning as causal determinants of non-incremental change. Against this picture, the question for us is: does the causal sequence depicted above explain the processes and outcomes of policy change observed during the euro area crisis? More specifically, were scope conditions for learning (and hence change) in place during the euro area crisis?

In this regard, Lefkofridi and Schmitter (2014) argue in a recent contribution that, on the basis of specific features of the crisis, policy learning was indeed hardly predictable. The stumbling blocks to crisis-induced learning they detect are, namely: (a) the crisis' trigger was exogenous and most of the responses to this shock were completely outside of the control of EU policy-makers; (b) the impact of the crisis has been uneven, with cumulative effects in terms of North-South cleavages that have hindered mutuality and solidarity among the Member States. If cleavages have cumulative effects, solidarity and trust are unlikely to lift the EU out of its collective action problems (see Jones 2012 for a similar argument); (c) absence of epistemic communities operating under conditions of low politicisation; (d) lack of visionary leaders or a set of well-identifiable, entrepreneurial institutions that clearly point to the *finalité politique*, such as the federal or federalising EU.

On the institutional side, there is not much to expect in terms of well-identifiable entrepreneurship/leadership and focal points for the causal effects of ideas to occur (Garrett and Weingast 1993; Niemann and Ioannou 2015). EU decision-making is characterised by poly-centrism (e.g., Economic and Finance Committee; Eurogroup, European Central Bank, the President of the Commission; the German Chancellor), without a clear constitutional mandate. This leads to a "strongly fragmented governance structure" (Van Esch and Swinkels 2015, p. 1204) that negatively affects both sense-making during crises, the degree of beliefs' compatibility and convergence in crisis management, and the presence and effectiveness of a clear visionary leadership.

To sum up, Lefkofridi and Schmitter (2014) maintain that we do not live in times of cathartic crisis because the enabling conditions for policy learning are absent. Hence, according to them, the above sketched pathway between crisis and learning is blocked and non-incremental policy change should not have occurred during the sovereign debt crisis. Along with these EU-specific stumbling features, further hindrances to crisis-driven policy learning and change were posed by the very nature of the euro area crisis. According to the categorization of 't Hart and Boin (2001), the euro area crisis can in fact be labelled a long-shadow one, that is, a crisis characterised by a fast speed of development and by a gradual speed of termination. Drawing on this stylization, the euro area crisis prompted both inter and intracrisis interventions. In other words, due to the fast speed of the crisis' development, a number of immediate measures were negotiated and undertaken to deal with the short term effects of the crisis (intracrisis management); on the other hand, due to the crisis' persistence, a different set of interventions were enacted to cope with its long term effects (intercrisis management).

This important distinction allows me to achieve two goals. First, to divide the "crisis-case-study" in two different cases, one focusing on short term, intracrisis policy change (covered in this chapter) and one devoted to the long term, intercrisis regime shift (covered in the following chapter). Second, it leads to the preliminary conclusion that within the first case study learning is notably constrained as it has to occur while the turmoil is still ongoing (Moynhian 2009). In more detail, if crises are focusing events that open windows of opportunity for different forms of policy learning and change (Birkland 2004), it is clear that their occurrence and nature will strongly depend on the temporal, cognitive and substantive constraints that the crisis itself poses to policy making. And these constraints are notably magnified in cases of intracrisis management of a long-shadow series of critical events. In these instances, as Moynhian (2009, p. 191, emphasis added) puts it, decision makers "must engage in sense-making under limited time, dynamic conditions, and intense pressure, evaluating the nature and scope of a crisis and searching for an appropriate response […] They cannot make vague recommendations of policy suggestions for a distant future, but must implement *whatever changes they can immediately*".

To wrap things up then, under these conditions (arising from both EU specificities and the crisis' typology) we would not expect the crisis to generate learning and change. Nonetheless, the euro area crisis has indubitably led, contrarily to the above theoretical predictions and surprisingly for Lefkofridi and Schmitter (2014), to non-incremental change in the form of 'more integration', at least in the key domains of EMU (Ioannou et al. 2015). As already argued above, the critical decision to renege on the no bail out clause of EMU in 2010 and to first implement *ad-hoc* recuse packages for financially distressed euro area members and then to establish a stability fund account by all means as a substantial paradigmatic, non-incremental shift occurred within an intracrisis setting. In other words, policy change occurred in absence of the (theoretical) scope conditions for this to happen. A further paradox arising out of this hardly predictable policy change is that the latter took place lacking an explicit quantum leap, not only in the ideational and discursive dimension of decision makers, but also in their sense of uncertainty, threat and urgency (Van Esch 2015; Van Esch and Swinkels 2015).[75] In short, key decision makers within the EU polity were not able, nor were willing, to articulate a clear vision and ideational paradigm to support non-incremental change, yet the latter took place

[75] During the first six months of the crisis (November 2009 to May 2010), Van Esch and Swinkels (2015, p. 1220) argue that "rather than delving into the roots of the crisis, leaders predominantly discussed possible resolutions and the role they and others must play in them".

(Ioannou et al. 2015) within a relatively short timeframe in the first months of 2010.

These twin paradoxes motivate a new reflection on the nature and functioning of the causal mechanisms between crisis and learning, and between learning and change. In fact, it is rather uncontroversial that intracrisis management occurring during the short period from November 2009 to May 2010 brought about a non-incremental, paradigmatic shift of EMU economic policy coordination framework. In any case, given the numerous constraints on policy learning delineated above, it at least seems questionable that the crisis induced learning processes that then led to policy change. This argument arises from a classic understanding of the relationship between learning and policy change in political science. As argued above and when reviewing mainstream modes of policy learning in Chapter 3, it was argued that in order to achieve change, actors have to learn in the first place, that is, they have first to acquire, accumulate, process and exchange knowledge and then alter beliefs and behaviour accordingly. In short, learning is the cause of change (May 1992; Hall 1993). The textbook example applied to EU integration is the process that led to Maastricht. The road to monetary integration took more than twenty years to be paved. It involved the slow-burning Bretton Woods crisis as key trigger, instances of epistemic and social/reflexive learning, decisive political entrepreneurship, time, and ideational convergence toward a new paradigm of political economy (McNamara 1998; Verdun 1999). Leaders learned in various ways, including emulation, but the point is that they learned first and then change took place.

This fully inferential mechanism of learning that generates change in any case works under well determined conditions and we already saw that such conditions were not met during the Euro crisis, at least during its intracrisis segment. It follows that the specificity of the crisis and of the EU institutional landscape motivate the construction of a novel, case- and crisis-specific learning mechanism, as the canonical mechanisms reviewed in Chapter 3 seem unable to provide a satisfactory account of the paradigmatic shift of April/May 2010. In other words, “while the knowledge of policy-makers and advisers about the policy problem and the design of instruments substantially increased in the beginning of 2010, this instrumental learning did not occur in a planned and structured way that the learning literature has identified as a frequent learning mechanism. The evaluation of policy instruments and implementation consisted in drawing conclusions in a trial-and-error approach under the severe pressure of the crisis” (Schwarzer 2015, pp. 612-613).

The learning mechanism I will devise in the following section not only departs from the social/reflexive one that led, for instance, to Maastricht, but is also different from ‘adaptive learning’ in political science (which is the learning-based theoretical construct that better approximates the contingent learning framework developed below). Adaptive learning impact (Levy 1994, on foreign policy; May 1992: 336-337) is in fact confined to policy re-design in response to contextual variations. Heritier (2001) talks about absorption in the sense of accommodation of requirements on domestic policy imposed by external actors like the EU. In the same vein, Radaelli (2002, p. 212) mentions adaptation as bamboo canes flexing in the wind to accommodate pressure, but ready to ‘revert to their original position’. May (1992) even doubts that re-design is a manifestation of learning. To paraphrase Checkel (1998, p. 546), in the adaptive mode, actors run into a new context, “go ‘ouch’, and then recalculate how, in the pressure of the structure, to achieve their interests”. Crisis management literature refers to such phenomena as mere “improvisation” (*ibid*, p. 181; Birkland 2009, p. 154) or “do something” in the immediate aftermath of a critical focusing event (Birkland 2004, p. 342).

The theory-building approach I propose in the following section goes much further than this vague portrayal of policy adaptation. I argue that in episodes of intrascrisis management characterised by “stress, uncertainty, time pressure and demands for rapid action” (Deverell 2009, p. 182), *real-time change takes place through associative processes of contingent learning and that the nature of this change triggers post-hoc policy learning*. To achieve this goal, I perform an exercise in causal identification, that is, I put forth a novel approach to the cause-and-effect relationships in processes of crisis management, learning and change. I argue that crises can produce sudden change via fast-paced associative processes of contingent learning; that change in turn triggers conventional policy learning, thus reversing the causal mechanism; and, finally, that feedback via conventional policy learning locks-in change and creates new path dependence.[76] To go through this task, I draw on strands of economics and psychology that are based on how individuals behave. This arguably provides strong micro-foundations to my theory-building effort.

Before proceeding with the characterisation of the novel causal mechanism in Section 4 and with its plausibility probe in Section 5, it is worth briefly summarising the different arguments made throughout this section. First, in sub-section (a) I introduced a stylised description of the unfolding of the Greek crisis in the period from autumn 2009 to spring 2010. Second, in sub-section (b) I put the Greek case in the context of EMU paradigm and coordination problem, showing that the nature of the Greek crisis crucially modified the tractability of the collective action problem of EMU and fiscal policy coordination. This led me to argue that to gauge how causality unfolded in the process of policy change spawned by the crisis, a novel, case-specific learning mechanism has to be conceptualised. In sub-section (c), by characterising the crisis according to public policy literature, I have begun to construct the novel mechanism and have been able to further motivate the division of the "crisis-case-study" in two distinct cases, a short term intracrisis one and a long term intercrisis one. While for the second set of effects canonical modes of policy learning still provide a strong and internally valid analytical template, as for the first segment of the crisis (the one treated in this chapter) a new, case-specific explanatory mechanism based on learning during intracrisis settings is needed.

7.3 A new causal mechanism: Contingent learning in intracrisis management

The fact that, when facing the reality of a potential sovereign default, EMU reneged on one of the key pillars of its paradigm is certainly hard proof of a leap – whether forward or backward is mainly a matter of value judgement. Faced

[76] In other words, I further argue that conventional policy learning does not disappear, but that it occurs in the post-decisional and intercrisis phase working as a feedback mechanism of the enacted policy change, possibly anchoring it. Chapter 8, which focuses on intercrisis management and long term policy change as a reaction to the crisis, will put this implication to test. In the context of a more canonical account of this process that draws on a historical institutionalist perspective, Schwarzer argued (2012, p. 39) that "crisis management decisions […] have clearly created path dependency which made euro area member governments start seeking a permanent solutions only weeks after the temporary [bail out] mechanism was created".

with the first part of a long shadow crisis, EMU catharsis became not only possible but, most of all, urgent. Despite bargaining and brinkmanship over the nature of the bail out, the EU finally resolved to provide aid funding to Greece and to create a series of new institutions (initially outside the perimeter of EU treaties) working as lenders of last resort. The ECB, through a series of seemingly technical decisions over its refinancing instruments, *de facto bypassed* the prohibition of monetary financing and actively supported the Greek and other sovereign debts, while also abandoning the tenet of monetary neutrality and engaging in a persistent policy of low interest rates and even in quantitative easing.

Notably, the input of such substantive overhauls of EMU paradigm was not a potential future threat (like when the SGP was established) or a political conflict over imlementation (like when the SGP was reformed) that in any case left the underlying paradigm intact. This time the need to reform was pushed instead by an existential threat which imposed a clear-cut choice beyond incremental change (Jones 2010a, Parsons and Matthijs 2015). Options for such change were rather binary, that is, whether to keep or renege on one of the key tenets of the previous paradigm. Crucially, the choice was to change paradigm and to save the Euro “whatever it takes”. The very emergence of this dilemma, however, signals that the tractability of the collective action problem that the SGP was called to cushion had switched from a highly tractable problem of internal discipline and distributive conflict to an unprecedented external problem triggered by financial markets questioning the whole sustainability of EMU. The aim of this section is to construct a mechanism that allows me to *explain* how actors reacted to that switch in problem tractability and rather swiftly agreed on the most substantial change undergone by EMU since its inception.

To sum up our previous arguments, the euro area faced an exogenous crisis without the institutional, entrepreneurial and epistemic conditions that in the past proved indispensable to generate quantum leaps. The EU actors’ constellation, still characterised by multiple veto points and players and by fragmented governance, even increased the distributive costs of policy change (Lindner 2003). Finally, long shadow crises and their intracrisis management pose a serious time-constraint to lesson-drawing due to evidence making learning-based alterations of policy paradigms more unlikely. Against this background, the occurrence of fast-brushed and substantial policy change as a response to the euro area crisis of late 2009/2010 is puzzling. Given that standard learning mechanisms could apparently not activate during the intracrisis part of euro area crisis, the puzzle that motivates the construction of a new, case-specific theoretical causal model is exactly to understand what kind of (still not modelled) learning mechanism may have been at work under the conditions shown above, whereby one would not normally expect learning and paradigmatic policy change to occur.

To start building a novel causal mechanism able to capture the puzzling nature and role of learning during episodes of intracrisis management of long-shadow crises, hence explaining policy change, I now concentrate on the influence of contextual/contingent factors. To this end, I propose to resort to experimental findings in behavioural/evolutionary economics and psychology. Here I consider 'contingencies' in two ways, that is, drawing on two distinct yet complimentary bodies of literature, namely human contingency learning (HCL) and the behavioural approach to contingent learning.

At the outset, let us consider two distinct dimensions of learning. One dimension is cognitive. Learning is about an individual that, faced with exogenous changes, considers whether their preferences are still satisfied when the environment differs from the past. This individual deliberates whether to carry on with their current behaviour or choose something else. This involves cognition, or, to put it bluntly, something that goes on inside the mind. The other dimension is situational: the connection between events and expected consequences (or, to put it in HCL vocabulary, cues and outcomes)[77] is not always the same. It depends on the characteristics of the situation. Hence, event X leads to Y or Z depending on what the situational context is. HCL and the behavioural approach to contingent learning work on two dimensions of learning. The former explores causality by investigating the dimension of

[77] To use an accessible example, consider Pavlov's experiment with dogs. In that, a cue consists of a conditioned stimulus (e.g. Pavlov ringing a bell). The outcome instead consists of an unconditioned stimulus (e.g. Pavlov feeding the dogs after having rang a bell). After several iterations of this cue/outcome dyad, dogs learn to associate the unconditioned stimulus (cue) to the conditioned stimulus (outcome), even when the latter is not present. In fact, Pavlov's dogs start salivating (reaction) when the bell is rang (cue), that is, before the food is actually provided (outcome). The learned reaction defaults when the known cue/outcome relationship is blocked or modified, hence eliciting a different reaction that is triggered by contingent learning rather than by conditioning.

cognition. The latter looks at causality from the perspective of the situation. They are portrayed in Figure 7.1 below.

Figure 7.1 Contingent learning loop

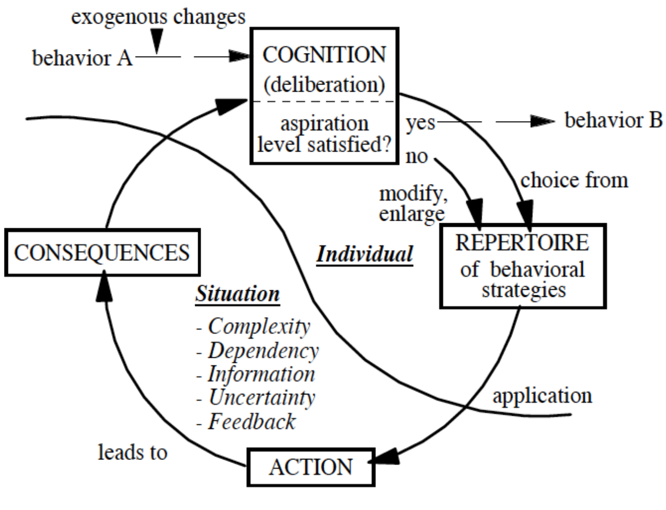


Figure 1: A Learning Loop.

Source: Slembeck 1999, p. 8.

Starting with cognition, in policy learning theories (May 1992) we assume that an individual, when making predictions or choosing a behaviour on the basis of her understanding of cause-effect relations, reasons inferentially on what has happened (a series of cue/outcome relations) and chooses to confirm the prediction/action or turn to another type of behaviour available in her repertoire. This explicit inference-based process, granted bounded rationality, takes place gradually and is resource-intensive. It requires the deployment of inferential cognitive capacities and reflexivity. HCL raises the question: what is the role of surprise on predictions and actions? Surprise is a set of unexpected cue/outcome relations – decision-makers are typically confronting these relations in intracrisis management.

HCL scholarship, and experiments in particular, address this puzzle in a way that contradicts the common wisdom of policy learning. Through the analysis of blocking effects,[78] HCL studies show that the likelihood of behavioural change and the type learning involving individuals strongly depend upon this kind of new (and surprising) causal associations, but in a much less resource-intensive fashion than that envisaged by standard learning theories. In particular, associative HCL models (Rescorla and Wagner 1972; Allan 1993; Shanks 1995) connect lack of prior experience on novel causal relations (in terms of unexpected and confounded cue-outcome relations) with associative learning. For HCL theorists, it is exactly the lack of experience about the relationship existing between a given stimulus and an outcome that generates what we would call surprise. This surprise about the causal relationship, in turn, triggers learning in associative form. Note that associative HCL "…is thought to be fast acting, automatic, and would require little cognitive resources to act" (Morís et al. 2014, pp. 77-78).

This depiction fits experimental reality much better than a predicate whereby prior sets of beliefs and paradigms about causation inform reasoned inferential behavioural change. Strikingly, this kind of "…learning of sound patterns can occur *even without conscious attention*" (Bannard and Tommasello 2012, emphasis added). *Mutatis mutandis*, this mechanism of behavioural adaptation seems to be a more appropriate portrayal of the learning processes occurring during intracrisis management rather than the classic take on cognition in policy learning models. Elaborating on this insight, it is possible to argue that the findings of HCL suggest that resilient belief systems may not be a major hindrance to change - and learning. Surprise may trump priors via self-reinforcing mechanisms of association between new stimuli and outcomes.

These propositions do not come without qualifications, of course. Within HCL, some have argued that contingency judgements and the actions that follow are not entirely driven by self-reinforcing, sometimes unconscious and automatic, associative mechanisms. For some (Cheng and Novick 1990; Cheng and Holyoak 1995), it is iterated statistical evidence and inference that reshapes responses to new cue-outcome relations. Thus, the discovery of new causal

[78] Put simply, blocking in HCL experiments refers to difficulty in learning on cue-outcome relations when a specific cue is paired with an outcome in a single stage, and then in a successive compound stage of the experiment the same cue is paired with another one, producing the same outcome of the single stage (Morrís et al. 2014)

links between behaviour and consequences can also be led by inference rather than surprise-driven association (Allan 1993; De Houwer and Beckers 2002).

Nevertheless, all HCL models broadly support the argument that effective changes in the responses to different stimuli (i.e. contingency judgments or actions) can be learned and refined in a relatively short amount of time (i.e. after only several trials) and in a broadly associative fashion. Moreover, the experiments indicate that when changes in response to new and unexpected stimuli (like those emerging during crises) take place, the key drivers of change have more to do with contextual association mechanisms and framing effects rather than with the updating of beliefs and conventional inferential reasoning (conventional for us, as political scientists). In other words, associative HCL, assuming bounded rationality and resulting in fast, low-cognition responses, is also suited to account for and explain several well-documented biases in decision making, a typical Achilles' heel of standard learning models (see the use of heuristic shortcuts in Weyland [2005] for a notable exception). Focusing specifically on crisis-driven decision making within groups, the most commonly theorised biases concern attention (Rerup 2009) and groupthink (Choi and Kim 1999), whether in the form of collective confirmation bias (resulting in polarization and/or threat-rigidity) or in the form of bandwagoning/herding effects (resulting in the convergence of beliefs).

As for the former, it basically consists of increased attention to salient stimuli, while the latter refers to sub-optimal decision making outcomes observed in groups due to situational contexts and/or endogenous group dynamics. By assuming that a group of policy makers reacts to unexpected stimuli in associative fashion, rather than via fully inferential thinking, permits us to factor the effects of both typologies of biases in the decisional model. In particular, with regard to the rationale linking associative learning to attentional biases, a prominent review notes that "a loud noise is usually expected to capture more attention than a quiet noise. Associability refers to the ease or speed with which a stimulus can be learned about. It is further assumed that all else being equal, learning will be faster (associability will be higher) for more salient stimuli. Thus, the relationship between a loud noise and shock will be learned faster than between a quite noise and shock" (Mitchell and Le Pelley 2010, p. 1). Interestingly, attentional biases can also be smoothly integrated within groupthink dynamics if we assume that the evaluation of the salience of a given stimulus can be subject to collective confirmation biases (that leads to irrationally select information on the grounds of their conformity with prior stimuli and beliefs) and that the faster (associative) learning triggered by salient stimuli can then subject to bandwagon effects, finally resulting in the convergence of beliefs and 'group thought' associative responses to crises.

To sum up, experimental findings demonstrate that the degree and nature of change is greater the bigger the surprise and salience of a stimulus is, or in other words, the more unexpected, confounded and relevant stimuli are. This, applied to collective decision making, tells us that a shocking crisis allows for more and faster change than a smooth process whereby knowledge is accumulated and processed rationally/inferentially and change takes place upon lengthy reflection through policy learning.

Now enters the behavioural approach to contingent learning. This allows us to explore the situational dimension of learning. Like in the previous case, we focus on the identification of causal relations. We do that by drawing on a strand of experimental findings reviewed, among others, by Tilman Slembeck (1998 and 1999). His studies originate in frustration with equilibrium models of learning. These equilibrium models identify Nash equilibria but they do not tell us when a process of learning leads to a Nash equilibrium. Additionally, in practical, real-world situations the conditions for learning are not the unconstrained conditions of game-theoretical models based on Nash equilibria. To solve these problems, Slembeck has turned to experiments to explore how situational variables affect learning. The situational determinants of learning are both structural and interactive. Structural determinants refer to the complexity of the environment and/or complexity of tasks, the degree of inter-dependency among actors (often operationalized as number of players), and how much information is available about the environment, the resources and the actors. Interaction determinants involve uncertainty about the strategies and quality, quantity, content and timing of feedback.

The findings of this approach complement (and converge with) those of HCL. In situations characterised by high structural and strategic uncertainty, fragmented information and poor feedback, even relatively small modifications of context nudge decisions effectively, triggering contingent learning (Slembeck 1998 and

1999). This is at odds with the conventional political science take on learning, where uncertainty, poor information and the wrong feedback hinder the mechanisms of learning. But they are not at odds with experimental evidence.

The point is that learning in theory and learning in experiments diverge quite significantly. Theories of learning in the social sciences are in fact *ad-hoc*: when they are tested in experimental settings they function exclusively under narrow ideal-typical assumptions. Experiments (for instance the so-called 'three-doors-anomaly' - Friedman [1998] - and the 'endowment effect' pioneered by Daniel Kahneman and colleagues [1991]) have indeed demonstrated that even marginally relaxing the initial conditions of a given real-world situation can have a dramatic impact on the 'on-paper rational' expectations of learning theories. Learning theories only work under narrow, often unrealistic assumptions that rarely match the empirical reality of decision making. These assumptions cannot cover all the potential contingent circumstances that can impact on learning outcomes in actual situations, even more so in the case of critical emergency-driven policy-making. Therefore we need to develop a framework where contingencies – and their relationship with observable outcomes – are properly factored in.

Empirically, the contingent mechanism has the potential to explain the paradox of policy change during the euro area crisis whereby we observe both adjustments - i.e. evidence of single-loop learning - and full-blown policy change/paradigm shift - i.e. evidence of double-loop learning (Birkland 2009). A similar causal mechanism is sketched in crisis management literature but, as far are I am aware, it has not been explicitly conceptualised under a theoretical construct possessing sound micro-foundations and features like contingent learning. Birkland (2009), elaborating on the impact of urgency and time pressures on intracrisis learning, rightly argues that actors "do not have a great deal of time to be reflective and, instead, must often improvise to find good interim solutions to problems that were unanticipated, or to problems that cannot be ameliorated through standard operating procedures" (*ibid*, p. 154). He refers to these kind of adaptive responses as mere "improvisation", since he postulates that learning from crisis typically entails the sequential presence of cognition and behavioural change. First one cogitates about the event and then behavioural change takes place as a consequence of cognition (*ibid*.).

Contingent learning relates instead to behavioural change as a result of unescapable systemic pressures, contingencies and unexpected stimuli that call for an immediate response, even in the absence of proper cognitive inferential processing of the new information. Contingent learning is hence not learning from the crisis, but learning (via change) during the crisis. Paradoxically, the resulting behavioural change can resemble the effects of double-loop learning, but the emergence of new policy paradigms and cause-effect beliefs under contingent learning is not fruit of reflexive lesson drawing (for which time and knowledge accumulation are critical), but rather of adaptation or, to put it in the contingent learning jargon, of associative responses to unprecedented stimuli whose persistence and salience call for immediate action. The cognitive process behind change is therefore adaptive, improvised, contingent and associative (as opposed to fully inferential and reflexive), also allowing several cognitive biases in the modelling of the decisional process to be embedded (see above). Hence, contingent learning leads to outcomes typical of double-loop learning, but without reflexivity; such phenomena, although largely overlooked in the literature and treated as improvisation or policy re-design, instead deserve an explicit conceptualisation because they are typical of crises: "Both single- and double-loop learning presuppose cognitive reflection. But as prior research on the topic shows, and as this study reiterates, *such critical and deeper reflection is not a conventional response to crises*. Rather than engaging in reflective cognition and analytical investigations in response to crises, *managers tend to resort to mechanic adaptation and reflex reactions in response to failures and external threats*" (Deverell 2009, p. 185, emphasis added).

These phenomena take place, according to the associative mechanism, because during intracrisis management, sense-making (cognition) and implementation of appropriate responses (behaviour) are conflated in a single process because 'crisis responders seeking to engage in crisis learning do not have the luxury of carefully calculated decisions' and because crises 'exacerbates cognitive biases […] tend to narrow focus and limit information processing. New, unexpected, and threatening conditions weaken the capacity of individuals to make sense of new contexts […] Rather than engage in even limited comparison of options, responders under extreme pressure will pursue the first course of action that comes to mind' (Moynhian 2009: 191-192).

Our discussion leads us to the following observable implications. Under conditions of extreme surprise and uncertainty, we would expect the contingent learning mechanism to outdo priors and policy-makers to respond in fast-associative ways. Policy-makers choose the (right) course of action absent of inferential policy learning (they do not need to understand the major cause-effect relations at work in a situation to react) and without having to change their deeply rooted beliefs and paradigms. Sense-making and behaviour are a single process, as I just argued. I would expect these responses to be patterned by the cue-outcome dyads we described (see also below). Then I would expect inferential learning to take place after change, provided that feedback is sufficiently strong to anchor the lessons learned.

7.4 Empirical analysis: a plausibility probe of contingent learning

By developing a mechanism of contingent learning and devising a number of empirically observable implications derived from it, I hypothesised that the decisional process leading to behavioural change can take place *before* policy learning occurs, assuming the form of an innovative strategy selected in response, for instance, to radically reshuffled situational conditions determined by a crisis. Inferential learning is hence not a pre-condition for change, as surprise generates fast contingency judgments and actions that can be learned in associative fashion, and refined and enacted in a relatively short amount of time. This is fundamentally different from a fully inferential understanding of learning based on how new evidence shapes preferences gradually through reflection and rational cogitation, and eventually generates the new decision and actions. In my approach, inferential learning takes place *ex-post* (i.e. after change), as a reflection grounded in feedback information related to the previously deliberated decisional change. Once change has occurred, feedback, inferential/probabilistic reasoning, and reflexivity step in and bring about the sort of conventional learning theorized in political science.[79] This leads to the (apparently paradoxical) inversion of causality: policy learning follows change instead of determining it. If individuals operate under radically modified conditions with respect to the *status-quo*, for example because the political-institutional context has changed from fine-tuning policy-making to a scenario of emergency-driven decision-making, they will be prone to re-adapt the structure of their preferences due to situational and cognitive constraints. Such an approach has indeed proved to be in line with experimental results. Of course, experiments operate at the level of individuals under controlled conditions. Real-world politics operates at the level of complex organizations with multiple actors and, in the EU, different levels of governance, not in labs. The question then for EU theorists is whether we believe we live in times where the classic conditions of bounded rationality, inference and evidence-based learning apply (this requires limited contingent influences and low cognitive restrictions). Or, rather, we think we live in times where surprise can trump inference in the cognitive dimension of learning, and situational effects can leverage contingent learning.

To recap: we theorized an original mechanism of contingent learning and made a plausibility argument for an alternative understanding of causality within it. Can I also present a plausibility probe, looking at evidence that seems to be in line with my theoretical expectations?[80]

[79] As already hinted at in the previous section and as will be clarified below, conventional learning does not disappear, it simply takes place later on, that is, when intracrisis management leaves room for intercrisis policy making, that is, when the fast initial developments of the crisis are over and arguably addressed and policy makers can deal with its gradual termination through more forward-looking measures and reforms.

[80] Furthermore, in the conclusive chapter, I will draw on these empirical findings to enter a conversation with recent scholarship in integration theory inspired by Neo-Functionalism (e.g. Niemann and Ioannou 2015) and Liberal Inter-governmentalism (e.g. Schimmelfennig 2015a), so to refine and enrich the explanatory account of the first phase of the euro area crisis. A similar approach, whereby a learning-informed analytical lens is used to contribute to and enrich the explanatory leverage of classical EU integration theories, is also employed in a recent contribution from Schwarzer (2015, pp. 602 and 623): "The learning perspective […] complements the analysis of the conflict resolution process with a better understanding of policy choices, and to some degree, consensus-building processes among actors confronted with unexpected, complex and substantial challenges to the status quo of European integration […] Incorporating the concept of learning in the study of European institution-building and change hence allow[s] changes in institutional preferences in response to new information and a refined understanding of evolving policy challenges and power relationships". I obviously endorse this claim and propose to contribute to the same explanatory goal.

7.4a Plausibility probe

The plausibility probe is an empirical instrument employed to test the plausibility of a novel theoretical claim or mechanism. The aim is to prove that the mechanism is at least feasible. Plausibility probes are common in exploratory studies (Eckstein 1992; Levy 2008) that aim to test new theoretical claims. Such an exploratory probe is often a first step in a multi-stage research agenda. Practically, and similarly to theory-testing process tracing methodologies, I focus on testing the observable implications of the theorized mechanism. The probe is not a fully-fledged theory-testing exercise that can lead to strong inference and fully discriminate between rival alternative mechanisms. This is because, among other things, the expected implications/empirical manifestations of the novel mechanism are necessarily tentative and hence subject to further refinement. Moreover, also in the context of the full-fledged theory-testing exercises of the two previous chapters, drawing on an approach based on multiple causation (see Chapter 1), I refrained from adopting a view whereby causal mechanisms are systematically rival and exclusive. Similarly, in this chapter and in the conclusive one, when I criticize existing theories and explanations, the aim is not to contrast competing claims but to draw on the novel mechanism to fill the explanatory gaps of mainstream accounts, knowing that different causal mechanism may well have been at work at the same time and during different stages of the crisis. For me, the crucial episodes referring to the observable implications of contingent learning took place in the period of 2009/2010, and feedback anchored policy change occurred later on, that is, in the course of the following case of long term, forward looking policy change (spanning from 2010 to 2013). This is not, therefore, a claim that contingent learning explains the whole crisis or is played out in all the crises of the EU.

As previously seen, the dreadful situation of Greek public finances was publicly disclosed in early December 2009 when the new Greek Prime Minister George Papandreou announced that Greece's budget deficit would have peaked to 12.7% of its GDP – more than twice the figure previously announced. This is the equivalent to a cue/stimulus in an HCL experiment, whereby the cue was represented by the disclosure of the actual deficit.[81] Under normal

[81] See footnote 77.

circumstances, the decade-long experience of EMU actors in enforcing the SGP could have indicated the expected outcome arising out of this cue: a slight worsening of borrowing conditions for the interested country and the enforcement of the corrective discipline of the Pact. Indeed, the initial policy reaction of the EU to the Greek cue drew on the expectation of the emergence of that typical outcome and consisted of the enactment of the usual procedure: the issuing of an early warning by the Commission and the enactment of an excessive deficit procedure involving an adjustment path agreed with the Commission. Sticking to this standard corrective process, in the initial phases of the crisis Greece passed harsh consolidation measures and the Commission endorsed these policies arguing that they would have been effective (and sufficient) in restoring market confidence (Commission 2010b).

In fact, in that early phase, the risk of a Greek default was looming but not totally concrete.[82] To use the contingent learning vocabulary (see Footnote 77), the cue took place (that is, the *coming out* of the Greek government), but not yet its unexpected outcome (that is, the concrete risk of a sovereign default). Before that outcome was fully known (i.e. in April 2010), I concede that a conventional process of sense-making was underway, whereby Member States and EU actors were sticking to long-standing national preferences and status-quo-biased solutions to explain the nature of the new cue to themselves and to their polities (Jones 2010a) and to go about them. In this in-between phase, lacking the clear emergence of the (unusual, surprising) outcome, the contingent reaction could not be triggered; hence Member States and EU institutions were

[82] "At the beginning of 2010, Greece had little difficulty raising new debt. On 25 January it went to market looking to raise approximately €3-5bn and came home with €8bn, because it faced demand for its bonds worth roughly €25bn. The same thing happened in early March, when the Greek government looked for €5bn and found bids for just under three times that amount. Finally, it happened again in April, shortly after the European Union held out the promise of conditional support. Greece came to the market looking for €1.2bn in short-term credits, found close to €8bn in offers, and went home with €1.5bn instead. Nor was debt servicing the major problem. Although the Greek government complained loudly about the yields necessary to attract attention to these new issues, they were broadly comparable to much of the debt it was retiring and so would not create problems until well into the future as the stock of debt to be serviced continued to mount" (Jones 2010a, p. 28). What precipitated the crisis was not new financing or servicing, but the flow of old debt into new bonds. Specifically, markets worried that the Greek government would have trouble refinancing. Just under €8.1bn in bonds were to come due on 19 May 2010, with another €400 million maturing fewer than two weeks later. Both of these existing tranches of debt carried very high coupons (or fixed interest payments) of 6%" (Jones 2010a, pp. 28-29).

sticking to their beliefs and preferences. They engaged in what we call, in hindsight, denial.[83]

However, when the cue (distressed public finances) was paired with its unexpected outcome (concrete risk of sovereign default), conventional sense-making based on long-term preferences and core beliefs was defied and conflated within a single decisional process involving not only sense-making/cognition, but also imposing behavioural change.

The explosion of risk premia on Greek debt issues and the subsequent risk of a sovereign default due to external market discipline by all means represented an unexpected outcome that interrupted the well-known and expected cue/outcome dyad and led to a contingent response.[84] The latter, in short, took the form, first of an *ad-hoc* rescue package and few days after of the establishment of a bailout fund (outside the *acquis communitaire*), a fundamental, paradigmatic departure from the original tenet of EMU. The chosen policy solution (the reaction) was contingent in that it did not belong to a set of predefined recipes drawn from conventional sense-making and long term preferences and beliefs. In other words, I argue that the observed change was not in line with the preferences of the actor with bigger power resources - a clear contradiction of Liberal Intergovernmental's predictions - and that change occurred without relevant ideational pushes underpinning it - a contradiction to Neo-Functional accounts.[85]

The initial, external trigger (Schwarzer 2012) of the crisis generated policy puzzles which were not fully covered by the functional understanding of EMU's deficiencies and that did not allow, in the short-run, the straight formation of national preferences. Multiple market pressures on EMU (impinging on private banks, sovereign debts, single member states' political and economic systems and supranational institutions) provided new unexpected cause-effect relations for the decision makers. My key argument is that contingent learning stepped in

[83] "Few of the standard criticisms of Europe's economic and monetary union expressed serious concern for this [default] prospect. Even the more extreme criticisms did not make it the focus of their attention" (Jones 2010a: 23).
[84] In fact, in the first decade of EMU, the many deviations from the SGP rules were never punished by the markets. In other words, risk premia were largely unresponsive to deviations from the SGP ceilings and the risks of sovereign defaults within the Eurozone never arose.
[85] See the conclusive chapter for a discussion of this mechanism vis-à-vis integration theories.

exactly in this phase. At the critical juncture of the crisis (from December 2009 until late April/May 2010, when the Greek bail out was approved and successive versions of financial stability facilities were established), the context of urgency and “need to save the Euro” changed actors’ causal beliefs and led to a series of integrative reforms driven by associative learning mechanisms. This (contingent) learning process occurred without canonical inferential thinking and without a deep understanding of the paradigm shift it implied. Thus, the Euro was saved by a process of contingent learning fuelled by contextual features of the decision making scenario – a process that, in a way, happened accidentally. Only after these hallmark decisions were taken, reflexive learning, sense-making, and neat preference formation took place, not before.

Change occurred hence through associative contingent learning, possibly including cognitive limitations as attentional biases and groupthink. In fact, reneging on the no bail out clause of EMU and creating an external vehicle dedicated to the financial rescue of Member States strongly defied functional and incremental solutions as well as the long-term preferences of core EU Member States. By all means, in my opinion, this counts as a contingent reaction.

Although in late 2009 Greek economic fundamentals immediately appeared to be extremely weak, it took several months before awareness of this weakness fully translated into the new, unexpected outcome, that is, the objective risk of a Greek sovereign default. Only then was the unanticipated cue/outcome dyad of the mechanism of contingent learning completed, leading to behavioural change.[86]

The *unexpectedness* was characterised and corroborated in practice by: inconsistent and conflicting declarations and speeches given by key decision makers (triggering negative market reactions and highlighting cumulative and cross-cutting conflicts: between small and big Member States, between peripheral and core EMU members, between Germany and the Commission, etc.); open public disagreement over the feasible solutions to the crisis (also

[86] Whereas in HCL experiments cue/outcome dyads are presented to subjects sequentially, triggering their immediate responses, the transposition of such sequence into crisis-based decision making allows for a slightly longer timeframe (weeks and months rather than seconds), but is still extremely rapid in terms of political time.

between actors belonging to the same political system – see the conflicting views on the nature of a possible European monetary fund emerged on March 2010 between Angela Merkel and Wolfgang Schäuble – Gocaj and Meunier 2013, p. 242; Schwarzer 2015, p. 608; Jones, 2010a, p. 24) and trial-and-error moves attempted and then swiftly repealed or modified due the reactions of the markets (Gocaj and Meunier, 2013, p. 244; Schwarzer 2015, p. 613). As for this latter point, the sequence of events of March/early May 2010 is highly illuminating. In fact, in the course of few weeks, the different positions on the enactment, as well as on the format, size and vehicle, of a possible Greek bail out shifted dramatically among key actors, including: no bail out at all (Jones, 2010a, p. 29; Schwarzer 2015, p. 615); limited bilateral loans; a strictly conditional European monetary fund; a debt agency; a Commission-backed lending facility; and bilateral loans pooled by the Commission and including the IMF. This latter solution was actually endorsed on the 2nd of May 2010 by the European Council but proved immediately insufficient and unstable leading then to the creation of an intergovernmental special purpose vehicle (the European Financial Stability Facility - ESFF) on the 10th of May, a decision taken according to an internal source quoted by Gocaj and Meunier (2013, p. 243) "really in the middle on the night".

Thus, drawing on the vocabulary of contingent learning: when the cue (distressed public finances) was paired with its unexpected outcome (the tangible risk of sovereign default), we observed behavioural change, that is, a new and different reaction. This is exactly the moment in which the associative processes of contingent learning applied, quickly leading to non-incremental change (the refusal of the no bail out clause). Note that, exactly as predicted by the contingent learning mechanism, this change occurs without any paradigmatic modification of core beliefs. Indeed, Van Esch (2014 and 2015) documents ambiguity, a relative level of flexibility (most of all in secondary beliefs), and only a modest degree of ideational convergence in EU leaders' views during the crisis. From her analysis, it appears to be clear that core beliefs were not fundamentally altered (Van Esch 2015), pointing to a mismatch between the lack of substantial variation in the ideational dimension of policy makers due to the crisis and the non-incremental change enacted. This is the core of my plausibility proof that leads me to argue that policy learning causality was reversed and that another radically different typology of learning took place in the short term responses to the crisis.

Crucially, the mechanism also explains how contingent factors leading to change made up for the lack of grand visions. Even ordinary leaders, with a short-term electoral horizon, may be forced into change if the context presents extraordinary pressures. In our case, when the very existence of integration and domestic state structures was questioned by an extremely challenging context, decision-makers learned in associative fashion about contingencies and chose non-incremental change that enabled them to *survive*, even if their core, established preferences would have suggested that they would go for more limited change. Surprise trumped priors and led to paradigmatic change in absence of belief change.

The variable of surprise (unexpected cue-outcome relations) typical of HCL models is pertinent here. In emergencies, most of all in intracrisis management, decision-making is faster. The conventional, inferential conditions for learning via experience, alteration of preferences, and deliberation are absent or suspended. Accidental, unwilling heroes can change behaviour in a short time-frame, under conditions of structural uncertainty (recall Slembeck's conditions). Change-or-die choice architectures might well have nudged *accidental federalists*. Policy makers like Olli Rehn went on stage and made extraordinary commitments to do "whatever it takes" to save the Euro, well before Mario Draghi did (Rehn 2010). Merkel defied conventional political science wisdom about elections and short-term horizons: she outraged political opponents, foreign ministers and her own coalition partners, the central bank and even the constitutional court. This is what she did by reneging on the no bail out clause of EMU and agreeing on an EU-based rescue package for Greece in April 2010. That was the genesis of the changes in EU policy on acute financial instability. After the first Greek bail out, the European Commission was given extraordinary power to scrutinise the national budgets of Member States, even to impose fines and quasi-automatic sanctions (see the following chapter). The European Stability Fund, established later on, is federal in nature, since it overtly overcame the no bail out principle and was designed upon pro-quota national contributions. Under the pressure of the markets and in a classic trial-and-error dynamic, the instruments within the toolkit of the ECB have been enlarged, allowing for a relaxation of the commitment to stable inflation in favour of a sort of new discretion conceded to the central bankers (Buti and Carnot 2012).

To conclude, I have sketched a causal sequence based on contingent learning that is empirically corroborated in the context of a plausibility probe. The proposed mechanism, meant to explain the fast-brushed change observed in 2010, also tells us something about the following case study, that is, the process of reform undergone by EMU after 2010. In fact, within the mechanism of contingent learning, an important role is played by Slembeck's feedback conditions that lock-in the short-term effects of learning. Feedback re-organizes the beliefs of policy-makers, making them learn how to operate within the new circumstances that become the new taken-for-granted context. As we shall see in the conclusive chapter, these circumstances can also accommodate a Liberal Intergovernmental account of the crisis by bringing preferences (i.e. classically intended, long-held macroeconomic preferences that hold under normal times) to the fore in the *post-hoc* phase. In fact, let us recall one of the implications of contingent learning: inferential learning takes place after change, provided that feedback is sufficiently strong to anchor the lessons learned. Contingent learning brought about the crucial decision of breaking the no bail out orthodoxy of EMU. This happened in a way that went against long-held actors' preferences and was indeed the *right* decision/lesson (it actually saved the Euro…). Therefore, the key implication for the subsequent process of EMU's forward-looking reforms (started in 2010, right after the Greek bail out – see the following chapter) is that it shall be driven by more canonical mechanisms of policy learning (possibly including bargaining dynamics), so to lock in the change decided in the intracrisis phase.

To anticipate an argument that will be made in the following chapter, reneging on the no bail out was in a way an unavoidable, though for many unpalatable, treatment employed to save the Euro. Yet such treatment was a short, not long term, cure. In order to make it permanent, EMU had to be changed accordingly and this is exactly what happened in the period of 2010-2013. The treatment was made permanent within a setting of intercrisis management that allowed for more canonical learning processes to emerge. This account might look abstract, but it actually corresponds to claims that austerity and expansionary consolidation (the long term treatments established after the bail outs) were both the bargaining chips required (and then established) by those who were seen as the losers of the 2010 crisis management and a fruit of an epistemic process of policy change.

7.5 Conclusions

This chapter has introduced the sovereign debt crisis by looking at the short measures adopted by key EMU actors to cushion its immediate effects. Given the incapability of standard modes of policy learning to fully grasp the nature of intracrisis management, I have explored the cause-and-effect relationship between crisis, learning and change in novel ways. Essentially, I have drawn lessons from psychology and strands of behavioural and evolutionary economics to formulate new arguments about how cognitive and situational variables normally observed under long shadow crises characterised by a fast speed of development affect change. This has led to the construction of an original, case-specific casual mechanism (contingent learning) characterised by a set of observable implications. My novel mechanism explains short-term, fast-brushed decision making involving and leading to abrupt change. Empirically, a plausibility probe has been employed to provide a preliminary test of such implications. We found that the effect of surprise, feedback, and uncertainty mattered in short term responses to the crisis. Interestingly, the analysis allowed for the relaxation of some assumptions – for example, epistemic communities are not a necessary condition in the short run for learning the path to a more integrated and legitimate Europe when decisions take place in intracrisis settings and the convergence of beliefs among decision makers is not indispensable for paradigmatic change to happen.

Overall, the findings suggest that contingent learning passes the plausibility test. Moreover, to further strengthen the empirical proof, the contingent learning mechanism will be plotted against the accounts of the crisis provided by standard theories of European integration in the conclusive chapter. This comparison will arguably demonstrate that an explanation based on contingent learning is able to ease several of the shortcomings of neo-functional and liberal intergovernmental accounts. However, the aim is not to challenge integration theories, but rather to use new insight about contingent learning to complement and enrich those causal accounts.

To sum up, this chapter has theorised and put to a preliminary test a novel and original learning mechanism that has shown a good deal of internal validity with regard to the specific case study. Nonetheless, by characterising the crisis according to established literature, the case-specific mode of learning treated in this chapter has the potential to be generalized to the class of phenomena whereby a long shadow crisis pushes actors to engage in intracrisis decision making.

Finally, one of the implications of the contingent learning mechanism is that while in intracrisis management change is driven by associative, low-cognition forms of learning, conventional mechanisms of learning do not disappear, but they anchor and lock change in *ex post*. In other words, they intervene once fast-brushed change has been enacted and crisis management can rely on a more relaxed timeframe for sense-making, knowledge accumulation and inferential learning. By dealing with the long term measures adopted to guarantee the long term sustainability of EMU after the acute crisis of May 2010, the following chapter will seek to test this implication.

Chapter 8. The Influence of Internal Epistemic Actors on the Expansionary Consolidation Paradigm

8.1 Introduction

This final empirical chapter concludes the diachronic learning-informed analysis of fiscal policy coordination under EMU. It roughly picks up from the tumultuous events of Spring 2010 when market pressure led Greece to the brink of default and EMU decision makers decided to scrap one the key architraves of its governance architecture by *de facto* reneging on the no bail out clause for euro area Member States and therefore agreeing on a (strictly conditional) package of financial assistance for the Hellenic country. Since then, building upon that sudden shift and with the aim of cushioning further immediate risks and guaranteeing a long term response to the crisis, the EU got engaged in an outstanding number of additional reforms that “spanned virtually all realms of economic and financial policy in the euro area” (Commission 2011, p. 7). In this chapter I will analyse in detail four of these systemic, forward-looking (i.e. beyond intracrisis management) reforms, covering the period of 2010-2013. These reforms were chosen because they targeted and *revolutionized* the fiscal policy coordination regime, our key object of inquiry. They are, in chronological order of approval/ratification: the European Semester, the Six-Pack Rules, the Two-Pack Rules and the Treaty on Stability Coordination and Governance (TSCG, also known as “Fiscal Compact”).

Although in this chapter I will continue to focus on the fiscal dimension of policy coordination and surveillance under EMU, being limited to such a domain will become increasingly harder. In fact, one of the key effects of the crisis has been to unveil a number of interdependencies and nexuses across economic policy areas that were substantially unknown or underplayed, and hence neglected, in the existing EMU framework (Copelovitch et al. 2015; Jones et al. 2016).

As we shall see in greater detail in Section 4, these interdependencies, and the resulting loopholes and asymmetries, are important factors to understand how the regime for fiscal policy coordination changed, i.e. by expanding to other policy areas (e.g. macroeconomic imbalances and structural reforms) besides becoming more coercive. For now, it is enough to note that the overhaul of the regime for fiscal and economic policy coordination did not take place in a *vacuum* but was part and parcel of a comprehensive policy response to the crisis and that the direction of that comprehensive response influenced (and was in turn influenced) by the reforms analysed in this chapter. In fact, "the intention to reform [economic policy coordination] is closely related to the crisis management of the past two years [i.e. 2008 and 2009]" (Kiss 2010, p. 40; see also Schwarzer 2012) and this interconnectedness also held for the various subsequent reforms, both intra and intercrisis.

That being pointed out, a comprehensive account of all the reforms occurring within EMU as a result of and during the crisis clearly goes beyond the analytical purposes of an investigation focused on fiscal policy coordination. For the sake of the latter, it will be enough to show how the interdependencies between different reforms have impacted on the fiscal policy coordination regime, most of all in connection and with regard to the new overall paradigm that has emerged out of these comprehensive efforts.[87]

The chapter proceeds as follows. Section 2 connects the previous case study (focused on short-term, intracrisis policy change) to the current one (focused on long term oriented and systemic institutional reforms). Given the different (and more canonical) decision making setting that characterised the latter, Section 3 returns to employ the "policy learning measuring instrument" as a lens to categorize the prevalent mode of learning underlying the four reforms. The indication we draw through this typological characterisation points toward epistemic learning. In Section 4 I discuss one major contribution (Blyth 2013) that characterised the process of policy change undergone by EMU as (also) driven by epistemic forces, but I qualify its key argument by looking at a different set of epistemic actors, i.e. those that work *inside* the EU. By focusing on the latter and on their scientific production during the crisis (2009-2012), the section empirically corroborates the claim of an epistemic mechanism being at work in the process of regime change and influencing its outcomes. Section 5 concludes by summarizing the key findings.

[87] For comprehensive overviews of EMU reforms after 2010 see: Buti and Carnot 2012; Kamkhaji and Radaelli 2013; De Haan et al. 2014; Commission 2014; European Parliament 2015.

8.2 Putting the four reforms in context

Before analysing the four reforms in detail through the measuring instrument (Section 3) a few contextual caveats and qualifications arising out of the previous case's causal mechanisms are in order. This section attends to these tasks.

As for the caveats, there are mainly two. The first one was hinted at in the previous section and consists of the fact that the reforms analysed hereafter need to be seen in the context of a larger *EMU-wide* process of policy change. This is less important for this and the next section, but when we unpack the different aspects of the new regime for fiscal and economic policy coordination (Section 4) we will need to refer to the border process of EMU reform to better grasp its paradigmatic nature.

The second contextual caveat revolves around the fact that, although the decision to bail out a euro area Member States arguably represented *the* single most important measure that signalled the steadfast will of EMU members and institutions to rescue the eurozone, it did not serve to calm the markets in the short-run (Jones 2014; Matthijs 2016). In other words, although the perspective through which decision makers initiated the processes of institutional reform was surely systemic and forward-looking, resulting in *intercrisis* policy change, in actuality the crisis was still ongoing. Indeed, it had to be cushioned through further emergency measures in other domains of EMU, in particular the protracted monetary easing by the ECB (Collignon 2012; Kamkhaji and Radaelli 2013; Torres 2013; Krampf 2016), and the progressive expansion and institutionalization of the vehicles designed to provide financial assistance to distressed EMU members (Gocaj and Meunier 2013; Chang 2013; Schwarzer 2015).

Given the policy background and context sketched above, we can now connect the process of policy change analysed in this chapter to the mechanism of contingent learning conceptualised for the previous case study.

A key argument developed in the previous case study is that the decision to bail out a Member State of the euro area implied an accidental (and *reluctant* for some Member State – see Newman 2015) overhaul of the paradigm underlying fiscal and economic policy coordination under EMU. After that, a *post factum* process of sense making and systemic policy change would solidify the sudden shift into a coherent institutional framework.

While observers disagree as to whether that (unequivocally sudden) shift was accidental or deliberate,[88] the consensus regarding the *two-staged nature* and the *magnitude* of the process of policy change spawned by the Greek sovereign crisis is fairly unanimous (Schwarzer 2012; Jones et al. 2016). The Commission itself neatly stated it in December 2010:

> "By now, the need to rethink the EU's fiscal framework is commonly acknowledged. A number of important steps have already been taken. Some were forced by events, such as the adoption of the financial stability instruments on 9 May 2010, others are part of the official reform process, notably two Commission communications - 12 May and 30 June 2010 - outlining options for strengthening EU economic governance, followed by a comprehensive package of draft EU legislation adopted by the Commission on 29 September 2010 [i.e. the Six-Pack Rules]." (Larch et al. 2010, p. 6).

In other words, on the one hand, the Greek bail out can be conceptualised as a pure intracrisis management intervention, whereas the process that unfolded after that decision, geared toward "permanent systemic responses" (Commission 2011, p. 7), can be seen as intercrisis policy change. On the other hand, with regard to the magnitude of policy change, the degree of the latter has by all means been substantial, involving not only technical adjustments to the supranational arrangements on economic policy coordination (what Hall would term first or second-order change), but also a paradigmatic shift (i.e. third-order change impinging on the belief system of the actors) that "has led to one of the most rapid periods of deepening of integration in EU history" (Jones et al. 2016, p. 1012).

In light of these considerations, the explanatory aim of this chapter is twofold. First, to test the *post factum* implication arising from the contingent learning mechanism according to which actors locked in and anchored the sudden shift

[88] That is, whether it was the fruit of change-or-die decision making without a shift in the belief system of the involved actors, or it was the outcome of cynical political calculations/brinkmanship about the burden sharing of the upcoming adjustment, or again the inevitable result of functional asymmetries and weaknesses enshrined in EMU (for more details on this debate see previous chapter, Chapter 9 and the 2015 Journal of European Public Policy Special Issue "European integration in times of crisis: theoretical perspectives").

decided under the pressure of a long-shadow crisis through a more classical mechanism of learning and policy change;[89] hence the return to the "policy learning measuring instrument" as an analytical device.[90] Second, to precisely pin down and characterise the policy change that occurred. This is done by distinguishing between paradigmatic and technical aspects of change and by testing whether and to what extent these changes are consistent with the expectations of the case-specific mode of learning.

Although, as mentioned above, the crisis was still ongoing while the reforms were designed, negotiated and enacted (often determining their acceleration), we can consider them as *intercrisis* management measures for at least two reasons. First, although the crisis was still biting, the decisions in the domain of the arrangements for future fiscal and economic policy coordination, as already argued, represented only a limited portion of the interventions taken to calm the markets and counteract the effects of the crisis, with the major *intracrisis* decisions instead taken at the level of country adjustment programmes, the establishment of the ESM, and ECB's liquidity provision to financial institutions and monetary easing.

In other words, the decisions taken in the domain of fiscal policy coordination and surveillance did not serve the direct purpose of cushioning the crisis in the heated years of 2011 and 2012, but admittedly they were always oriented to guarantee the long term, future sustainability of EMU public finances and to provide a disciplinarian framework for budgetary consolidation.

Second, the measures analysed in this chapter are *intercrisis* because they inevitably rely on the paradigmatic trigger activated in the context of the 2010 *intracrisis* decision making. In other words, these reforms were called to detail and solidify a paradigmatic shift that preceded them through a detailed policy instrumentation and hence clarification and operationalization of the new policy paradigm (Kamkhaji and Radaelli 2013).

[89] Or, reversing the rationale of the argument, to test whether the decisions of May 2010 created path dependence (Schwarzer 2012).

[90] The contingent learning mechanism in fact predicts that after the crisis was cushioned through *a shock therapy*, more canonical processes of reform and change (and learning thereof) would have ensued. The four reforms analysed below indeed represent these more canonical processes.

The functional (but contingency-driven) evolution from a paradigm whereby external market discipline and the no bail out clause were the key complements of the fiscal policy surveillance regime to one where previously voluntarily neglected[91] crisis resolution mechanisms became necessary, fundamentally altering the architecture of EMU, is vividly and clearly depicted *in vivo* (i.e. while that evolution was occurring) by a paper of the DG Ecfin (Larch et al. 2010, pp. 5-6):

> "A scenario had opened that had not been considered by the architects of the Treaty and the SGP, namely that of a member of the euro area becoming insolvent and/or defaulting on its debt. To avert the worst, ad hoc measures were put in place in far from ideal conditions […] when the crisis hit, policy makers were confronted with a challenge that simply could not be met within the remit of the existing rules: actively leaning against the wind while respecting the fiscal rules, helping illiquid or insolvent countries while respecting the no-bail-out clause […] The major policy challenge going forward will thus be to rebalance the trade-off between commitment - a rule based system - and flexibility - escape clauses, in other words, to strengthen the bite of the rules under normal circumstances and increase its flexibility when it is most needed, notably in truly exceptional circumstances."

It is exactly this process of overhaul (EU Commission 2011) of the underlying paradigm of EMU and of the technical instrumentation of the coordination regime that we analyse in this chapter, through the "policy learning measuring instrument".

8.3 The "policy learning measuring instrument" in action on the four reforms

In this section we will characterise, by looking at the analytical dimensions of modes of learning featured in the "policy learning measuring instrument", the scope conditions of four distinct but largely overlapping and complementary processes of reform to the regime for fiscal policy coordination (see Table 1), namely the European Semester (embedded in the SGP in September 2010 and operational since November 2010), the Six-Pack Rules (initiated in March 2010 and in force since December 2011), the Treaty on Stability Coordination and

[91] In fact, "the threat of a no bail out was assumed to prevent extreme fiscal follies." (Larch et al. 2010, p. 5).

Governance (signed in March 2012 and in force since January 2013), and the Two-pack Rules (initiated in November 2011 and in force since May 2013).

The following table provides a snapshot of the key features of the reforms we scrutinise hereafter.

Table 8.1 The four reforms of the regime of economic policy coordination

Reform	Launch and entrance into force	Actor/institution that initiated the process	Mode of approval/legal instrument	Synthetic content[92]
European Semester	March 2010 / September 2010	Commission / EFC	Amendment to the SGP's Code of Conduct	• It "ensures that Member States discuss their economic and budgetary plans with their EU partners at specific times in the first part of the year, so that national action could be accordingly taken in the second part of the year, notably with the adoption of the budgets for the subsequent year" (European Commission 2016)
Six-Pack Rules	March 2010 / December 2011	European Council / Commission	Community method, five regulations and one directive	• Reg. 1173/2011: Expands, strengthens and makes budgetary surveillance more coercive • Reg. 1174/2011: Establishes a sanctionative procedure for excessive macroeconomic imbalances (EIP - only for euro *ins*) • Reg. 1175/2011: Strengthens the preventive arm of the SGP • 1176/2011: Enshrines macroeconomic surveillance in the preventive arm of the SGP (for all EU Members) • 1177/2011: Strengthens and makes more biting and automatic sanctions under the EDP • Dir. 2011/85/EU: Establishes national fiscal frameworks
Two-Pack Rules	November 2011 / May 2013	Commission / (Germany)	Community method, two regulations valid only for euro area Member States[93]	• Reg. 472/2013: Establishes "enhanced surveillance " for those euro *ins* that are under financial assistance, EDPs or EIPs • Reg. 473/2013: Strengthens preventive discipline for euro *ins*

[92] See Section 4 for a more detailed account of the content of the reforms.

[93] "The new procedures are based on Article 136 of the EU Treaty. This Article enables euro area Member States to strengthen the coordination and surveillance of budgetary policies in order to ensure the necessary budgetary discipline in the Economic and Monetary Union. The new legislation therefore only applies to the euro area." (Commission 2013).

TSCG/Fiscal Compact	January 2012 (negotiations) / March 2012 (signing) / January 2013 (ratification)	European Council / (Germany and France)	Intergovernmental treaty entered into legal force after 16 MSs had ratified it	• Enshrines balanced budget rules in the national systems at the level of constitutional laws

From the outset, it is important to note that the legal instruments that conveyed these reforms were very different, also impinging on their agency, venue and timeframe.

In more detail, the Semester was a procedural change passed by the Commission alone as a modification to the Code of Conduct of the SGP. The Six-Pack followed the Community method and consisted of five regulations and one directive passed through the co-decision procedure. The TSCG is an intergovernmental treaty involving the possibility to opt out and a particular form of ratification.[94] Finally, the Two-Pack, passed through the Community method, entails two regulations only valid for euro *ins*.

An in depth analysis of the design, negotiation and approval processes of the reforms would require writing a new dissertation. Moreover, notwithstanding the fact that the four reform processes were designed, negotiated and passed by different actors and fed into different legal vehicles, they arguably belonged to a single effort aimed at reforming macroeconomic and fiscal surveillance, leading to a quite coherent (though not fully effective) set of interlocking elements and arrangements. For these reasons, in the remainder of this section I will focus on the four dimensions of policy learning and try to qualify their scope conditions by looking at the four reforms *jointly*.

Although this choice might attract criticism as it will inevitably blur some fine-grained process-based detail, this analytical strategy has the advantage of looking at the reform process to the regime of fiscal policy coordination in a holistic fashion, highlighting for instance that, within their decision making prerogatives and through the legal means to which they are entitled, almost all

[94] "According to article 14(2) and (3), the TSCG needs to be ratified by at least twelve euro area Member States to enter into force among them. When the treaty was signed the envisaged date for its entry into force was 1st January 2013. This objective was attained for twelve euro area Member states: Austria, Cyprus, Germany, Estonia, Spain, France, Greece, Italy, Ireland, Portugal, Finland, and Slovenia." (European Parliament 2013, p. 7).

the actors of EMU have taken part, by adding a coherent element, in the new governance architecture of policy coordination and surveillance.

As is customary, we start our typological analysis by looking at the actors involved in the process of reform.

8.3a. Who learns? What are actors' certification and role in the policy and learning processes? How is the actor constellation shaped?

Regarding the Semester, there is not much to say in terms of agency. In fact, the introduction of the European Semester, which envisages and configures an anticipated and pro-active cycle of monitoring of Member States' macroeconomic and budgetary figures by the Commission, was due only to the Commission. Indeed, the Semester, from the legal point of view, is *simply* a procedural change to the timing and sequence of annual surveillance and, as such, it was prepared by the Economic and Financial Committee (EFC) and passed by the Commission alone.[95]

Although the Commission legally entrenched this new instrument on its own, i.e. according to its legal prerogatives in the procedural realm of SGP implementation, the initial push to reform the surveillance procedures had originated from the political impulse of the European Council. In fact, in early 2010, while the Greek financing crisis was quickly progressing and EMU decision makers were puzzling over how to cushion it (see Chapter 7), the European Council of March 24/25 already invited the Commission to launch a comprehensive reform initiative of the regime of macroeconomic coordination and surveillance and, crucially, appointed a high-level intergovernmental task force to *support* the Commission in designing "the measures needed to reach the objective of […] better budgetary discipline, exploring all options to reinforce the legal framework." (European Council 2010a, p. 6).

This *ad-hoc* intergovernmental task force, formed by "representatives of the Member States [and] the rotating presidency and the ECB." (*ibid*.) and named "Van Rompuy Task Force" (VRTF) after its Chairman (the then President of the

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[95] In more detail, the changes to the letter of the SGP's "Code of Conduct" introducing the Semester were prepared by the EFC drawing on the 12th of May Commissions proposal for a comprehensive reform package (Commission 2010d) and officially enshrined in the coordination regime on the 7th of September 2010 after the Council endorsed the amendment.

European Council Herman Van Rompuy), started its activities in April 2010 and by October 2010, after four meetings, came up with a comprehensive and far-reaching proposal for the reform of the coordination regime (European Council 2010b). Its work took place in parallel with that of the Commission, which in the same period presented two different communications (Commission 2010d and 2010e) detailing the various aspects of the reform proposals it was preparing. Although at times overlapping and/or ignoring each other and being slightly in conflict (Kiss 2010), the VRTF substantially co-participated with the Commission in designing the upcoming reform (the Six-Pack Rules), providing full political backing to the initiative of the Commission and signalling the clear will of the political echelon (the European Council) to bring about fast, substantial and broadly consensual change. Along with the European Council, the VRTF and the Commission, the ECB (in June 2010 – ECB 2010a), and France and Germany (the so-called" Deauville deal" – see European Parliament 2010) also presented their own proposals of reform, in both cases calling for a more coercive, biting and automatic surveillance framework with respect to the one envisaged by the Commission and the VRTF (Kiss 2010; O'Keeffe et al. 2016).

The Commission finalized its proposals in September 2010 (Commission 2010f and 2010g) and, after the endorsement of the European Council (European Council 2010c), officially initiated the legislative process by submitting its legislative draft to the Council of the EU.[96] Once the law-making process was launched, it took more than one year (to the dismay of the European Council) to pass the five regulations and one directive that would form the Six-Pack. This delay was mainly due to the EU Parliament that, in the context of the co-decision and consultation procedures, managed to carve out for itself a little but significant role in the coordination framework and to preserve the new strengthened prerogatives of the Commission by defending the Reverse Qualified Majority Voting (RQMV)[97] system from attacks by the Council (see O'Keeffe et al. 2016).

[96] The unfolding of the Greek crisis and the decision to guarantee financial assistance to the Hellenic country in order to prevent its default put additional pressure on the Commission and the VRTF, greatly accelerating the process of reform – at least for what concerned the Commission and the Council.
[97] RQMV puts the onus of halting sanctions issued under the EDP on the Council. In fact, sanctions are automatically levied by the Commission unless the Council asks for an explicit vote (by qualified majority) to overturn the decision of the Commission.

The official approval of the Six-Pack Rules took place in October 2011 and entered into force in December 2011. The final version of the Six-Pack does not depart much from the September 2010 Commission's and October's 2010 VRTF's proposals, which represented a middle ground between the hawkish stance of the ECB, Germany and France and the more moderate position of the Commission and other peripheral Member States (European Parliament 2010).

Although it represented a noticeable leap toward enhanced enforcement of fiscal discipline, the (delayed) entering into force of the Six-Pack at the end of 2011 proved unable to shield EMU from further financial tensions and to restore markets' perception of the sustainability of the public finances of distressed Member States. Indeed, the approval of the Six-Pack immediately *sparked* two new reforms, both of them initially discussed in late 2011, the Two-Pack Rules and the TSCG. The former, again undertaken through the Community method, foresaw additional commitments to macroeconomic discipline for those Member States adopting the common currency, while the latter, a full-fledged intergovernmental treaty initially negotiated and passed outside the scope of the *aquis communitaire*, engrained balanced budget rules into national legislations, strongly complementing the Six-Pack Directive aimed at fostering national fiscal frameworks. In terms of actors, the Two-Pack involved the institutions tasked with passing new regulations under the community method, hence again the Commission, the Council and the EP. On the other hand, the TSCG, an intergovernmental agreement, involved EU Member States under the informal lead of Germany and France (Craig 2012).

The various actors involved in these reforms (basically, all the principal institutions of the EU and all the Member States) were all highly certified, interacted in highly formalised ways and were organized hierarchically into constellations where respective roles and functions were regulated by different legislative/treaty procedures. Moreover, the participation in the process of two *additional* and *ad-hoc* actors tell us something about the potential epistemic nature of the process. In fact, the appointment of an *ad-hoc* task force and the inclusion of the ECB, in its expert advisory capacity, are booth *prima facie* indicators of the fact that the decision makers needed policy-specific expertise to drive the reform process. Why did they need these further actors to *support* the process of policy change? The answer lies in the level of tractability of the policy problem that was meant to be solved by the reforms, which leads us to elaborate on the following dimension of the policy learning measuring instrument.

8.3b. What is the tractability of the problems tackled in the policy process? What is the content of the learning process?

The level of tractability of the problem (and of the *content* of the policy and learning processes thereof) faced by the actors in the context of the four reforms remained low, similar to what we saw in the case of the contingent learning mechanism of the previous case study. This is due to two reasons.

The first one relates to the policy interdependencies that we hinted at before. In fact, as the crisis continued to bite all along the four reform processes, the attention of market participants was increasingly focused on long-term debt sustainability and domestic imbalances.[98] In other words, it proved hard for markets to be reassured by calls to future strengthened fiscal discipline. Instead, to price country risk, they started looking more closely at parameters and factors that were left outside the original monitoring scope of the SGP (not only debt stocks, but also trade imbalances, differential labour productivity, private sector indebtedness, etc. – Amisano and Tristani 2011).

This circumstance represented a mutually reinforcing/feedback mechanism (recall the feedback conditions of Chapter 7) that drove the content and nature of policy change and learning thereof. In practice, Member States and EU actors became aware during the crisis (and thanks to the markets) that the deficit-to-GDP ratio was an imperfect measure of fiscal discipline and health of public finance, and hence started looking as well at different parameters that would work as early signals that the public finances of a given country were on a deteriorating path. Ongoing research within the ECB and the Commission during the crisis clearly indicated that the determinants of bond spreads were many more than the sole deficit-to-GDP ratio covered by the EDP (Amisano and

[98] "Swings in perceptions of sovereign risk propagate across euro area countries, despite possibly stark differences in their macroeconomic fundamentals." (Amisano and Tristani 2011)

Tristani 2011) and as a consequence the reform process actively tackled these further dimensions of coordination.

Second, and clearly connected the first point, the progression of the crisis, with its increased awareness and understanding of EMU asymmetries, *activated* functional spillovers that steered the direction of policy change towards the expansion of the areas covered by the coordination regime (Salines et al. 2012; see also Jones et al. 2015 for a similar argument applied to financial governance) and the strengthening of its surveillance and enforcement tools.[99]

The reforms were indeed enacted to respond to these multiple and, to a great extent, novel challenges that had already led EMU in the uncharted territory of sovereign financial assistance. Further supporting the idea of low problem tractability, we should consider that one thing is to deal with a Member State's non-compliance with the coordination regime (the policy problem actors were dealing with during the course of SGP implementation – see Chapter 5), while a totally different thing is to establish and design sovereign rescue packages in the context of a currency union with decentralised economic policies and an independent central bank (the problem spawned by the Greek crisis of May 2010 – see Chapter 7), and yet another to update and rewrite the regime of economic policy coordination to include new policy areas through new institutional arrangements under its surveillance umbrella.

In this respect, the very fact that four successive reforms, all with the same aim, were passed in less than two years is indicative of low problem tractability and learning-by-doing and by trial-and-error, i.e. learning while managing a still ambiguous policy coordination crisis.

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[99] The presence and influence of functional spillovers in the context of the reform of the regime for fiscal and economic policy coordination is not to be seen as alternative to the causal role played by intergovernmental bargaining. By expanding our focus to also cover reforms taking place in other economic domains of EMU, we do not in fact only find corroborating evidence of the low tractability of the problem of securing the long-term sustainability of EMU, but we can also appreciate how different causal drivers and mechanisms were at play at the same time. In fact, it is not incorrect to say that bargaining elements were kept at a low level in the context of the reforms analysed in this chapter because the big distributive game was taking place elsewhere, that is, in the context of the design of adjustment programmes for countries under financial assistance and, most of all, in the context of the negotiations for the creation and functioning of the ESM and of the banking union – i.e. in those areas where the burden-sharing of the EMU-wide adjustment was actually established.
In a way, the reform of the surveillance regime, granted that all actors broadly approved it in principle, was not the *locus* of interstate bargaining, but rather that where technical expertise was deployed to fix a crisis of enforcement, credibility and limited scope of the surveillance framework.

Indeed, the appointment of an *ad-hoc* task force and the increasing policy involvement of the ECB are also indicative of both the contribution of always more certified and expert actors in the reform process and the need to deploy all the possible expertise in the re-design of a system that needed to cushion future risks of default and an unprecedented deterioration of public finances and market confidence in a systemic way.

Granted that the detail of the reforms will be provided in the empirical section (where I will detail and categorize the content of the reforms according to their paradigmatic or technical nature), the key takeaway of this sub-section is that the policy problem tackled by the four reforms was characterised by low tractability.

Finally, reasoning on the content, one has to ask whether it was mainly technical or also paradigmatic. The answer is mixed. Certainly, the technical part was important (if not predominant) but the paradigmatic aspects should not be underplayed. In particular, as we shall see more diffusely in the next section, the TSCG, the Two-Pack and the Directive on national fiscal frameworks of the Six-Pack (but also the Semester) substantiated a paradigmatic change according to which supranational policy coordination turned more *intrusive* and *national* by impinging more directly, actively and timely on domestic budgeting processes.

Let us now briefly look at the (institutional) venues and timeframe of the four reforms.

8.3c. What is the venue and mode of interaction among actors? Is it formal (hierarchically organized) or informal (horizontal and deliberative)?

As easily inferable form the analysis of the agency and from the different legal means through which the reforms were passed, the venues where actors got together to tackle the complex policy problem detailed above were multiple, involving official ones (European Council meetings, Council's EP's sessions, etc.), but also less formal ones whereby decisions makers consulted task forces, experts (see the next session for a discussion of the much controversial participation of Professor Alberto Alesina in a Council session in April 2010) and actors, like the ECB, that lacked decisional prerogatives but were endowed with highly relevant expertise. The discourse within these venues remained mainly at the technical level, ruling out social learning (although the public sphere became increasingly interested in economic policy coordination – Zeitlin and Vanhercke 2014) and also bargaining arenas, since the low tractability of the problem and the long-term orientation of the reform curtailed strategic behaviour (see also Footnote 99).

8.3d. Are the policy interactions observed in the regime one-shot or iterated? How frequent and formalized are the iterations of the interactions?

The time-frame of the reforms was yet again multiple. There were major pressures (quite unattended to) emerging from the European Council to swiftly pass the Six-Pack in order to signal to the markets the commitment of EMU to fiscal and budgetary discipline. When the Six-Pack was still pending parliamentary approval, EMU decision makers (pressured by negative risk premia developments) perceived that something more was needed for euro *ins*, leading to the comparatively faster approval of the Two-Pack. But this was not enough. With the intent of signalling country-specific and not multilateral (i.e. enshrined/entrusted in EU law) commitments to fiscal discipline, consolidation and austerity, a group of fiscally-conservative EMU members decided to negotiate and sign the TSCG in less than three months (from January 2012 until the signing in March 2012 – Craig 2012).[100] In sum, the process of policy change took place over a limited horizon of time and under the shadow of adverse macroeconomic circumstances, yet it has been iterative and actors had enough time to puzzle over the content of the reforms – a condition that did not hold true for the approval of the Greek bail out in May 2010.

In sum, after having swiftly (i.e. concisely but precisely) applied the “policy learning measuring instrument” to the four reforms that overhauled the regime for fiscal policy coordination, we can conclude that the prevalent mode of learning of this systemic reform process was epistemic. We say this because all the actors that took part, with different roles, the reform of the regime were

[100] Arguably, this short time-frame indicated that the reform was dictated more by the progression of the crisis, rather than by deliberation on the one hand or bargaining dynamics on the other.

highly certified, whether *de jure* (i.e. owing to their legal policy making prerogatives) or *de facto* (i.e. owing to their technical expertise -see the ECB- or to their central political role -the European Council and Germany/France). Moreover, the problem they dealt with while reforming the coordination arrangements was a highly complex one, involving and requiring new expertise and novel technical and paradigmatic *recipes*. The venue of interactions were multiple, but always informed by the learning imperative of a crisis that was still ongoing and was increasingly showing its spillovers in terms of interdependency among policy areas. Bargaining arenas have been at work during the course of the policy responses to the crisis, but they were located mainly outside the scope of the reforms intended to reform the regime of economic policy coordination. I refer namely to: the negotiations over the ESM and the sharing of the burden of the adjustment thereof (Gocaj and Meunier 2013; Schwarzer 2015); the design and management of country-specific adjustment programmes involving bailed Member States and the Troika; and the many (resisted) attempts to advance unified banking supervision (Jones 2015) and an *embryonic* fiscal union through highly controversial instruments like the so-called Eurobonds (Matthijs and McNamara 2015).

The low salience of bargaining and the technical/epistemic profile of the policy interactions analysed here vis-à-vis more controversial reforms is also corroborated by the limited time-frame for designing, discussing and approving the reforms. Let us recall that this is in line with the scope conditions indicative of epistemic learning: epistemic actors typically take part in the policy process in a temporary, *ad-hoc* fashion and the limited amount of time for policy making curtails the possibilities to engage in cumulative distributive bargaining.

8.4 Empirical analysis

8.4a. Implications of epistemic learning and a critique of Blyth

The analysis of the scope conditions of the four reforms conducted in the previous section has led us to conclude that the prevalent mode of learning of this multipronged process of policy change was epistemic.

The key task of this empirical validation section is hence to test the observable implications of epistemic learning on policy outcomes. In more detail, what are the key observable manifestations that signal that a mechanism of epistemic learning was not only present in the process of reform but also informed its outcomes? First and foremost, we expect that epistemic actors actively took part in the process of policy making and change. Second, we expect that they, though their specialized and policy-specific expertise, filled a gap in the knowledge base of the decision makers, helping them to cope with a policy problem characterised by low tractability. Third, we expect that the additional knowledge brought by epistemic actors into the process of reform informed its outcomes, i.e. the nature and *content* of policy change. In other words, we expect that the new coordination and surveillance regime for fiscal and economic policy conforms, to a larger or smaller extent, to the *lessons* that epistemic actors have inferred from their research and then recommended to decision makers.

In sum, the key implication of epistemic learning that we want to test in this empirical section revolves around the substantive influence of epistemic actors and lessons on the process and content of policy change, i.e. on the features of the new coordination regime arising out of the combined effect of the four reforms analysed in the previous section.

To test this expected implication I have to elaborate in greater detail on the innovations (paradigmatic and technical) to the regime for fiscal and economic policy coordination and surveillance and match them with the research, policy advice and guidance emerging from the scientific production of the ECB and DG Ecfin - the epistemic actors surveyed in this chapter.

The obvious question that arises out of the latter choice is why to focus on the ECB and DG Ecfin as epistemic actors. The first answer to this question is straightforward: because, as is shown in the previous section, they indeed took active part in the process of policy change (the first *necessary* empirical manifestation of epistemic learning). Yet, this does not exclude that other external epistemic actors also weighed in. Therefore, in order to motivate the focus on internal epistemic actors, I will have to (critically) review one of the most popular[101] accounts of EMU's crisis-induced change that also resorts to epistemic explanatory drivers: Mark Blyth's "Austerity" and related literature.

In fact, the claim that the process of policy change undergone as a result of the crisis by EMU in general, and by the institutional arrangements for economic policy making and coordination in particular, also has a learning and/or epistemic nature is not new (besides Blyth 2013 see also Dellepiane-Avellaneda 2015 and Helgadóttir 2016) and is also acknowledged by the actor that drove a large part of this process - i.e. the Commission.[102]

On the academic side, Blyth (2013) has conducted a thorough investigation of the intellectual history and background of the so-called austerity paradigm that arguably informed the process of policy change leading to the new economic policy framework of EMU and the euro area. He defines austerity as "a form of voluntary deflation in which the economy adjusts through the reduction of wages, prices, and public spending to restore competitiveness, which is (supposedly) best achieved by cutting the state's budget, debts, and deficits" (*ibib*., p. 2). As for the emergence of such an economic policy making paradigm in EMU, Blyth's conclusion is that influential actors (most of all Germany and the ECB – see also Krampf 2014, Newman 2015 and Matthijs 2016) have cynically exploited the crisis and sold it as a sovereign debt crisis (whereas it was and has always been a financial one) to impose the austerity iron curtain over the euro area. Key to this outcome is a multilevel bargaining perspective and the availability of a suitable alternative template of economic policy making and coordination.

As for the former driver, the argument works as follows. Germany and other fiscally-conservative EMU actors substantially *conceded on* sovereign bail outs due to a contingency and emergency-driven process of policy change whereby

[101] According to Google Scholar, Blyth's book has been cited more than 1100 times since its publication in 2013.

[102] "Crises are catalysts of reform and change – they initiate a process of policy learning. This is also true for the Great Recession. In its wake an intensive debate started in both the political and the academic arena on how to redress the shortcomings found in the economic and financial system that may have caused the crisis and contributed to its fast and extensive propagation. This debate also encompasses the role of fiscal policy and, in the European context, the role of EU fiscal surveillance in a monetary union."
"…history tells us that deep economic crises initiate a learning process – a search for new policies to avoid future economic calamity. EU is now in the middle of such a learning process." (Larch et al. 2010, pp. 26 and 45).

neat preferences and distributional impacts were somehow obfuscated by the novelty and acuteness of the policy problem and by the need to take action, as portrayed in the previous chapter. Yet, once that fast-brushed, reluctantly approved and oscillating (Gocaj and Meunier 2013; Newman 2015) quantum leap had settled in, still under the pressure of the crisis but with a much clearer picture of winners and losers, Germany and its allies pretended in exchange to strengthen the budgetary and macroeconomic surveillance framework so to make fiscal indiscipline and the possibility of resorting to debt relief plans highly unpalatable for Member States. Besides imposing strict conditionality/sovereignty suspension for those countries in need of financial assistance (Schwarzer 2015), in terms of institutional change this translated into a stricter, more automatic and *austere* coordination regime whereby the hands of governments in the fiscal domain would be seriously tied, inevitably leading them to protracted budgetary consolidation. This was achieved, as we saw in the previous section, by imposing debt brake/balanced budget rules and independent fiscal supervision of national legislations (TSCG and Six-Pack Directive on National Fiscal Institutions), by tightening and making more synchronized and automatic (and expanding the scope of) the surveillance and sanctioning frameworks (Semester and Six-Pack), and by requiring additional commitments to disciplined macroeconomic policies to euro *ins* (Two-Pack).

Nonetheless, this is only a part of Blyth's explanatory account of why austerity happened. In fact, pure power politics and bargaining would not have been enough to *inflict* a continent-wide internal deflation. Germany and other pro-austerity EMU actors had to find a suitable alternative paradigm and epistemic allies for their endeavour to succeed (Jabko 2013), and they found them in plain sight within an influential portion of the economic profession. Indeed, according to Blyth, the set of ideas and conceptual models that substantiate the austerity paradigm has had its modern intellectual centre of gravity in the work of the so-called Bocconi economic school, whose most prominent mouthpiece is Professor Alberto Alesina from Harvard University, an *habitué* in EU policy circles (Helgadóttir 2016).

Together with a group of fellow scholars, all formed in Milan and currently active in US academia, Professor Alesina is considered to be the modern father of a paradigm of macroeconomic policy making according to which democracies have a built-in *political* bias toward inflation and fiscal profligacy that needs to be curtailed (Alesina and Tabellini 1990; Giavazzi and Pagano 1992a). In parallel with the praising of the benefits of constraining politicians' discretion in economic policy making, the same model consequently heralds the virtues of fiscal conservatism. In fact, budgetary consolidation and permanent expenditure retrenchment, under specific assumptions (see Alesina and Perotti 1995; Alesina and Ardagna 1998; Von Hagen and Strauch 2001), have "undisputed benefits" (ECB 2010a, p. 84) in terms of expansionary effects on GDP growth during the medium/long-run.

Put differently, this tenet of economic policy making, that beyond Alesina and his network has found in the prominent book of Reinhart and Roggoff (2009) "This time is different" a crucial epistemic associate, maintains that fiscal activism (most of all if expenditure-based) is ineffective and distortionary and that budgetary consolidation is a more suitable way to stimulate the economy, most of all in the aftermath of financial crises and when a country is already highly indebted. Therefore, for sustainable public finances' outcomes to occur in the long-run, on the one hand fiscal activism needs to be effectively constrained both at the national level (through independent fiscal institutions and rules – Hallerberg et al. 2007) and, when a country is engaged in a monetary union, at the supranational level (through coercive surveillance regimes that "tie governments' hands" – Giavazzi and Pagano 1992a – by imposing a *vincolo esterno* – Dyson and Featherstone 1996). On the other hand, budgetary consolidation and austere expenditure polices have to be promoted.

To sum up, put together: the wish of Germany and other EU Member States and institutions to *conceal* and underplay the true financial nature of the crisis (for which they have major responsibilities – Blyth 2013, Jones 2014 and 2015, Matthijs 2016) and their reluctant acceptance of sovereign bail outs (Newman 2015); the soaring risk premia required by the market participants for the bonds of a number of peripheral and highly indebted EMU countries; the fast and massive deterioration of public finances caused by banks' bail outs and shrinking GDPs; and, crucially, the availability of an economic policy making paradigm supposedly able to ensure a relatively fast recovery through balanced budgets, expenditure cuts and ambitious consolidations (Dellepiane-Avellaneda

2015); and this is how EMU ended up with a new paradigm of macroeconomic policy making, coordination and surveillance: austerity.[103]

The scope of Blyth's study is definitely broader than ours. Indeed, his work is in the Peter Hall tradition in that it takes stock of the historical shift occurring in the overarching paradigm of macroeconomic policy making due to the crisis – also going beyond the EU and EMU. Moreover, one of his key arguments is that the true nature of the crisis was financial and that its spillovers on public finance were an effect rather than a cause (pp. 71-74).[104] Such an interpretation of the crisis that puts its financial dimension at centre stage is also in line with recent political economy scholarship (Jones 2015).

This study looks at the fiscal side of EMU policy making and coordination. In other words, the ambition and scope of this investigation is much narrower, that is, looking at the way EMU Member States and institutions have created, implemented and changed regimes for coordinating their economic policy making in the context of a monetary union and without full delegation. That being clarified, the epistemic part of Blyth's comprehensive reading of the crisis is of great interest for us. In fact, *prima facie*, it argues that the austerity paradigm has been engrained into EMU through an opportunistic *political* process driven by the long term preferences of Germany, the ECB and other fiscally-conservative actors (Jabko 2013; Matthijs 2016), authoritatively mediated by the technical advocacy of external epistemic actors, especially those of the Bocconi school.

The influence exerted by external epistemic actors for the emergence of austerity has also been explored by Helgadóttir (2016, p. 392, emphasis added), who argues that "a network of economists from Bocconi University, Milan, came to play an important role in shaping European policy responses to the Great Recession and *establishing* the doctrine of 'expansionary austerity'."

[103] "The notion of expansionary contractions has helped policymakers frame and respond to the economic problems of the time", or, more bluntly, "politicians, from both left and right of the political spectrum, are always eager to buy 'magical' solutions to economic problems." (Dellepiane-Avellaneda 2015, p. 399).
[104] Although, in fairness, pro-cyclical policies run vis-à-vis revenue windfalls are an aspect that cannot be ignored when looking at the unpreparedness of EMU public finances when the financial crisis started to hit, hence somehow downplaying the pure financial genesis of the crisis.

These accounts are highly compelling but empirically they draw on a rather thin evidence base, like the highly publicized (but anecdotal and hardy all-explanatory) participation of Alesina at an Econfin Council meeting in April 2010, where he presented the key principles of expansionary consolidation to EU ministers of finance and economy (Alesina 2010; Blyth 2013, pp. 175-176; Dellepiane-Avellaneda 2015, p. 400-401). The same can be said of Helgadóttir's analysis of Alesina's network of co-authors and its "prominence" within EU institutions due to their "revolving doors" (2015, pp.402-404). The tentative wording of her conclusion is telling of a yet *seductive* but not fully empirically backed argument: "It seems *reasonable to assume* that tightly knit network served as a 'transmission mechanism' to further the vision of expansionary austerity" (*ibid*., p. 404, emphasis added).

When we instead depart from a fully ideational and macro perspective, narrow our focus to the empirical domain of this dissertation and, looking at the policy process, slightly broaden the perimeter of the epistemic community supporting austerity beyond the Bocconi School, we find that agency (and causality thereof) worked in a different way. In fact, a key aspect disregarded by the above cited contributions is that EU institutions and actors did not play the role of *lesson drawers* of external epistemic recipes but were rather full-blown *crafters* of the latter (as implicitly argued by Dellepiane-Avellaneda 2015).

In other words, the influence of the Bocconi thinking has been relevant at the ideational, discipline-wise and macro level but empirically the most important "teaching" role of the austerity paradigm has been played by the internal epistemic actors of the EU that, besides having reached a broad consensus on expansionary consolidation on their own, i.e. beyond the advocacy of the Bocconi boys, carried out crisis-related research *during the crisis*, providing additional (and crucial) evidentiary foundations to the novel paradigm.

This reading qualifies the theory of transmission belts of economic ideas (Helgadóttir 2016) by showing how these mechanisms of ideational diffusion were endogenous to the EU. In particular, tracing the scientific production of two key EU actors (the ECB and the DG Ecfin of the EU Commission) unequivocally reveals that they were *givers rather than takers* of the consensus for austere ordo-liberal policies. In more detail, by looking *in vivo* at their scientific production during the crisis we will find that:

- The consensus for prudent/non-discretionary fiscal policy, expenditure restraint, structural reforms and national/supranational budget constraints (the bulk of austerity, see also Box 1) pre-dated the crisis and was a crucial element of the ideational repertoire of internal EU epistemic actors and of EMU itself.
- These actors informed their research agenda to the policy necessities of their *principals.*[105]
- The evidence, findings and policy advice arising from their research has been nothing less than essential in shaping the institutional response to the crisis in the domain of macroeconomic and fiscal policy coordination.

In conclusion, since the above cited contributions have already focused at length on the transmission belt phenomenon that arguably connects *external* epistemic and academic actors to EMU policy change, I will instead focus on the (understudied) *internal* epistemic communities of the EU, namely the ECB and the DG Ecfin.

Proving that the shape and *ethos* of the new regime chimes and even coincides with the evidence, lessons and policy guidance emerging in the specialized economic publications of these two actors will not allow us to claim full explanatory leverage. Yet, it will add a crucial piece of evidence to the puzzle of the emergence of austerity, complementing and better qualifying explanations/drivers like intergovernmental bargaining and German hegemony on the one hand, and problematizing the transmission belt argument by showing that the EU can deploy its own epistemic weapons to motivate, solidify and justify a new stricter economic policy making paradigm without the need to necessarily draw on external expertise. In a word, we will show that the EU "can paradigm" and that, far from being the end point of the transmission belt, it

[105] In a keynote address at the DG Ecfin Annual Research Conference, the Director General Marco Buti stated the following: "The crisis has […] impacted on the research agenda of the economics profession, in particular of those economists who work on policy related issues concerning stabilisation, economic growth and structural reforms. The research program of DG ECFIN has paid great attention to the causes, consequences and cures of the current crisis. […] Our research work continues. For this reason, the crisis was in the centre of DG ECFIN's 6th Annual Research Conference on "Crisis and Reform" […] The conference was attended by about 200 researchers from academia, central banks, international organisations and other institutions […] sessions dealt with the political economy of reform, the design of financial systems and issues related to the economic paradigm." (Ecfin Economic Brief 6, February 2010).

worked rather as one of the global engines of the belt that connects economic science to the formation of new “ideas” and policy change thereof.

8.4b. The *new* paradigm

In order to demonstrate the influence of internal epistemic forces in the emergence of the new ideational and technical paradigm of economic and fiscal policy coordination it is worth elaborating on the conceptual nature of the “austerity paradigm”, which is in any case more appropriately defined as “expansionary consolidation”. To this end, let us look at Box 1 below.

Box 8.1 The austerity/expansionary consolidation paradigm

The starting point of the ideational paradigm is the belief that economic policy making in democratic settings has a built-in bias towards inflation and fiscal profligacy and hence debt accumulation that depresses the long-term growth potential of the economy. Key to this distrust toward fiscal policy as a stabilisation tool (besides the evidence of constantly growing debt stocks in Western democracies – Alesina and Tabellini 1990) is the influence of the expectation channel that leads households to react in a Ricardian way to variation in their disposable income. Ricardian here means that households actively engage in consumption smoothing, i.e. they modify their consumption and saving habits/propensities according to the expectations that fiscal expansions or contractions generate on their future streams of income. In practice, if faced with an increase in income due to a *permanent* fiscal expansion, households will lower their propensity to consume the additional disposable income and save more anticipating a future raise in the taxation to counterbalance the deficit created by additional expenditures/lower taxes. Like this, fiscal expansions are crowded-out, making their multipliers too low to prompt a stabilisation and growth of the GDP over the medium/long-run. These so-called non-Keynesian or wealth effects of fiscal expansions (most of all if performed on the current expenditure side) militate against counter-cyclical fiscal activism during recessions, indeed representing a strong call in favour of the working of automatic stabilisers and against discretionary fiscal expansions.

The effects of the expectation channel are not limited to depressing the multipliers of fiscal expansions. In fact, the same causal mechanism is at work in cases of consolidation, i.e. restrictive fiscal policies – even in cases where they are pro-cyclical, that is, when they occur during negative economic cycles/output gaps. In simple terms, the causal chain is the following. If a country is facing a negative economic cycle/output gap and, most importantly, a debt sustainability crisis (like a number of EMU members were during the crisis), given that classical Keynesian deficit-spending is ineffective on the GDP due to the working of the Ricardian equivalence and can even be counterproductive in terms of further debt accumulation, the policy solution is to consolidate (by cutting expenditure), regardless of the counter-cyclical Keynesian tenet. This policy is poised to have a depressive effect in the short-run (due to a decrease in disposable income), but after initial hardships households will embed the expectations of improved public finances and decreasing debt stock in their multi-period budget constraint and, anticipating a future drop in the taxation due to lesser costs to service decreasing debt and improving public finances, will increase their consumption and investment in the medium-run and boost GDP in the long-run thereof.

As a corollary to this recipe, supply-side structural reforms aimed at liberalizing the labour market and deregulating the economy interplay with budgetary consolidation and further foster growth potential.

On the institutional side, the whole conceptual architecture of expansionary consolidation represents a strong call in favour of domestic and external constraints on fiscal discretion, to be achieved through different instrumental recipes.

The following publications represent an essential (though surely non-exhaustive) list of *early* expansionary consolidation readings: Alesina 1988, Alesina and Tabellini 1990, Alesina et al. 1991, Giavazzi and Pagano 1992b, Alesina and Perotti 1995 and 1996, Alesina and Bayoumi 1996, Alesina and Ardagna 1998. For more recent contributions see the following section.

The empirical test of these claims and mechanisms belongs to the discipline of economics. Furthermore, the debate over the benefits or damages of austerity is of limited relevance to our enquiry of how and why a new paradigm came about. For the sake of it, the focal point is that *blaming* the so-called Bocconi School for the emergence and diffusion of the expansionary consolidation paradigm during the euro area crisis represents a misleading and surely incomplete characterisation. While it is true that Alberto Alesina (2010) delivered a working paper detailing the crucial elements of the austerity paradigm to a crucial Ecofin Council meeting in April 2010 (right before the decision to bail out Greece), it is also true that a senior economist working at the ECB (Ludger Schuknecht), while acting as a discussant to a working paper presented by OECD economists at a DG Ecfin conference on public finance in January 2008 (that is, well before the sovereign debt crisis), stated the following:

> "I would like to start my comment on this impressive paper by pointing to some conceptual and normative priors on fiscal consolidation. There has been significant theoretical and empirical research in recent years by economists from international organisations and academia in the domain of fiscal consolidation and sustainability. This has forged a broad normative consensus on the appropriate course of fiscal policies and the way to achieve it.
>
> First, sound fiscal policies aim to attain sustainable public finances which are good for growth, stability and cohesion in Europe.
>
> Second, if sound fiscal policies are achieved or an appropriate strategy towards such a position is in place, automatic stabilisers (rather than discretionary policies) should contribute to economic stabilisation.
>
> Third, fiscal consolidation and reform towards sustainability are best conducted as part of a medium term-oriented, ambitious and

> comprehensive strategy that emphasizes expenditure restraint and supply-side incentives so as boost confidence and growth.
>
> Fourth, consolidation should be accompanied by reforms of fiscal institutions that subject fiscal policies to spending and deficit constraints and a medium term budgetary framework.
>
> These principles are also embedded in the EU's institutional framework, notably the Stability and Growth Pact and the Lisbon process. They have been reconfirmed in recent communication by the Eurogroup (spring 2007) and the ECOFIN Council (autumn 2007)." (Larch (ed.) 2009, p. 88).

This is just a quote out of many similar ones put forth by economists working at either the ECB or at the DG Ecfin. *Per se*, it can be considered as anecdotal evidence, as much as 2010 Alesina's presentation. Yet, as Dellepiane-Avellaneda (2015) and the following pages show, this is not a casual statement. In fact, if it is true that the intellectual paternity of the modern version of the expansionary consolidation paradigm may well *belong* to Alesina and his network of co-authors that introduced the concept in policy circles in the 90s (*ibid*.; Blyth 2013 pp. 165-173 and 205-212), it is also true that economic scholarship at the ECB and at the Commission has played a major role in shaping and expanding the academic consensus toward this paradigm. Indeed, they did not limit to support it, but they crucially qualified it empirically through a massive number of publications and studies focused on EMU and eventually *operationalized* it in the context of the crisis.

Therefore, before looking systematically at the scientific production of these internal epistemic actors during the years of the crisis (2009-2012), it is worth making again the following, central point – that further motivates the focus on internal epistemic actors. The Bocconi school, Reinhart and Rogoff prominent, successful and highly controversial articles and book (2009, 2010 and 2011), economists at the International Monetary Fund (but with some nuance and critical outlook, see: IMF 2012; see also Blanchard and Leigh 2013 for a partial refutation of the paradigm due to the underestimation of fiscal multipliers during the crisis) and, at a systemic level, the whole New Neoclassical Synthesis[106] scholarship have all been central actors of the broad scientific consensus for expansionary consolidation (Blyth 2013; Dellepiane-Avellaneda 2015). It is also

[106] See footnote 70.

important to show how this consensus has influenced *from the outside* influenced paradigm formation and policy change in EMU – and this is what Blyth's and Helgadóttir's studies have done.

Yet, overlooking the fact that the internal epistemic actors of the EU had bought into this paradigm at least a decade before the eurocrisis (Dellepiane-Avellaneda 2015, pp. 396-399) and since then promoted and further developed this set of ideas all along EMU's saga overshadows the crucial fact that the "new" paradigm did not brusquely originate from *alien* and *peripheral* economists (Helgadóttir 2016, crucially building upon Blyth 2013) that exploited a window of opportunity, like that offered by the crisis, to sell their economic creed to opportunistic politicians. In actuality, that creed was already endogenously engrained in the policy practice and research of the ECB and the Commission (Dellepiane-Avellaneda 2015). Let us now see how in more detail.

8.4c. Data collection – some details

In order to empirically test the key implications of epistemic learning we now look systematically at the scientific production of the internal epistemic actors of the EU (namely, the ECB and the DG Ecfin of the Commission) during the period of 2009-2012.[107] In practice, I will match their scientific outputs to the different changes (paradigmatic and instrumental/technical) that were introduced by the four reforms.

Both the actors are by all means *sui generis* if compared to their equivalent in national political systems. The ECB is a *sui generis* central bank that, lacking a fiscal and political sounding board, is much more engaged in analysing, discussing and participating to the debate on fiscal policies than other central banks (Allard et al. 2012).[108] Moreover, in the context of the crisis, the ECB has

[107] Although the process of reform traced in the previous section started in 2010, I decided to also include 2009 in the analysis for two reasons. First, to show how the switch from the Keynesian tenet of the EERP of 2008/2009 to the consolidation mantra of 2010 is reflected in the epistemic outputs. Second, to show that the prominence of fiscal conservative thinking within EU scientific circles pre-dated 2010.

[108] "Our findings indicate that the ECB communicates intensively on fiscal policies in both positive as well as normative terms […] The empirical analysis also indicates that the financial crisis has overall increased the intensity of central bank communication on fiscal policy" (*ibid*., p. 1).

extended its consultative/advisory activities (*ibid*.; Lambrinoc 2009) and *assertively* assumed a somehow new (and at times contested) role of full-blown decision and policy maker (Collignon 2012; Krampf 2016).[109]

The Commission is instead a decision making institution (a *sui generis* executive) that does not only play the role of agenda setter, but also of policy entrepreneur and epistemic actor (Verdun 1999; Radaelli 1999; Zito 2001). Moreover, as we saw in the previous section, the Commission played a major role in the design and approval of at least three of the four reforms analysed herein.[110]

The epistemic role that they play and that ensues from their *sui generis* position with the EU has been the object of a number of studies in the field of public policy (see, for recent examples, Metz 2015 and Littoz-Monnet 2017). Nonetheless, I am not aware of any scholar that has looked at their epistemic role during the crisis by systematically taking stock of their scientific production (for a partial exception see Dellepiane-Avellaneda 2015). The following analysis fills this gap and complements both Blyth's ideational attribution of austerity and Helgadóttir's the transmission belt account, whereby the epistemic source of the new economic policy making paradigm is set outside the EU institutions.

Before matching the policy advice put forth by the scientific papers produced by the ECB and DG Ecfin to actual policy changes, a brief look at the practical side of this data collection and analysis is in order (see Box 2 below).

Box 8.2 Economic papers as data

Both the ECB and the DG Ecfin have a large number of publication series, some statutory (e.g. the "Monthly Bulletins" of the ECB and the Commission's "Public Finances in EMU" annual report) and some research-oriented, like occasional and working paper series. In order to pin down the technical

[109] In this respect, it is worth considering the ECB's role in the process of reform of financial regulation and baking supervision, its participation in the so-called Troika in the context of adjustment programmes and its resort to a vast array of non-conventional monetary instruments that, according to some observers, marked a creeping expansion of its de facto inflation targeting mandate in favour of a more interventionist and non-neutral role in monetary policy (Krampf 2016).

[110] When it comes to evaluating its role in the process of crisis-driven policy change, as noted in Chapter 6, the literature diverges with some authors who consider it to be side-lined by the increased importance of the European Council (Bickerton et al. 2015) and some others who argue that it managed to extend its prerogatives under the new framework for economic governance (Bauer and Becker 2014). For the present analysis, what matters most is that the Commission initiated and substantially designed (and even passed, in the case of the Semester) both the Six and Two-Pack measures.

lessons arising out of the research activity of the two institutions I mainly focused on the latter (the actual scientific production) but I also analysed the former since they, most of all ECB's Monthly Bulletins (featuring also dedicated boxes and op-ed articles[111]) and Commission's annual "Public Finances in EMU" and "Quarterly Reports on the euro Area", often provide a very useful synthesis of the ongoing research, clarify the epistemic, evidence-based consensus on a topic and provide flat-out advice, i.e. implications stemming from research and policy guidance thereof.

Obviously, I only selected and analysed papers related to the conduct of fiscal and macroeconomic policies, disregarding papers dealing with other topics like monetary policy, labour economics or asset pricing.[112]

As for the ECB, the role of its research units and activities is the following: "The goal of economic research at the ECB is to provide a strong conceptual and empirical basis for policy-making and to better communicate policy to the markets and the public. High-quality research is essential to ensure that the ECB is well equipped to cope with the unprecedented challenges associated with conducting a single monetary policy for a group of sovereign countries. The most important task of economic research within the Eurosystem is to increase knowledge of the functioning of the euro area economy and, more specifically, to provide models, tools and analyses relevant to the conduct of monetary policy and the fulfilment of other tasks of the Eurosystem".[113] This needs to be qualified by noting that the ECB, during the crisis, expanded its formal policy making and informal advisory roles, namely representing a crucial voice in the debate over the reform of the coordination regime (Kiss 2010; Allard et al. 2012).

The largest number of ECB papers analysed belongs to the Working Paper Series that is meant to "disseminate economic research relevant to the various tasks and functions of the ECB, and provide a conceptual and empirical basis for policy-making. The Working Papers constitute 'work-in-progress'. They are published to stimulate discussion and contribute to the advancement of our knowledge of economic matters. They are addressed to experts, so readers should be knowledgeable in economics".[114]

Another important ECB outlet is the Monthly Bulletin which "presents the economic and monetary information which forms the basis for the Governing Council's policy decisions. It is released eight times a year, two weeks after each monetary policy meeting. The Bulletins in March, June, September and December provide comprehensive analysis of economic and monetary developments including an integrated discussion of the staff macroeconomic projections on inflation, growth, public finances, and external trade".[115]

In Monthly Bulletin issues we do not only find information/data, but also boxes/focuses (that summarize recent evidence on a specific topic and/or spell out policy guidance) and un-authored papers that represent kind of 'op-eds' expressing the policy vision of the ECB's Executive Board.

As for the DG Ecfin, its research function has very similar aims to that of the ECB. The two outlets that feature more often in the following analysis are Economic Papers and Quarterly Reports. The former "are written by the staff of the [DG Ecfin] or by experts working in association with them. The series intends to increase awareness of the analytical work done on EU economic issues and to seek comments and suggestions for further analyses."[116] The latter, instead, "intend to contribute to a

[111] Un-authored articles published in the capacity of the ECB's Executive Board.
[112] Nonetheless, with regard to the latter topic, the papers dealing with sovereign bond spreads were clearly included in the analysis.
[113] https://www.ecb.europa.eu/pub/economic-research/html/index_content.en.html
[114] https://www.ecb.europa.eu/pub/research/working-papers/html/index.en.html
[115] https://www.ecb.europa.eu/pub/economic-bulletin/html/index.en.html
[116] http://ec.europa.eu/economy_finance/publications/economic_paper/index_en.htm

better understanding of economic developments in the euro area and to improve the quality of the public debate surrounding the area's economic policy."[117]

A few details on my data selection strategy are on order. First, the access to this kind of publications is totally free, making my data collection task much easier and fully replicable. Second, I started looking at first into research publications, most of all the ECB's "Working Paper Series" and "Occasional Paper Series", and the DG Ecfin's "Economic Papers" and "Occasional Papers". I downloaded and read all the abstracts of the papers published in these series in the period 2009-2012 and then looked for the following keywords in there: adjustment, bond, borrow, borrowing, budget, budgetary, consolidation, contraction, contractionary, crisis, cut, cycle/cyclical, deficit, debt, discretion, downturn, expansion, expansionary, expenditure, fiscal, fiscal policy, growth, imbalance, income, Keynesian/non-Keynesian, macroeconomic, multiplier, pact, public, public finance, recession, retrenchment, revenue, Ricardian, sovereign, spending, spread, stabilisation, stabiliser, stability, structural, sustainability, tax and taxation. I then downloaded the papers featuring these keywords in their abstracts, read them and eliminated from the sample those that were not relevant. The criterion for relevance I employed consisted of including in the dataset only those papers whose findings had clear implications for the conduct and coordination of fiscal policies in the euro area (even when explicit policy advice/guidance was lacking). I then replicated the same series of tasks with minor paper series such as the ECB's "Legal Working Papers Series" and the DG Ecfin's "European Economy".

I then turned my attention to statutory publications and downloaded all the ECB's Monthly Bulletins published in the considered period looking for relevant un-authored articles (see footnote 111) and boxes/focuses. ECB's Monthly Bulletin issues revealed to be extremely relevant, most of all those that featured a dedicated section on fiscal developments (March, June, September and December issues). I also perused the three annual issues of the ECB's Research Bulletin although only few of them turned out to be relevant. I applied a similar strategy to DG Ecfin's statutory publications where a prominent role is played by the annual report "Public Finances in EMU" that besides providing data on fiscal developments systematically include research articles/chapters and extremely insightful editorials and extended summaries of economic and political developments. Finally, I also looked into and selected relevant DG Ecfin's "Quarterly Reports on the euro area" issues, which play a similar role with respect to ECB's Monthly Bulletins.

The following table provides details on the number, type and year of publication of the papers published by the ECB and DG Ecfin (the universe) and of those analysed in this chapter (the sample).[118]

Table 8.2 Universe and sample of ECB and DG Ecfin papers

	ECB's papers – universe	ECB's papers - sample	DG Ecfin's papers - universe	DG Ecfin's papers - sample
2009	155 Working papers (WPs) 8 Occasional Papers (OPs) 12 Monthly Bulletin Issues 3 Legal Working Papers (Legal WPs) 3 Research Bulletin Notes (RB Notes)	16 WPs 0 OPs 4 Monthly Bulletin Issues (including 2 articles and 5 focuses/boxes) 1 Legal WP 0 RB Notes	1 Public Finances in EMU 42 Economic Papers (EPs) 14 Occasional Papers (OPs) 4 Quarterly Reports on the euro area (QRs)	1 Public Finances in EMU 5 EPs 2 OPs 2 QRs Other publications: 2 European Economy Issues

[117] http://ec.europa.eu/economy_finance/publications/qr_euro_area/index_en.htm
[118] Please, note that

2010	138 WPs 14 OPs 12 Monthly Bulletin Issues 1 Legal WP 3 RB Notes	12 WPs 2 OPs 4 Monthly Bulletin Issues (including 2 articles and 7 focuses/boxes) 0 Legal WP 1 RB Note	1 Public Finances in EMU 38 EPs 17 OPs 4 QRs	1 Public Finances in EMU 6 EPs 1 OPs No QRs Other publications: 1 Economic Brief
2011	128 WPs 11 OPs 12 Monthly Bulletin Issues 2 Legal WPs 3 RB Notes	11 WPs 3 OPs 4 Monthly Bulletin Issues (including 3 articles and 5 focuses/boxes) 0 Legal WP 2 RB Notes	1 Public Finances in EMU 11 EPs 16 OPs 4 QRs	1 Public Finances in EMU 3 EPs 0 OPs 1 QR
2012	91 WPs 7 OPs 12 Monthly Bulletin Issues 0 Legal WP 3 RB Notes	8 WPs 0 OPs 3 Monthly Bulletin Issues (including 3 articles) 0 Legal WP 0 RB Notes	1 Public Finances in EMU 29 EPs 35 OPs 4 QRs	1 Public Finances in EMU 7 EPs 3 OPs 0 QRs
Total	412 WPs 40 OPs 48 Monthly Bulletin Issues 6 Legal WPs 12 RB Notes	47 WPs 5 OPs 12 Monthly Bulletin Issues (including 10 articles and 17 focuses/boxes) 1 Legal WP 3 RB Notes	4 Public Finances in EMU 120 EPs 72 OPs 16 QRs	4 Public Finances in EMU 21 EPs 6 OPs 3 QRs 3 Other publications

8.4d Data analysis and findings

Admittedly, analysing these considerable number of papers has been an intimidating task,[119] but the evidence they provide us with is invaluable and strongly confirms, corroborates and even brings forward the points made by the ECB senior economist quoted above. Overall, in fact, the review of the economic scholarship of the ECB and DG Ecfin during the crisis renders a

[119] A background in macroeconomics has been an instrumental asset to carry out a systematic analysis of this highly technical literature.

picture of a clear and coherent paradigm of economic policy making and supranational policy coordination.

In order to match policy innovations with epistemic inputs, I will subdivide the former into seven different typologies. The first two (A1 and A2) revolve around changes of a paradigmatic nature (representing what Hall would term third-order changes), while the last five (B1 and B2) regard more technical/instrumental innovations (akin to first and second-order changes).

Table 8.3 The nature of policy change(s)

Paradigmatic changes

- *A1. The sudden stop and reversal of a short-lived Keynesian re-infatuation*
- *A2. Debt sustainability as an imperative and (expansionary) consolidations as the way to achieve it*

Instrumental changes

- *B1a. Stricter/more coercive coordination and surveillance framework with enhanced enforcement, including debt surveillance*
- *B1b. Broadening of the coordination regime, including expenditure monitoring*
- *B1c. Broadening of the coordination regime, including the monitoring of Europe 2020 objectives - structural reforms*
- *B1d. Broadening of the coordination regime, including the monitoring of macroeconomic imbalances*
- *B2. Strengthening of national fiscal governance*

This categorization serves the purpose of making the matching exercise systematic, although paradigmatic and instrumental innovations are highly intertwined, most of all if we look at them under the perspective of systemic overhaul of EMU governance architecture (see Kamkhaji and Radaelli 2013 for a systematic categorization of policy innovations under the crisis).

Table 4 below matches each innovation with both the legal instruments through which it was included in the new regime and the ECB's and DG Ecfin's papers that provide essential advice about it.[120]

[120] Note that a single paper can provide input on different aspects of policy change and hence *match* different typologies. Clear examples are Van Riet (ed.) 2010, Larch (ed.) 2009 and Larch et al. 2010.

Table 8.4 Categorising and matching policy changes to legal provisions and epistemic input[121]

Paradigmatic changes			
Substantial nature of change	**Legal instrument/vector of the change**	**ECB Papers[122]**	**DG Ecfin papers**
A1. The sudden stop and reversal of a short-lived Keynesian re-infatuation	• Revival of the EDP through ambitious MTOs (while waiting for the Six-Pack Rules to be passed)	• Afonso and Sousa 2009 • ECB M.B. 03/2009 • ECB M.B. 03/2009, Box 7 • ECB M.B. 07/2009 • Cogan et al. 2009 • Burriel et al. 2009 • Van Riet (ed.) 2010 • Afonso et al. 2010 • ECB R.B. 06/2010 • ECB M.B. 07/2010 • ECB M.B. 07/2010, Article pp. 67-83 • Cwik and Wieland 2010 • Dieppe et al. 2011 (in disagreement) • Afonso et al. 2011 (in disagreement) • Cimadomo et al. 2011 • Schuknecht et al. 2011 • Coenen et al. 2012 (in disagreement)	• Public Finances in EMU 2009 and 2010[123] • Roeger and in 't Veld 2009 (in disagreement) • Larch (ed.) 2009 • Barrios et al. (eds.) 2009 • EU Commission Q.R. 06/2009 • Commission 2009b • Commission 2009c • EU Commission Q.R. 12/2009 • Barrios and Rizza 2010 • Roeger and in 't Veld 2010 • Larch et al. 2010 • Public Finances in EMU 2011 • Lendvai et al. 2011 • in't Veld et al. 2012 • Public Finances in EMU 2012

[121] Legend: M.B.: Monthly Bulletin; R.B.: Research Bulletin; Q.R.: Quarterly Report.
Boxes and articles featured in ECB Monthly Bulletins are of particular relevance because they represent a synthesis of ongoing research and provide straightforward policy advice thereof.

[122] The precise references to the papers cited in this table and in the section below are featured separately in the Appendix to avoid excessive confusion. The same rationale applies to the format of referencing employed throughout the table. Finally, note that not all of the 132 analysed publications feature in the table. This is because some of them did not provide straightforward policy advice, or contributed to the methodological rather than to the policy debate. In any case, all the papers including policy advice were listed, also those (quite few, actually) that were in disagreement with the overall "sentiment" captured by my analysis.

[123] As noted also in Chapters 6 and 7, these two reports are extremely important to track the change of sentiment at the Commission about fiscal stimuli and the unreformed SGP. Fiscal policy, in one year only (see also Skidelsky 2009 for the elusive return of Keynesism in 2008/2009), changed its status from a fundamental tool for stabilisation and recovery (yet, to be used temporarily) to a peril for public finances' sustainability to be rolled back in order to swiftly implement (ambitious) consolidation plans. Similarly, the SGP was considered as of 2009 to be key to ensuring sound public finances, while (as documented in Chapters 6 and 7) in 2010 it is seen by the Commission and all EU actors as in need of substantial reform, even a "quantum leap", according to the ECB.

		• Coenen et al. 2012b • ECB M.B. 12/2012, Box 6	
A2. Debt sustainability as an imperative and (expansionary) consolidations as the way to achieve it	• TSCG provisions • Regulation 1175/2011 of the Six Pack Rules • European Semester provisions	• Balassone et al. 2009 • ECB M.B. 03/2009, Box 7 • ECB M.B. 06/2009 • ECB M.B. 09/2009 • ECB M.B. 09/2009, Box 10 • ECB M.B. 12/2009 • ECB M.B. 12/2009, Box 8 • Cogan et al. 2009 • ECB M.B. 03/2010 • ECB M.B. 03/2010, Box 9 • Van Riet (ed.) 2010 • ECB M.B. 05/2010, Boxes 4 and 6 • Afonso et al. 2010 • ECB M.B. 06/2010 • ECB M.B. 06/2010, Box 6 • ECB M.B. 07/2010, Article pp. 67-83 • Checherita and Rother 2010 • Nickel et al. 2010 • ECB M.B. 09/2010, Box 7 • Cwik and Wieland 2010 • Rother et al. 2010 • ECB M.B. 12/2010 • Rieth 2011 • ECB M.B. 03/2011 • ECB M.B. 03/2011, Box 10 • ECB M.B. 03/2011, Article pp. 99-119 • ECB M.B. 04/2011, Article pp. 61-77 • ECB M.B. 06/2011 • ECB M.B. 06/2011, Box 8 • Salines et al. 2011 • Schuknecht et al. 2011 • ECB M.B. 09/2011 • Hartwig et al. 2011 • Afonso and Jalles 2011 • Amisano and Tristani 2011 (R.B. Autumn 2011) • Baum et al. 2012 • Afonso and Jalles 2012	• Larch (ed.) 2009 • Commission 2009c • EU Commission Q.R. 12/2009 • Hobza and Mourre 2010 • Roeger and in 't Veld 2010 • Public Finances in EMU 2010 • Larch et al. 2010 • Iara and Wolff 2010 • Public Finances in EMU 2011 • EU Commission Q.R. 04/2011 • Boussard et al. 2012 • in ‘t Veld et al. 2012 • Public Finances in EMU 2012

		• Checherita-Westphal et al. 2012 • ECB M.B. 04/2012, Article pp. 55-69 • ECB M.B. 05/2012, Article pp. 79-94 • ECB M.B. 12/2012, Box 6	

Technical changes			
Substantial nature of change	**Legal instrument/vector of change**	**ECB Papers**	**DG Ecfin papers**[124]
B1. Stricter/more coercive coordination and surveillance framework with enhanced enforcement including debt surveillance	• Regulations 1173, 1175 and 1177/2011 of the Six Pack rules (including the RQMV provision for the issuing of sanctions) • Regulations 472 and 473/2013 of the Two-Pack rules • TSCG provisions (including the involvement of the ECJ in sanctioning non-compliance) • European Semester provisions	• ECB M.B. 03/2009, Box 8 • Afonso and Hauptmeier 2009 • Morris et al. 2009 • Agnello and Cimadomo 2009 • Attinasi et al. 2009 • Schuknecht et al. 2010 • ECB M.B. 03/2010, Box 9 • Van Riet (ed.) 2010 • Hughes-Hallett et al. 2010 • ECB M.B. 07/2010 • Checherita and Rother 2010 • Hauptmeier et al. 2010 • ECB M.B. 12/2010 • Sahm et al. 2011 • Rieth 2011 • ECB M.B. 03/2011, Box 10 • ECB M.B. 03/2011, Article pp. 99-119 • ECB M.B. 04/2011, Article pp. 61-77 • Ioannou and Stracca 2011 • Salines et al. 2011 • Schuknecht et al. 2011[125] • Hartwig et al. 2011 • Afonso and Jalles 2011 • Checherita-Westphal et al. 2012	• Barrios et al. (eds.) 2009 • Commission 2009c • Public Finances in EMU 2010 • Larch et al. 2010 • Public Finances in EMU 2011 • Arghyrou and Kontonkias 2011 • Medeiros 2012 • Public Finances in EMU 2012

[124] The Commission published a number of memos and communications detailing its legislative proposals for the reform of the SGP throughout the period analysed. They were not included here as it is limited to reporting on research publications indicating the evidentiary basis for these proposals, rather than the proposals themselves.
[125] In disagreement, the paper also featuring Jürgen Stark as a co-author laments the lack of a quantum leap in the Six-Pack and calls for an even stronger surveillance framework.

		• ECB M.B. 04/2012, Article pp. 55-69 • ECB M.B. 05/2012, Article pp. 79-94	
B1b. Broadening of the coordination regime including expenditure monitoring	• Regulation 1173/2011 of the Six-Pack Rules • TSCG provisions	• Afonso and Sousa 2009 • ECB M.B. 03/2009, Box 7 • Afonso et al. 2009 • ECB M.B. 09/2009 • ECB M.B. 09/2009, Box 9 • Agnello and Cimadomo 2009 • Burriel et al. 2009 • Holm-Hadulla et al. 2010 • Van Riet (ed.) 2010 • ECB R.B. 06/2010 • Hughes-Hallett et al. 2010 • Nickel et al. 2010 • ECB M.B. 09/2010, Box 7 • Hauptmeier et al. 2010 • Cwik and Wieland 2010 • Sahm et al. 2011 (in disagreement)[126] • ECB M.B. 04/2011, Article pp. 61-77 • Schuknecht et al. 2011 • ECB M.B. 09/2011 • Afonso and Jalles 2011 • Christoffel et al. 2011 • Afonso and Jalles 2012	• Public Finances in EMU 2009 • Larch (ed.) 2009 • Barrios and Rizza 2010 • Barrios and Fargnoli 2010 • Public Finances in EMU 2010 • Larch et al. 2010 • Public Finances in EMU 2011 • Vogel et al. 2012 • Ayuso-i-Casals 2012
B1c. Broadening of the coordination regime, including the monitoring of Europe 2020 objectives/structural reforms	• European Semester provisions • (Europe 2020)	• Balassone et al. 2009 • ECB M.B. 04/2009, Article pp. 91-99 • ECB M.B. 06/2010, Box 6 • Van Riet (ed.) 2010 • Nickel et al. 2010 • Gomes et al. 2011 • ECB M.B. 08/2012, Box 5	• EU Commission Q.R. 06/2009 • European Economy 7, 2009 • EU Commission Q.R. 12/2009 • Hobza and Mourre 2010 • Larch et al. 2010 • EU Commission Q.R. 04/2011 • Vogel 2011

[126] In this paper, authored by scholars working at the Federal Reserve and a prominent US academic (Joel Slemrod), one of the findings is that raising expenditures rather that cutting taxes is a more effective way to conduct a fiscal stimulus. This is in contrast with the other literature surveyed here. This discrepancy could be due to the fact that the study analyses the effects of the American stimulus and, most of all, because the assumption of Ricardian households is relaxed by allowing for a share of credit and liquidity-constrained (i.e. non-Ricardian) households.

B1d. Broadening of the coordination regime, including the monitoring of macroeconomic imbalances	• Regulations 1174 and 1176/2011 of the Six Pack • Regulation 472/2013 of the Two-Pack	• Nickel et al. 2009 • Van Riet (ed.) 2010 • Gomes et al. 2010 • ECB M.B. 04/2012, Article pp. 55-69	• Public Finances in EMU 2009 • EU Commission Q.R. 06/2009 • Commission 2009c • EU Commission Q.R. 12/2009 • Public Finances in EMU 2010 • Larch et al. 2010 • Public Finances in EMU 2011 • Lendvai et al 2011 • Berti et al. 2012
B2. Strengthening of national fiscal governance	• Directive 2011/85/EU of the Six Pack • TSCG provisions • Regulation 472/2013 of the Two Pack	• Agnello and Sousa 2009 • Afonso and Hauptmeier 2009 • ECB M.B. 09/2009, Box 9 • Van Riet (ed.) 2010 • Hauptmeier et al. 2010 • Castro et al. 2011 • ECB M.B. 04/2011, Article pp. 61-77 • Schuknecht et al. 2011 • ECB M.B. 09/2011 • Afonso and Jalles 2011 • Cimadomo et al. 2011 • Checherita-Westphal et al. 2012	• Public Finances in EMU 2009 • Larch (ed.) 2009 • Barrios and Schaechter 2009 • Commission 2009c • Public Finances in EMU 2010 • Larch et al. 2010 • Iara and Wolff 2010 • Vogel 2011 • Public Finances in EMU 2011 • Ayuso-i-Casals 2012 • Vogel et al. 2012

8.4e Paradigmatic changes[127]

A1. The sudden stop and reversal of a short-lived Keynesian re-infatuation. Or, the re-discovery of the ineffectiveness of fiscal expansions and how to phase them out

The first paradigmatic change is a *sudden stop and reversal* of the (admittedly mild) Keynesian consensus (Skidelsky 2009; Public Finances in EMU 2009) that characterised the launch of the European Economic Recovery Plan (EERP) in 2008 and its implementations in 2009 that is a swift return to a view whereby discretionary fiscal policies are affected by "notorious flaws" (Larch et al. 2010, p. 5) after a temporary and regretted Keynesian re-infatuation: "The call for expansionary fiscal policies included in the European Economic Recovery Plan adopted by the Commission and endorsed by the Council at the end of 2008 was in conflict, probably not with the spirit, but certainly with the letter of the Pact." (*ibid*.)

Aside from a change of *sentiment*, key to this return to fiscal conservatism is the rapid and steady deterioration of public finances (as duly reported in the 2009/2010 ECB Monthly Bulletins) and soaring risk premia on newly issued government bonds of peripheral EMU members, crucially linked to worsening macroeconomic and public finances' fundamentals (*ibid*.).

Within the sample of 132 papers analysed, 33 of them deal with the effects of expansionary fiscal policies, most of them written in 2009 and 2010, i.e. when the EERP was still ongoing. Some of them (Van Riet (ed.) 2010, ECB M.B. 07/2010 Article, Cwik and Wieland 2010, Rother et al. 2010, Schuknecht et al. 2011) directly analyse the macroeconomic effects of the EERP. Despite four of them (see Table 4, entries marked as "*in disagreement*") present evidence in favour of substantial multipliers linked to EERP-related stimuli, the sheer majority of the papers show little and short-lived expansionary effects of fiscal stimuli (mainly because they were not perceived as temporary, therefore

[127] The precise references to the papers cited in this sections (and in the table above) are featured separately in the Appendix to avoid excessive confusion. The same rationale applies the format of referencing employed throughout the section (see footnotes 121 and 122).

triggering Ricardian behaviours), and a sharp deterioration of debt-to-GDP ratios due crucially, among other factors,[128] to deficit spending.

The main takeaways/findings of this group of papers have fed almost 1-to-1 into the advice featured in statutory documents and then into policy making and change. Namely, drawing on a (revived) distrust toward discretionary fiscal activism, these papers broadly acknowledged that the Keynesian fiscal expansions coming with the EERP had somehow helped in stabilizing the cycle but, mainly drawing on model-based analyses, immediately call for its swift reversal in the form of sustainable exit strategies.[129] The latter are meant to impinge on the expectation channel and therefore not endanger the market's perception of long-term debt sustainability, besides making the expansions themselves more effective in terms of GDP stimulus. This policy advice (that can be summarised in the notion of "consolidating after temporary fiscal expansions") is to be applied differentially to EMU Member States according to their "fiscal space". In other words, for highly indebted Member States - i.e. for those EMU members with small fiscal space - consolidation had to start immediately (implying a swift reversal/exit strategy from the EERP measures) and needed to be ambitious, credible and front-loaded (Cwik et al. 2009; Cwik and Wieland 2010; Van riet (ed.) 2010; ECB M.B. 07/2010, Article). Key to this call to retrench is also the negative dynamic of bond risk premia, which by 2009 had already started to sharply differentiate among EMU Member States due to the status and prospective health (read: long-term sustainability) of their public finances (*ibid*.; ECB M.B. 06/2010 Box 6).

In short, the epistemic lesson that fed into policy making revolved around expansionary fiscal interventions abiding by the principles of the three "T"'s: they should be timely (i.e. countering the cycle as soon as it reverses), targeted (i.e. avoiding rises to unproductive current expenditures and focusing on tax reductions and public investment) and, most of all, temporary (i.e. swiftly reversed when the cycle comes back to be positive in order not to trigger non-

[128] Namely, the financial liabilities assumed by governments to rescue banks and the effect of automatic stabilisers.

[129] According to Cwik et al. (2009), the multiplier of a discretionary fiscal stimulus can be six times smaller when measured through a New-Keynesian model including price rigidities and rational agents' expectations rather than when it is measured through a fully Keynesian model. As a result, a discretionary fiscal stimulus can even have negative medium-term impacts on the GDP and consistently crowd out private consumption and investment.

Keynesian effects of permanent fiscal expansions and excessive debt accumulation).[130]

Form the point of view of concrete policy measures, this paradigmatic change translated in an EMU-wide tightening of fiscal stances (through the phasing out of EERP measures) channelled through a revival of the Excessive Deficit Procedure (remember that by 2010 all EMU Member states were under one) and ambitious Mid-Term Objectives set within them. Although not directly reflected in the four reforms analysed, we can safely consider this change of *sentiment* toward the Keynesian macroeconomic paradigm as one of the most important ideational triggers to the reforms of the coordination framework.

Box 8.3 Findings and advice on reversing Keynesian stimuli

"The overall lesson from the crisis is that governments must strengthen fiscal discipline to ensure the longer-term sustainability of public finances […] A genuine fiscal exit strategy should thus cover the question of how to scale back again the role of the state in the economy to sustainable and efficient proportions" (Van Riet (ed.) 2010, p. 69).

"Any fiscal stimulus package in an economic recession should meet the above criteria [the three "T"] for success and be designed in such a way that it stabilises the economy and at the same time supports a self-sustaining recovery" (Van Riet (ed.) 2010, p. 34).

"We find that expecting low income growth over the next year predicts mostly saving the stimulus payment. Hence, at least under the circumstances of 2008 and 2009, it proved difficult to jump-start the economy by providing cash to those whose economic circumstances had declined or were worsening" (Sahm et al. 2011, p. 21).

"While in 2009, the balance tilts towards strongly expansionary fiscal policy, it changes in 2010 and beyond, gradually calling for increasing budgetary caution while avoiding excessively tight budgetary policies choking the nascent recovery." (Commission Q.R. 06/2009, p. 25).

[130] Fiscal stimuli should take into account country-specific budgetary "room for manoeuvre", i.e. the initial fiscal position.
To work efficiently in the short-run without imposing long-term liabilities, fiscal stimuli need to be *timely* (i.e. able to avoid typical fiscal lags and reach the economy while the crisis is still ongoing), *well targeted* (i.e. oriented toward liquidity and credit-constrained households that would consume the extra income rather than saving it) and *temporary* (i.e. such not to worsen long-term fiscal imbalances/sustainability and crowd out private investment and consumption via Ricardian behaviours).

A2. A "new" paradigm kicks in: Debt sustainability as an imperative and (expansionary) consolidations as the way to achieve it

As we saw, by late 2009/early 2010 the EERP's stimuli had already been largely phased out due to a reversal of the Keynesian climate that prevailed in the period 2008-2009 and to adverse and worsening macroeconomic circumstances. Indeed, in March 2011 the overall EMU debt-to-GDP ratio peaked to 88.4% with respect to the 66% ratio of 2007 (ECB M.B. 03/2011). After having produced a large deal of evidence in favour of orderly exit strategies from fiscal stimuli, the new central theme of research of the ECB and DG Ecfin was, closely in line with policy developments focused on institutional reform, debt sustainability and how to return to healthy public finances in the medium-run.

The new focus was dictated by adverse macroeconomic circumstances and most of all by the decision to allow for debt relief packages for Greece and, shortly thereafter, for Ireland and Portugal. As we saw in Chapter 7, this single decision prompted a profound change in the overall architecture of EMU, calling, *post-hoc*, for a review of the overall paradigm of policy making and coordination. It is at this juncture, driven by exogenous conditions, political factors and, on the puzzling side of the policy change equation, by epistemic forces that a full-blown process of paradigmatic and institutional change fully kicked in.

As we argued, the paradigmatic change toward (expansionary) consolidation invested almost all the policy domains covered by EMU. When it comes to the conduct of fiscal policies and their coordination regime, it translated into two major elements. First, the strict policy conditionality imposed to those Member States that required financial assistance. Second, the launch of a process of reform and strengthening of the coordination regime analysed in this chapter.[131] Both these policy manifestations/changes were underpinned by a steadfast

[131] Interestingly, and corroborating the argument and implications of the previous chapter, right after the Greek bail out, by turning hindsight into insight, the SGP and the policies it allowed were openly denounced as in need of profound reforms, whereas before they were considered fit for purposes (cfr. Commission 2009a and 2010a).

(and paradigmatic) commitment to ensure budgetary discipline, consolidation and fiscal restraint *regardless of the economic cycle*. In a word, by *austerity*.

Seamlessly matching policy change, in the 2010/2011 publications of both the ECB and the Commission (see Table 4) the necessity to consolidate became the new key focus and expansionary consolidation the new chance not to be missed. The importance of the contributions of the Bocconi School and of Reinhart and Rogoff was widely acknowledged by the scientific papers of the ECB and DG Ecfin, most of all the literature dealing with episodes of successful consolidation (see Box 8.1). Yet EU scholars went much further than endorsing and backing the findings of their colleagues. In fact, they produced their own evidence, at times through extremely methodologically sophisticated (and rigorous) analyses - a textbook case of epistemic awareness rather than hubris (Blyth 2013, p. 91). This is the case of a number of outstanding and highly technical papers published in late 2010 by the ECB which can be considered, together with the collections of essays edited, respectively, by Van Riet (2010) and Larch (2009), and with later pieces of the DG Ecfin (see below and Table 4), as the manifestos of EMU expansionary consolidation paradigm. These papers are Nickel et al. 2010, Checherita and Rother 2010, Rother et al. 2010, Cwik and Weiland 2010, Checherita-Westphal et al. 2012 and Baum et al. 2012 for the ECB, and Roeger and in ’t Veld 2010, in ‘t Veld et al. 2012 and Boussard et al. 2012 for the DG Ecfin. Put together, the findings and policy advice arising from these articles represent a sturdy (and evidence-based) epistemic call in favour of consolidation and of its expansionary effects in the medium-run.

In particular, Checherita and Rother (2010) and Baum et al. (2012) deal with the relationship that exists between levels of indebtedness and economic growth. Their findings point to the differential effectiveness of fiscal policy (both expansionary and contractionary) under different debt-to-GDP ratios. Countering the allegation of linearizing a non-linear process (Blyth 2013, pp. 10-13), that is, budget deficits/surpluses and debt accumulation, these authors qualify the existing literature by proving the existence of a non-linear concave relationship between levels of indebtedness (both their stock and flow) and per-capita GDP growth. In particular, debt-to-GDP ratios above 90% were found to have highly significant negative effects on GDP growth. The implication for fiscal policy is straightforward and indicates that deficit spending at high levels of indebtedness (the situation of a number of EMU members) is ineffective in the short-run and damaging in the long-run. This effect is due to a set of *channels* such as soaring costs of servicing and refinancing the debt, wealth/non-Keynesian effects on consumption and the crowding-out of private investment.[132] Conversely, fiscal tightening under the same scenario of high indebtedness, by lowering the yield curve of the debt and impinging on the expectation channel has neutral (or even slightly positive) effects in the short-run, while boosting confidence, consumption and GDP growth thereof in the medium/long-term.

The above cited group of articles (and those featured in the dedicated column in Table 4) came to very similar conclusions and policy guidance, which is aptly summarized by Rother et al. (2010, p. 20) as follows:

> "It should be noted that the positive fiscal multiplier established in the literature on expansionary fiscal policies should not be interpreted as evidence for the opposite case, i.e. for the growth-reducing effects of fiscal consolidation. First, what is needed is a permanent improvement in fiscal sustainability. […] Notably, expectation effects are likely to work in a growth-supporting direction in both cases, i.e. supporting the impact on growth of fiscal loosening but offsetting the negative demand effect of fiscal tightening. The positive expectation effects will be particularly large under the following conditions […] : i) the fiscal starting position is weak, so consolidation is expected to lead to a significant improvement in sustainability and overall stability; ii) the fiscal consolidation plan is ambitious and credible, possibly part of an overall structural reform agenda, so that the expectations of lasting improvement in the fiscal situation rise; iii) the composition of the adjustment focuses on reducing disincentives to work and save, enhancing expenditure efficiency and protecting growth-friendly expenditure so that the supply conditions in the economy improve swiftly; iv) the share of households that can adjust their saving in response to the fiscal consolidation (i.e. Ricardian households) is high, and v) part of the consolidation impact is offset via the exchange rate or low interest rates."

[132] "We find that the annual change in the government debt-to-GDP ratio is highly statistically significant and negatively associated with the economic growth rate."
"The fact that the change in the debt ratio and the budget deficits are linearly and negatively associated with growth (and with the long-term interest rates) may point to a more detrimental impact of the public debt stock even below the threshold [90% debt-to-GDP ratio]. Hence, targeting a higher debt level to support growth is not a policy option. Any policy with such a target would reduce the leeway of governments before the debt burden has an unmistakably adverse growth impact.
In the current economic environment, the results represent an additional argument in favour of swiftly implementing ambitious strategies for debt reduction. If policy makers let high debt ratios linger for fear that fiscal consolidation measures will be unpopular with voters, this will undermine growth prospects and thus will put an additional burden on fiscal sustainability. This debt-based argument thus adds to the positive growth effects of fiscal deficit reduction found in the literature for the long term and frequently also in the short term." (Checherita and Rother 2010, p. 15 and 23-24).

Similarly, the ECB stated in 2010: ""if fiscal consolidation gives rise to some negative short-run effects on real GDP growth, unduly delaying fiscal consolidation will ultimately result in even greater adjustment costs as the government debt accumulated in the interim will necessitate an even more pronounced fiscal correction later on. Overall, the longer-run benefits of fiscal consolidation are *largely undisputed*" (ECB M.B. 06/2010, Box 6, p. 84; emphasis added).

In sum, the advice emerging from the 2010/2011 papers matched and supported in a very precise and timely way the observed paradigmatic change in EMU. By providing a fundamental evidence-based backing to the new austere paradigm, the internal epistemic actors of the EU gave a unique contribution to the mainstreaming of the concept that consolidation was not only a necessity, but most of all an opportunity to adjust long-term macroeconomic imbalances and grow thereof. These papers indeed represented the *in vivo* epistemic response to a concrete policy problem whose response was actively sought by EU institutions in their process of reform of EMU economic paradigm and governance after the much debated and problematic concession of sovereign bail outs.

Yet again, this does not mean that epistemic drivers had full explanatory leverage. Nonetheless, the fact that they matched in a very substantial way the drive of the enacted policy changes cannot be disregarded when conceiving a multi-causal account of crisis-induced outcomes.

To sum up and proceed, the findings and policy guidance emerging from these papers are the EU/EMU version of the expansionary consolidation paradigm that then was translated into the balanced budget rule of the TSCG, the provisions of the Two-Pack and the inclusion of the debt criterion in the corrective arm of the SGP as reformed by the Six-Pack. Interestingly, this EU version of expansionary consolidation is more nuanced than Blyth and other opponents of austerity want us, at times, to believe. In fact, the argument that the new paradigm entails that all EMU Member States have to consolidate *at the same time and to the same extent* (making the recovery most difficult – Blyth 2013, pp. 8-9) is factually incorrect. The new coordination paradigm instead called for differential paths of consolidation, based crucially upon the level of existing debt, in line with the findings of the ECB papers discussed in this section and as reflected by the new rules for the surveillance of fiscal policies, which is the next (technical) innovation we are going to look at.

Box 8.4 Findings and advice on expansionary effects of fiscal consolidations

"All in all, there are good reasons to believe that the short-term negative demand effects of well-conceived fiscal consolidation are likely to be small if, indeed, they are negative at all" (Rother et al. 2010, p. 22).

"New-Keynesian DSGE models, however, generate a strong normative prescription. Properly designed government savings packages announced with sufficient lead time can provide significant short-run stimulus. If such a plan had been announced in the beginning of 2009 it could have boosted private spending in 2009 and 2010" (Cwik and Wieland 2010, p. 40).

"The short-run costs of fiscal consolidation are limited, and they are further reduced when positive expectation effects are taken into account" (Rother et al. 2010, p. 21).

"The announcement and implementation of credible and ambitious consolidation plans, focusing on the expenditure side and combined with structural reforms, is likely to bring about beneficial effects in the longer run that offset the short-term costs in terms of lower economic growth" (ECB M.B. 06/2010, p. 83).

"Permanent improvements in fiscal balances, when anticipated by households and firms, can lead to positive expectation effects that mitigate the short-run costs of fiscal consolidation […] The short-run costs of fiscal consolidation are typically small relative to the permanent gains [e.g. permanent reduction in financing costs anticipated by forward-looking agents]" (ECB M.B. 07/2010, Article p. 80).

"From a policy perspective, the results provide additional arguments for debt reduction [i.e. ambitious debt reduction through fiscal consolidation] to support longer-term economic growth prospects" (Checherita and Rother 2010, p. 5).

8.4f Technical changes

Similarly to the paradigmatic innovations, Table 4 matches the five technical changes[133] with the ECB's and DG Ecfin's publications that corroborated them empirically when the processes of reform was ongoing and with the legal provisions that ensued from it.

[133] Strictly on the technical side of policy coordination and surveillance, and linked to the aim of improving national and supranational fiscal frameworks, a number of papers have also addressed the issues of statistical governance, the use of real time data for the sake of MTOs and the unsuitability for monitoring purposes of the cyclically adjusted budget. They are not discussed here merely for reasons of space.

B1a. Stricter/more coercive coordination framework with enhanced and expanded enforcement, including debt surveillance

As we saw in the previous section, the first set of measures undertaken by the EU to guarantee the implementation of ambitious fiscal consolidations by Member States tackled the SGP. From the point of view of legal instruments, the SGP had already been substantially reformed via the procedural innovation represented by the European Semester; yet it was the comprehensive set of regulations of the Six-Pack that morphed the coordination regime. The key novel aspects that operationalized and embedded the commitment to budgetary consolidation into the coordination framework were hence the synchronization of the supranational monitoring conducted by the Commission with the national budgetary sessions (Semester), the strengthening of the coercive dimension of the preventive arm of the SGP (Six-Pack Regulation 1175/2011) and, most of all, the extension of the EDP to cover cases of non-compliance with the debt criterion[134] and the increased automaticity of the sanctions related to protracted non-compliance with the Commission's corrective recommendations (Six-Pak Regulation 1177/2011). The new fundamental tool to enforce the corrective provisions was the RQMV that allows the Commission to impose financial sanctions on Member States that do not respect their obligations under the EDP *unless* a qualified majority of Member States within the Council vote against it.

These innovations were clearly in line with the new consolidation *mantra* and were backed by at least 34 of the 132 articles analysed (26 of the ECB and 8 of the DG Ecfin – see Table 4). The key publications supporting these technical innovations are, among others, the usual Van Riet (ed.) 2010 and Larch et al. 2010, Hughes Hallett et al. 2010, Checherita and Rother 2010, Schuknecht et al. 2011, Rieth 2011, Ioannou and Stracca 2011, Arghyrou and Kontonkias 2011, Salines et al. 2012 Checherita-Westphal et al. 2012 and Medeiros 2012.

[134] The new Six-Pack regulation amending the EDP foresees that "if the 60% reference for the debt-to-GDP ratio is not respected, the Member State concerned will be put in excessive deficit procedure […] if the gap between its debt level and the 60% reference is not reduced by 1/20th annually (on average over 3 years)." (EU Commission 2011, MEMO/11/898).

Box 8.5 Findings and advice on debt surveillance

"The paper proposes a legal restriction in the form of a soft borrowing constraint on sovereign debt which is modeled as a proportional fine on excessive debt and resembles features of the SGP. The constraint prevents excessive borrowing in the long run and thereby eliminates most of the welfare costs of myopic fiscal policy […] Thus, the paper supports the views of those who like to strengthen the rules of the SGP. It also provides an argument for the inclusion of a debt break into the German constitution or for the advocates of balanced budget rules" (Rieth 2011, p. 38).

"We need to draw out the connection between deficit and debt surveillance within the SGP rules. Both parts need to be monitored if we are to fulfil the purpose behind the SGP – and create fiscal policies that are sound in the long run" (Hughes-Hallett et al. 2010, p. 6).

"Debt sustainability should get a very prominent and explicit role in the surveillance procedures under the EU Stability and Growth Pact" (Chehcerita and Rother 2010, p. 8).

B1b. Broadening of the coordination regime including expenditure monitoring

As we saw, one of the main macroeconomic culprits of the unpreparedness of EMU Member States vis-à-vis the crisis (remember the pro-cyclical reactions to revenue windfalls before the crisis) and one of the most important channels that leads to crowding out (in) effects of fiscal expansions (contractions) is current expenditure. In other words, successful (expansionary) consolidations are crucially channelled through substantial cuts in primary expenditures. Obviously, to fully implement the lessons of expansionary consolidation, restraint and surveillance on the side of expenditure was indispensable. This kind of policy advice fed into the provisions of the Six-Pack that introduced an explicit country-specific expenditure benchmark in the preventive arm (Six-Pak Regulation 1175/2011).[135]

30 papers within the analysed sample present evidence and express explicit advice in favour of expenditure rules (22 from the ECB and 8 from DG Ecfin), most prominently Holm-Hadulla et al. 2010, Hauptmeier et al. 2010, Vogel et al. 2012 and Ayuso-i-Casals 2012.

[135] "Th[e] expenditure benchmark places a cap on the annual growth of public expenditure according to a medium-term rate of growth. For Member States that have not yet reached their MTO, the rate of growth of expenditure should be below this reference rate in order to ensure adequate progress." (EU Commission 2011, MEMO/11/898)

Box 8.6 Findings and advice on expenditure monitoring

"We find that government spending reacts pro-cyclically to surprises in the output gap and that strong expenditure rules serve to mitigate this tendency. Thus, from a policy perspective the results confirm both the need for institutional restrictions to expenditure policy and their effectiveness" (Holm-Hadulla et al. 2010, p. 20).[136]

"Simple and prudent rules-based spending policies could have led to much safer fiscal positions much more in line with the EU's Stability and Growth Pact rules […] From the policy perspective of creating sound fiscal institutions in Europe, the paper recommends expenditure rules with an added margin of prudence for guiding public budgets" (Hauptmeier et al. 2010, pp. 4 and 6).

B1c. Broadening of the coordination regime, including the monitoring of Europe 2020 objectives - structural reforms

Another salient ingredient of the austerity's *policy* mix is complementing demand-side policies (actually, the lack of demand-side *active* policies) with supply-side structural reforms (i.e. reforms in labour and product markets) that are supposed to create more conducive conditions for private agents and complement the benefits, in terms of GDP stimulus, of healthier public finances related to consolidation and unproductive expenditure restraint. This vision was reflected in the inclusion within the European Semester's cycle of surveillance of a (soft) monitoring of the targets of Europe 2020. The latter, which is the new Lisbon agenda of the EU, got its final endorsement exactly on the occasion of the March 2010 European Council that launched the reform of the SGP.

From the epistemic point of view, evidence of the healthy interplay between consolidation measures and structural reforms features in 14 publications, 7 of the ECB and 7 of the Commission. The most straightforward case for supranationally monitored and coordinated (see Gomes et al. 2011) structural reforms is made in: Van Riet (ed.) 2010, ECB M.B. 06/2010, Box 6, and, most of all, Hobza and Mourre 2010, Gomes et al. 2011 and Vogel 2011. These last

[136] In other words, also implementing the advice stemming from the econometric literature on fiscal policies during good times, the new coordination framework should include dedicated surveillance on the growth of expenditures to avoid wasting revenue windfalls and, in turn, allow for the accumulation of buffers/fiscal space to be used when the cycle would invert and the windfalls become shortfalls.

three articles in particular explicitly estimate the impact in terms of growth of fully implementing the targets of Europe 2020. Importantly, they come up with converging conclusions about the benefits of accelerated structural reforms, most of all if carried out in conjunction with and to support consolidation: "Europe 2020-like reforms have a potential to deliver significant gains in terms of additional output and new jobs".

However, the extent of these benefits will naturally depend on the depth as well as breadth of the reforms undertaken: if the EU succeeds in generating the reform momentum necessary to materialise the Europe 2020 vision, the gains could be considerably higher than in the case of piecemeal and shallow reform. The model simulations presented also document that fiscal consolidation efforts are crucial to rein in public debt increases. An ambitious fiscal consolidation will not negatively affect GDP growth: it will even bring about a slight increase in GDP by 2020. Progress with structural reforms, increasing potential growth and expanding tax bases, can significantly help these efforts." (Hobza and Mourre 2010, p. 22).

Box 8.7 Findings and advice on implementing structural reforms

"Governments should favour redirecting Public expenditure towards more productive, growth-enhancing activities by increasing the importance of the accumulation of capital – both physical and human – and supporting research, development and innovation […] Improving the efficiency and effectiveness of public spending will help to combine the fiscal discipline demanded by the Stability and Growth Pact with the structural reform agenda of the EU's Lisbon strategy" (ECB M.B. 04/2009, p. 99).

"Competition-friendly reforms and fiscal reforms in euro area regions can interact in the context of a policy strategy aimed simultaneously at consolidating public finance and increasing potential output in the euro area" (Gomes et al. 2011, p. 23).

B1d. Broadening of the coordination regime, including the monitoring of macroeconomic imbalances

Although not directly related to the austerity paradigm and ensuing rather from the lessons that the crisis disclosed with regard to macroeconomic interdependences and nexuses (Nickel et al. 2009; Jones et al. 2016), the EU's decision to equip the new coordination regime with a mechanism to monitor macroeconomic imbalances (through a dedicated procedure based on a scoreboard and foreseeing, similarly to the EDP, a preventive and a corrective arm - Six-Pack Regulations 1174/2011 and 1176/2011) nonetheless followed epistemic expert advice.

The expert guidance for adding this new layer of monitoring into the coordination framework emerges from 13 of the analysed papers (4 of the ECB and 9 of the DG Ecfin), most prominently: Nickel et al. 2009, Gomes et al. 2010, Hughes Hallett et al. 2010 and Berti et al. 2012.

Box 8.8 Findings and advice on monitoring macroeconomic imbalances

"Clearly, one of the lessons taught by the crisis is that fiscal and macro-financial imbalances cannot be looked at separately, but should rather be jointly analysed and monitored […] Main result of our analysis is that financial competitiveness variables appear to perform well, better than fiscal variables, in the early detection of fiscal stress, based on historical data. Their signalling power is generally significantly higher, while the share of missed past fiscal stress episodes is substantially lower. Financial-competitiveness variables should therefore enter the analysis, together with fiscal variables, when the aim is to early detect fiscal stress. The variables common to the scoreboard for the macroeconomic imbalance procedure (MIP) perform particularly well in terms of fiscal stress prediction […] This clearly speaks in favour of introducing such variables in an early-warning index for fiscal stress" (Berti et al. 2012, p. 3 and 18-19).

B2. Strengthening of national fiscal governance

National fiscal institutions were another key aspect of the reforms and also a central theme of research at the ECB and DG Ecfin during the crisis. Institutionalized through the TSCG's provisions on balanced budget rules and the Six-Pack Directive on national fiscal governance, national fiscal institutions and rules are in a way the domestic version of the *vincolo esterno* (indeed a *vincolo interno*) against fiscal profligacy, fully in line with the austerity paradigm's prescriptions. 24 papers brought into the policy process converging and compelling evidence of improved budgetary and macroeconomic outcomes and performances when national fiscal governance, rules and institutions are in place (also in line with the decade-long scholarship and findings of prominent EU political economists like Van Hagen, Strauch and Hallerberg that consistently linked national fiscal performances to country-specific forms of fiscal governance – see, as an example, Hallerberg et al. 2004, not accidentally published in the ECB Working Paper Series). The most important and vocal of these 24 publications are: Agnello and Sosua 2009, Afonso and Hauptmeier 2009, Iara and Wolff 2010, Castro et al. 2011, Ayuso-i-Casals 2012 and Vogel et al. 2012.

Box 8.9 Findings and advice on strengthening national fiscal frameworks

"The observed failures in attaining sound and sustainable fiscal positions in a large number of EU countries in the pre-crisis period can largely be attributed to the significant weaknesses in the national fiscal governance structures across EU Member States […] Fiscal rules should be defined in such a way to promote simultaneously budgetary discipline and macroeconomic stabilization, and their design should include key elements such as timely monitoring mechanisms and appropriate corrective procedures in order to ensure their effectiveness" (Ayuso-i-Caslas 2012, p. 2).

"National fiscal rules are found to be beneficial for market assessments of governments' ability and willingness to timely service debt: they could thus provide an effective way to implement fiscal discipline" (Iara and Wolff 2010, p. 1).

8.5 Conclusions

This chapter has looked into the four reforms that substantiated a new regime for fiscal and economic policy coordination and surveillance under EMU. These institutional, forward-looking reforms served the purpose of providing an intracrisis, long-term response to the turmoil that hit the euro area starting from late 2009. Building upon the sudden and accidental paradigmatic shift of May 2010, when EMU *disposed* its no bail out clause, these reforms represented a process of sense making and anchoring of a new policy and coordination paradigm into operational arrangements.

Bargaining dynamics also surfaced in the context of these institutional reforms. Yet, the bulk of the distributive conflict within the process of systemic policy change ensued by the crisis took place in other domains, namely in the establishment of the ESM and in the design and implementation of adjusting programmes for those countries that were bailed out.

In the context of the institutional reforms analysed in this chapter instead, the low problem tractability of the novel collective action problem of EMU (how to ensure fiscal discipline and ambitious consolidation vis-à-vis reawakened markets and the possibility for Member States to be bailed out), the technical nature of the new coordination arrangements and the typology of agency observed in the policy change process triggered a mechanism of epistemic learning.

As the claim that epistemic forces were at play in the process of paradigmatic change within EMU had already been advanced in the literature, I tried to better qualify it by analysing the influence of an understudied epistemic community, that is, the research units active within the ECB and the DG Ecfin of the Commission.

By looking in detail into the changes prompted by the four reforms, I have been able to show that their content was both paradigmatic and technical and that internal epistemic actors of the EU substantially influenced both levels of change through the policy advice stemming from their research.

This evidence problematizes the existing accounts on the genesis of the austerity paradigm within EMU by showing that decision makers did not need to mobilize external expertise to frame a new policy and coordination paradigm since the scientific production of the internal scholarship of the EU generated and provided a solid, consistent and *sufficient* input to policy makers.

The influence of external epistemic forces was surely prominent at a macro and systemic level, but when it comes to the policy change observed in EMU in the period of 2010-2013, political principals drew the lessons of expansionary consolidation from their own scientific agents.

Chapter 9. Conclusions

9.1 Wrapping things up

This dissertation has employed the construct of learning as an ontological key of policy making and has operationalised this ontology by resorting to modes of policy learning as epistemological devices. In particular, different modes of policy learning have been equated to distinct causal mechanisms.

The review of the literature on policy learning (Chapters 2 and 3) has pinned down the specific scope conditions for each dimension of variation of modes of policy learning, allowing us to construct a “policy learning measuring instrument” – the fundamental tool used to empirically categorise the case studies. Besides spelling out which empirical scope conditions need to be satisfied for a case (i.e. a set of regime-specific policy interactions) to be characterized by one or another mode of learning, the measuring instrument has also revealed a number of observable implications attached to each mode of learning. These mode-specific expected implications were then tested empirically for each case study.

This is in short the analytical infrastructure employed to diachronically tackle more than twenty years of fiscal policy coordination under EMU. In the period surveyed (1994-2013), three distinct policy regimes have been detected and analysed through the measuring instrument.

The necessity to coordinate (and hence monitor at the supranational level) the conduct of domestic fiscal policies first surfaced in the context of the EMU convergence process meant to lead to monetary unification (1994-1998). Therefore, the coordination regime substantiated by the fiscal provisions of Stage II of EMU has been the first case study (Chapter 4). Tracing the scope conditions for learning of that regime led to the conclusion that the prevalent mode of learning was hierarchical. Therefore, I have looked at the official sources and reports that constituted the main form of actors’ interaction of that regime to seek for evidence that corroborated the expected implications of learning under the shadow of hierarchy. The main conclusion pointed toward the presence and causal influence of *instrumental learning* that supported the process of macroeconomic convergence and contributed to the successful establishment of the common currency.

After the provisional/temporary coordination regime emerged during the convergence process, that is, once the monetary union had been effectively established, EMU decision makers decided to permanently entrench fiscal policy coordination into the architecture of EMU. To this effect, the SGP was agreed and entered into force in 1998, substantiating a new policy coordination regime, which was the second case study (Chapter 5). Yet again, by tracing the regime-specific scope conditions I detected a prevalent mode of learning, that is, learning via bargaining. The observable implications of that mode of learning were tested empirically through a narrative form of validation leading to the conclusion that actors did not just bargain over the implementation of the SGP but gradually learned *how* to bargain and how to progressively increase their strategic sophistication in the context of regime implementation. The internal crisis of the SGP of 2003 and its reform of 2005 were also portrayed as implications of "learning via bargaining", that is, as manifestations of a process of "defying-by-doing" whereby actors grew increasingly aware of the non-biting nature of the Pact and learned how to defy and even water it down without suffering sanctions.

The reformed SGP survived on paper until 2010, but by 2008 its implementation was already merely figurative. In fact, the global financial crisis was initially faced by the EU through a mild Keynesian response, the European Economic Recovery Plan launched in late 2008. The latter, besides prompting a short-term stabilisation (jointly with automatic stabilisers), resulted in all EMU Member States (except Luxemburg and Finland) being involved in *symbolic* Excessive Deficit Procedure by 2009. In the words of a senior economist of the Commission: "The call for expansionary fiscal policies included in the European Economic Recovery Plan adopted by the Commission and endorsed by the Council at the end of 2008 was in conflict, probably not with the spirit, but certainly with the letter of the Pact." (Larch et al. 2010, p. 5).

The perfect storm was indeed brewing. The burden of fiscal easing, the financial liabilities linked to the support that a number of EMU members provided to their financial institutions, the sudden awakening of sovereign bond markets that started requiring increasing risk premia to buy the debt issuances of several

Member States, and the steadily negative growth rates observed in the periphery of the Union *conjured* to bring about a systemic crisis of EMU. The first victim of this multifaceted crisis was Greece, one of the major fiscal sinners of EMU, soon followed by Ireland, Portugal, Spain and Italy (Chapter 6).

At that critical juncture, vis-à-vis concrete dangers to the sustainability of a Member State and the risk of a disastrous sovereign default within EMU, a multi-pronged process of policy and regime change, both inter and intracrisis, ensued. These two dimensions of crisis-induced policy change have been, respectively, the third (Chapter 7) and fourth case (Chapter 8) studies of this dissertation.

To make sense of the sudden intracrisis policy change prompted by the Greek bail out of May 2010, I resorted to an ad-hoc learning mechanism (Chapter 7). This was because the exogenous nature of the crisis led to a sudden change in the problem tractability of supranational fiscal coordination whose management could not be explained though a canonical causal chain going from crisis to learning to change. Drawing on the empirical insight that policy change took place abruptly, that is, in absence of a proper process of puzzling and sense making and mainly as a reaction to adverse exogenous pushes, I resorted to a case-specific causal mechanism whereby change precedes canonical inferential learning: this is the “contingent learning” mechanism. A plausibility probe indicated that such a mechanism could potentially explain why and how the EU came up with such a profound paradigmatic shift in the absence of ideational convergence and *proper* puzzling.

Although the crisis was all but halted by the sudden Greek bail out of May 2010, the latter worked as a crucial game changer (Schwarzer 2012) that kick-started a process of systemic and comprehensive reform of EMU’s architecture. Building upon that unexpected and emergency-driven *crasis* (that altered the very nature of the coordination problem that the SGP was meant to deal with and “created path dependencies which made euro area member governments start seeking a permanent solution only weeks after the temporary [bail out] mechanism was created”, *ibid*., p. 39), a process of *intercrisis* institutional and regime change was launched in line with the predicted implication of *intracrisis* contingent learning. This process involved both paradigmatic and instrumental changes meant to anchor the decision of May 2010 within a new coherent policy coordination regime. From a legal point of view, this profound change was conveyed by successive reforms[137] that impinged on and transformed the regime of supranational coordination and monitoring of fiscal and economic policies. By analysing this multipronged process of reform through the "policy learning measuring instrument", and by drawing on existing accounts of that shift toward *austerity,* I was able to claim that the learning mechanism underpinning the reforms of the SGP was epistemic.

Once having categorised this complex and multipronged case of policy change, by analysing the internal epistemic sources of the EU (those that most directly participated to the reform processes) I showed that the fundamental expected implication of epistemic learning, that is, the influence of expert advice on the nature of policy change, was strongly corroborated empirically. In greater detail, by analysing more than 130 papers produced in the period of 2009-2012 by economists at the ECB and at the DG Ecfin of the Commission I demonstrated that almost all the different aspects (both paradigmatic and instrumental) of the four reforms were strongly supported by the scientific production and resulting expert advice of the internal epistemic communities of the EU. Furthermore, the analysis of internal epistemic sources also qualified the common wisdom about the origins of austerity by proving that the new paradigm was endogenously crafted within the EU itself rather than borrowed from external epistemic actors.

9.2 Discussion and contextualization of the findings

9.2a Stage II of EMU and the SGP: Learning as a by-product

What have we *learned* through this diachronic learning-informed account of twenty years of fiscal policy coordination under EMU?

First of all, let us clearly spell out one of the key limitations of this study – that in a way is also one of its strengths. I do this by borrowing the insightful words of Daniela Schwarzer (2015, p. 623):

[137] Namely, the European Semester, the Six-Pack Rules, the Treaty on Stability, Coordination and Governance, and the Two-Pack Rules.

“While learning approaches so far have mainly been incorporated into EU governance studies […] learning processes may have high relevance for institution-building and change […] While the learning lens cannot claim, for instance, to replace approaches focusing on bargaining processes, it can add to the understanding of why consensus around certain policy options emerged in a situation of high insecurity and previous choices came to be revised.”

In other words, my learning-informed analytical approach, in line with Schwarzer’s one, does not claim full explanatory leverage but has to be seen as a complement to power-based causal accounts. This perspective has deep methodological and explanatory implications. As for the former, seeing learning-based explanations as complementary and interlocked to power-based ones means that causal mechanisms need to be *non-exclusive,* but complementary and overlapping. In the light of this stance, empirically demonstrating the *presence* of the observable implications typical of one or another mode of learning does not exclude that, under a multiple causation perspective, other mechanisms of causation run in parallel to or overlap with it, jointly contributing to the emergence of the observed outcomes. But how should we evaluate the independent causal influence of learning mechanisms if they are intertwined with other explanatory drivers?

A crucial indicator of the relative weight and strength of learning-informed causation over outcomes is problem tractability. As is already made clear at length in the dissertation, when problem tractability is high (i.e. when the policy problem dealt with in regime-specific interactions is not source of strategic uncertainty and the mechanism of learning takes place under the shadow of hierarchy or via bargaining) the influence of learning is poised to be less evident. To use the wording that prevails in the literature, in these instances learning is a by-product of the policy process (Dunlop and Radaelli 2013).

Nonetheless, although policy interactions revolving around highly tractable policy problems typically see a prevalence of the strategic dimension, mechanisms of learning that run in parallel with power-informed mechanisms can still influence (accelerate or deter) the latter. This was the case of the first two regimes analysed in this dissertation. In the first one, the hierarchical, rule-based nature of policy interactions led to a form of instrumental learning that sustained convergence. In the second case, learning mechanisms reinforced a perverse dynamic that muted the rule-based nature of the SGP framework in favour of political discretion.

In more detail, we saw how under Stage II of EMU the incentive structure nudged actors toward compliance and hence toward specific forms of hierarchical/instrumental learning, i.e. “learn how to comply” (Chayes and Chayes 1993). On the contrary, under the SGP actors were *playing* a different coordination game where defection could (and actually did) emerge as a dominant strategy, granted no tit-for-tat. Under such a scenario, the content of the learning process, consisted in practice of actors refining their capacity to successfully implement their desired strategy. Since the dominant strategy was defection to a regime’s rules, most of all for large Member States (De Haan et al. 2004), actors indeed learned “how to defect”, or to be more precise, how to better attain the highest payoffs in a world of horizontal bargaining without retaliation. The strictly instrumental content observed under the hierarchical mode got substituted by an object of learning consisting of increased strategic sophistication aimed at achieving unilateral and disjucnt policy goals. In other words, Member States got engaged with a gradual learning process that was dysfunctional with regard to the objectives of the coordination regime.

This leads us to learning processes like those captured by May’s political learning (1992) and those conceptualized by Sabatier’s attainment of near core beliefs and focusing on secondary aspects of the policy (1988).[138]

Empirically demonstrating that learning mechanisms can also tilt toward policy endarkenment (Dunlop and Radaelli 2017) mends one of the key shortcomings of the learning scholarship that are commonly blamed for attaching a positive normative value to the manifestations of learning. Instead, as should be the case for all the causal mechanisms, their empirical manifestations need to be normatively neutral in terms of outcomes, that is, they need to be theorised as leading either to improved policy or to failure. The latter was surely the case for

[138] A formal conceptualization of this form of learning to defect over time can be found in the game theoretical literature, for instance in iterated prisoner’s dilemmas whereby grim trigger strategies are dominant and lead to protracted non-cooperative equilibria (Friedman 1971). Grim trigger is a strategy typical of repeated non-cooperative games whereby a player, faced with two options (cooperate or defect), choses to cooperate as long as the other player cooperates too. As soon as the opponent chooses to defect, the player will defect in all the successive iterations of the game, bringing about a non-cooperative Nash equilibrium of mutual defection.

the learning via bargaining mechanism that prevailed in the context of SGP implementation.

9.2b Comparison of case one vs case two

To account for the findings of the first two cases in a dynamic way, that is, to better gauge both the shift between policy regimes and their modes of learning, it is useful to compare the implications stemming from the hierarchical mode of learning prevalent under Stage II with those observed under the SGP.

Why did the mechanism leading instrumental and two-stage learning in Stage II of EMU not apply anymore to the SGP? First, instrumental learning, i.e. learning how to comply, cannot go on *forever*. Already during the convergence process, implementing actors learned how to produce reliable statistics, how to prepare consistent convergence/stability programmes and how to efficiently interact with monitoring actors on formal terms. Drawing on this useful experience, instrumental learning had been practically exhausted under the SGP - this also explains why the problem tractability of SGP implementation remains high, even higher than before: actors had effectively learned the rules of the game, the “how” part.

And what about the ideational convergence that led to the TEU (McNamara 1998) and that fostered hierarchical learning under Stage II? Did it disappear? First, actors were much more inclined to buttress the ideational convergence that preceded and spawned the Maastricht framework when they were subject to healthy conditionality, threat of exclusion and hence hierarchical constraints during implementation. As odd as it might look to certain advocates of social and experimental governance, very often sound rules and incentives create conducive conditions and allow for efficient and functional learning processes and outcomes. Conditionality and hierarchy were not only effective incentives for compliance itself but also represented sound drivers for instrumental learning.

On the contrary, under the SGP, hierarchy and incentives for compliance were much vaguer than under Stage II of EMU. This opened doors to free riding that before did not exist or, at least, were regulated by the (costly) exclusion from the common currency. Maastricht's "consolidation fatigue" (Von Hagen et al. 2002; Fatás and Mihov 2003), that is, the slackening of fiscal consolidation observed under the SGP, can be understood as being motivated by the fact that budgetary restraint was costly, and bearing its cost was meaningful only inasmuch as benefits were conditional on this cost. Since benefits could also be reaped without effort (i.e. fiscal discipline), room for moral hazard and non-compliance not only opened, but these strategies even became *dominant*.

Under the SGP, the benefits of the currency union (e.g. lower interest rates and financing costs) became non-excludable, while sanctions for non-compliance were subject to the political discretion of the Council, hence constituting an imperfect and much less credible substitute of exclusion. Furthermore, the other external disciplinarian device - i.e. market-based discipline - did not "bite" under the SGP, and so it was until the financial crisis unfolded in 2007/8. All of these conditions seriously threatened the credibility of the coordination regime, leading to a progressive dismissal of the coordination framework and to the grand bargaining that eventually led to the collapse of the regime.

The implications for learning were stark. As demonstrated in Chapter 5, the discomfort of Member States with the surveillance framework grew with time, as well as their violations to the regime's rules in a sort of herding/snowball effect driven by domestic motives. Over time, Member States learned how to muddle through in the Eurogroup, side-line the Commission, avert early warnings and EDPs and ultimately water down the foundations of the coordination framework according to their political expediency and establish a new one more accommodative of voluntary violations of fiscal discipline. This dynamic evolved according to national interests but also happened through a gradual process of learning at the supranational level over the implementation practices of the SGP. In other words, the non-biting nature of the Pact was not only engrained in the regime's structure, but it was also socially constructed by a process whereby the Member States gradually learned how to act strategically during the course of implementation and even, at a later stage, to reform the regime's framework to make it conform more to their preferences.

This is a useful finding for two reasons. First, under high problem tractability and in domains where coordinated/collective action is costly learning does not disappear but is coupled with the implementation practices, reinforcing them.

When incentives are sound, learning takes the form of instrumental technical knowledge accumulation for the sake of proper regime implementation. On the other hand, when incentives are weak and non-compliance prevails, learning mechanisms reinforce mutual adaptation and the sophistication of unilateral action.

This leads us into the second point. When in a policy regime/case powering motives prevail over puzzling, learning is a by-product of the policy interaction and is a function of it, a sort of intermediate variable that accelerates the occurrence of certain outcomes (a sort of policy “replicator dynamic”). In the light of this, the learning lens (and ontology) is vindicated of its alleged normative bias. Indeed, accumulating knowledge during the policy process does not necessarily improve the latter, most of all if puzzling is not the central aim of a policy regime and collective action is resisted. In those very frequent instances learning is overshadowed by the prevailing strategic dynamic but it does not disappear, it simply *co-moves* with policy implementation, resulting at times in hiding behind it. And, crucially, when implementation is dysfunctional, the prevailing learning mechanism will also be so.

Putting these findings in the broader context of EU integration theories is rather straightforward. In fact, the instrumental learning observed in the first case study can be seen as a long-term by-product of the neo-functional process that led to the signing of the TEU, while the dysfunctional learning mechanism that was at work under the SGP can be seen as linked and germane to the intergovernmental bargaining dynamics that governed the political implementation of the Pact.

Moving to the third and fourth case studies, the occurrence of an exogenous crisis of unprecedented dimensions that changed the very nature of economic policy making under EMU and the tractability of the collective action problem tackled by the coordination regimes led us in territories where the puzzling dimension of policy making prevails over the powering one. As highlighted by Schwarzer (2015), this is the *natural* domain of policy learning, i.e. the empirical area where learning-informed causal mechanisms are not a by-product of power-based policy interactions but are their key motive/component and strongly influence and explain policy change.

While the first two case studies showed that learning-informed causation can also occur in those instances where the bargaining/hierarchical dimensions are neatly prevalent, the crisis (intended as an intervening variable impinging on problem tractability) brought us into empirical domains where the puzzling dimension of policy making is indeed essential, rather than an accessory, in explaining policy outcomes.

9.2c Intra and intercrisis policy change: learning as the *main product* – and its relationship with integration theories

Let us now reflect on the findings of the last two case studies, those where learning mechanisms gained enhanced explanatory leverage due to the change in problem tractability prompted by the crisis. As we saw in the previous sections, while in the context of "everyday policy making" (Hall 1993) within "high stakes policy domains" (Hodson 2015) learning is somewhat constrained and *accompanies* integration theories and mechanisms rather than challenging them, vis-à-vis crises and policy change learning processes take centre stage and interact with mainstream integration theories by qualifying and problematizing their explanatory accounts.

In fact, although integration theories do not have the aim of explaining crises, they still offer the most important conceptual apparatus to make sense of the *direction* of European integration. Let us hence put the findings of the last two case studies in the context of broader integration theories and their interpretation of the outcomes and changes that occurred as a result of the crisis.

For scholars belonging to the neo-functionalist (NF) tradition, the euro area crisis was in great part an endogenous effect of the asymmetries of EMU's architecture involving a centralized (integrated) monetary policy vis-à-vis decentralized (coordinated) fiscal and macroeconomic policies and financial surveillance. The new integrative steps devised to cope with possible European *disintegration* were somehow functionally written in EMU: "the developments towards deeper economic integration can be explained as steps taken in order to alleviate functional pressures arising from an incomplete architecture created at Maastricht" (Niemann and Ioannou 2015, p. 201). I broadly agree with this general explanation, yet the learning-informed analysis of the last two case studies challenges this account on the basis of two arguments: uncertainty, and timing/sequencing of the decision making and change thereof.

First, the NF understanding of crisis management overlooks the causal influence of the profound uncertainty triggered by the financial and sovereign debt crises that hit the EU. For example, no functional tension within EMU's architecture predicted the emergence of a concrete risk of sovereign insolvencies fuelled by the so-called fiscal-financial nexus. Indeed, if the monetary-fiscal asymmetry of EMU was fully understood from a functional perspective, many other aspects and effects of the crisis (most of all the financial ones) led the EU into uncharted territories (Jones 2010a and 2010c, 2014 and 2015; Parsons and Matthijs 2015; Copelovitch et al. 2016).[139] A functional understanding of EMU inherent deficiencies was of little help in these uncharted territories and for these novel challenges that instead called for innovative policy solutions beyond the typical calls for strengthening the corrective arm of the Pact or improving the stabilisation capacity of the EU budget.

Second, with regard to the time dimension, "all these steps deepened to a remarkable degree European economic integration within a relatively *very short period of time*" (Niemann and Ioannou 2015, p. 200, emphasis added). Furthermore, "In terms of European integration, these achievements are remarkable, not only for their scale and scope but also the speed with which they were adopted and put into place" (Ioannou et al. 2015, p. 164). And yet, for functional pressures to translate into political spillovers it is necessary that "(national) élites come to perceive that problems of substantial interest cannot be effectively addressed at the domestic level. This should lead to a *gradual learning process* whereby élites shift their expectations, political activities and […] even loyalties to a new European centre." (Ibid., p. 198, emphasis added). As shown in Chapter 7, however, the fast speed of crisis development did not allow us to make the case for a gradual learning process, thus muting political spillovers.[140] Moreover, a gradual learning process also involves a certain

[139] This is shown in Chapter 8 when discussing the interdependencies across economic policy areas disclosed by the crisis.
[140] Moreover, the other typology of supranational spillovers (the "cultivated ones") postulates a visible entrepreneurship by EU institutions that was not observed empirically.

degree of ideational convergence that was instead not found empirically at the time of the Greek bail out (Van Esch 2015, see also below for a clarification of this point).

These interrelated arguments are reinforced also by the observation of the discursive dimension. True, we can and have shown in Chapter 8 that the *functional* discourse was dominant by 2011/2012 (Niemann and Ioannou 2015: 204). But it is much harder to hold that this was the case in 2010, that is, when the crisis started to spread its unexpected cues and major pro-integration measures were swiftly laid down in a virtual vacuum, in both the discursive and strategic dimensions. As Niemann and Ioannou (2015, p. 197) argue, “most political actors tend to be incapable of long-range purposive behaviour, since decisions on integration are normally taken with very imperfect knowledge of their consequences and frequently under the pressure of deadlines”.

Thus, from our own learning-informed perspective, the scenario of 2010, when key reforms were swiftly agreed on under objective existential threats for the euro area, was one of decision-making wherein political actors did not have the time to consciously engrain functional pressures in their discourses, cognitive maps and behaviours (Jones 2010c). These findings concur with the NF logic if the latter assumes that the functional tensions are not known to the actors. These are the classic spillovers generated by institutions and the responses of markets, rather than being cultivated or acted upon by strategic actors.

Intense uncertainty is also vividly depicted by liberal intergovernmentalist (LI) accounts of the crisis (see, most prominently, Schimmelfennig 2015). Nonetheless, assuming that a neat and unproblematic process of preference formation - crucial for LI causation - took place amid the 2010 storm is the result of hindsight, not insight. In fact, as proved by Van Esch (2014) through comparative cognitive mapping, the key decision maker singled out by the LI approach, Chancellor Angela Merkel, held no specific beliefs about benefits/disadvantages of deeper integration before the unfolding of the sovereign debt crisis in late 2009.[141] The events of spring 2010 - as narrated by Schimmelfennig (2015: 181-183) - can be understood in terms of hard

[141] “Prior to the outbreak of the Euro-crisis, the Chancellor makes few references to European integration and hardly mentions European economic and monetary integration” (Van Esch 2014, pp. 293-294).

bargaining and brinkmanship, but this presupposes that actors have gone through a process of steadfast preference formation.

Yet, the timeframe of critical events, plagued by systemic uncertainty and inconsistent exogenous pressures arising from the markets, did not allow actors to factor all of the ambiguous implications of the crisis into their utility functions. LI allows for bounded rationality, but to generate explanatory leverage it must assume that preferences are connected to clear, ranked payoffs of alternative courses of action. Instead, during the most critical moments of spring 2010, the key decision makers (Germany, France, the Council and the Commission), facing unknown and unexpected contextual factors and constrained by the scarcity of time to go through sense-making, could not form neat preferences (i.e. preferences with clear, pre-determined payoffs) on alternative courses of actions and bargain in a game of full information: “rational choice approaches tend to derive optimal policy conclusions from a static analysis of preferences assumed to be stable and of single events. They do not place processes or *highly dynamic situations* and their impact on actors’ perceptions and derived policy choices at the centre of analysis” (Schwarzer 2015, p. 603, emphasis added).

The generalized uncertainty over alternative options to solve the Greek turmoil and related payoffs is indeed uncontroversially documented by different sources (*ibid*.; Jones 2010a; Gocaj and Meuinier 2013; Van Esch 2015; Parsons and Matthijs 2015; Schwarzer 2015; Matthijs 2016).

Put together, the circumstances sketched above and analysed in depth in Chapter 7 clearly militate against conventional NF and LI wisdom that carefully envisaged functional spillovers or staunch brinkmanship based upon rigid and stable preferences led to the establishment of the European Financial Stability Facility in 2010 that, on the contrary, “emerged in [an] atmosphere of confusion, panic, and desperation” (Gocaj and Meunier 2013, p. 243).

I do not contend that by 2011/2012 (i.e. when major reforms had already been shaped and agreed upon - see Chapter 8) the mixed motives and distributive dimension underlying the bail outs and the subsequent institutional reforms were identifiable, but I cast serious doubts that in 2010 this could have been possible in the clear-cut terms postulated by LI. Again, the fast nature of crisis development, the uncertainty about unexpected causal relationships and the exogenous pressures of the markets calling for immediate measures limit both NF reasoning on long-term functional pressures and LI claims on preference formation.

In particular, if it is true that exit costs were broadly considered to be untenable by all the players (Schimmelfennig 2015: 181-182 and 186-188), it is hindsight that informs us about the distributive nature of the integrative steps decided, not contextual and contingent insight present at the time of decision making in 2010. True, dramatic changes in the position of the German government in spring 2010 about the Greek bailout can indeed belong to the logic of a chicken game and to the resort to brinkmanship. Nonetheless, given the extreme high stakes of the game played, they are more likely the fruit of acute uncertainty about the outcomes of different courses of actions and the result of adaptive, associative responses to the huge exogenous and unprecedented pressures coming from the markets. The findings of Van Esch (2014 and 2015) regarding the preferences and beliefs of major decision makers during the crisis corroborate this view.

Schimmelfennig (2015: 182) himself acknowledges this in part by stating that “in a situation rife with uncertainty, Merkel ultimately decided against taking the risk of Grexit. This debate shows that the preferences of Germany, a core actor, on Grexit, a core policy issue, were not unitary, fixed or internalized”. Indeed, detailed accounts of the process that led to the Greek bail out (Gocaj and Meunier 2013, p. 243) colourfully depicts the decisional context of May 2010 as follows: “Faced with multiple equilibria and a range of possible paths, confused as to their own preferences, while conscious of a sense of urgency, policy-makers are disoriented”, that is, the description of a situation rife with contingencies and uncertainty rather than a rational choice constellation.

A final factor that cast doubts about the LI account of crisis-driven reforms is that they would, in large part, reflect the preferences of Germany. Even without a careful reconstruction of the events, this argument is inevitably based on an ex-post assessment. Back in 2009, few observers would have argued that reneging on the bail-out clause and establishing EU financial assistance facilities, allowing the ECB to buy (first indirectly and the directly) shares of sovereign debts acting as a typical lender of last resort, and engraining at constitutional level a monitoring function over national budgeting for the European Court of Justice, would have been in line with German long-term preferences over economic policy making and coordination (see also Matthijs 2016 for a similar argument. For a somewhat different interpretation see Jones 2013).

The contingent learning approach offers a more fine grained understanding of the process that led first to the emergency measures of 2010 (driven more by contingency than by functional pressures or rational calculations) and then only afterwards to the sense-making process that followed in 2011 and 2012, as analysed in the last empirical chapter.

It is in the context of these institutional reforms that functional pressures arising out of the EMU architecture (NF) and national preferences and intergovernmental bargaining dynamics (LI) played a more important role. As is quite obvious, the learning-informed account of the systemic institutional response of EMU to the crisis, which draws on an epistemic mechanism, is closer to a functional understating of policy change. Nonetheless, I hope I made clear that interstate bargaining took place in other parallel areas of reform, leading to the conclusion that, as I strongly believe is to be expected in EU integration, different causal mechanisms concurred in delivering the observed outcomes.

The findings arising out of this learning-informed perspective (that seeks to combine dynamically LI and NF causal drivers) are surely conversant with a recent account of the crisis - that implies as well broader and far-reaching implications for European integration altogether. I refer namely to the “failing forward” argument put forth by Jones et al. (2016). Although the two approaches differ in several aspects (namely, the understanding of the mechanisms of preference formation during existential crises and the attribution of the exogenous/endogenous nature of the financial and sovereign debt crises), they are conversant since they broadly share the same goal of providing a fuller and less *partisan* explanation to the erratic path of European integration vis-à-vis the crisis.[142] Moreover, they both seek to achieve this goal by eclectically drawing on LI and NF *classical* casual chains and employing them in

[142] It is worth noting, however, that Jones et al. (2016) use the euro crisis as an illustration since their “failing forward” argument is poised to apply to the dynamics of European integration at large.

the context of a third analytical framework (policy learning in my case and historical institutionalism in Jones and colleagues' contribution).

Within an historical institutionalist framework that characterizes the pattern of policy change in the EU as driven by path dependence and incrementalism, Jones et al. (2016) elegantly and dynamically intertwine intergovernmental and functional mechanisms of causation. The former mechanism applies to and informs episodes of policy change triggered by crises, while the latter operates in-between policy change and triggers the successive crisis. In a way, to use the jargon of the crisis management literature, LI motives intervene in intracrisis situations and leads systematically to "lowest common denominator solutions" - chiming with joint-decision trap outcomes. NF drivers intervene instead in intercrisis settings and manifest themselves as growing functional pressures over the piecemeal, incomplete and asymmetric policy solutions adopted in intracrisis management due to mixed motives and dynamically inconsistent preferences. This leads then to a loop whereby new radical policy change would be required, but interstate bargaining driven by disjucnt preferences ensue instead, leading yet again to sub-optimal and incomplete policy arrangements that activate functional spillovers and novel policy change.

In this way, the "failing forward" argument unearths both the roots and consequences of policy change within the EU, managing to make sense of its inconsistent and *harmonic* motion toward more delegation of core state functions to supranational institutions.

The policy learning perspective I employed may well lead to similar conclusions if extended to EU integration in general. In fact, when intergovernmental bargaining is the prevalent form of actors' interaction, learning dynamics are inevitably constrained and limited by the high stakes at play (this mostly applies to EMU's policy domains) and by actors' self-interest. As a result, learning - intended as knowledge accumulation and improved problem solving capacity - is curtailed and becomes a by-product of the power-based policy interaction and its destiny, together with that of the resulting policy outcomes, and crucially depends on the features of the strategic interaction within the actor constellation.[143] In other words, settings governed by strategic

[143] Such features, if the nature of the bargaining underlying the policy interaction is cumulative, are likely to lead to outcomes similar to those observed in the SGP case study.

intergovernmental interactions, lacking proper coercive incentives toward cooperative behaviour or the presence of cumulative bargaining, do not allow the benefits of collective puzzlement and learning thereof to be reaped.

On the other hand, when the policy interaction is oriented toward problem solving and draws on functional pressures, the resulting policy outcomes are more likely to be influenced and informed by the recognition of incompleteness and asymmetries in policy design, leading to solutions that try to fill those gaps[144] - and I say “try” because, in any case, collective problem solving is (path) dependent on previously taken decisions (see also Schwarzer 2012 and Salines et al. 2012 that similarly employ an historical institutionalist framework to explain the policy change spawned by the crisis).

This is exactly the case of the last case study that, besides enriching the accounts of the NF scholarship, allowed us to achieve three goals. First, to assert strong, case-specific explanatory leverage (the fit between the epistemic policy input and the policy change implemented is indeed very good); second, to claim, in line with the “failing forward” argument, that the nature and direction of long-term, forward looking policy change is dependent on the decision making (whether driven by contingency or by intergovernmental bargaining) that triggered it; and third, to open a dialogue with the ideational scholarship (see Blyth 2013, most prominently). Indeed, the findings of the last chapter critically integrate those of that tradition and also represent a call for a future research agenda that takes endogenous paradigm formation within EU institutions more seriously and departs from the assumption that the EU is an opportunistic *taker* of external (whether national or academic) ideational repertoires.

[144] There is also a role for Slembeck’s (1998 and 1999) condition about feedback mechanisms that lock-in the effects of learning and *endogenise* them. Feedback re-organizes the beliefs of policy-makers, making them learn how to operate within the new circumstances that become the new taken-for-granted context. This finding opens another pathway of conversation with historical institutionalism. Further research should explore how behavioural, contingent mechanisms relate to the macro-historical mechanisms and types of changes described by Mahoney and Thelen (2010).

9.3 Limitations and future research

The key limitation of this dissertation lies in the fact that the tested causal mechanisms are not exclusive and hence full explanatory leverage cannot be claimed. Moreover, the conceptualized mechanisms work at a macro, and to a certain extent, abstract level and hence cannot be directly observed. This in turn implies that the only feasible way to test their explanatory influence is *indirect*, that is, achieved by matching theoretically postulated manifestations to those observed empirically.

Furthermore, the employed analytical approach, focusing on macro level learning mechanisms occurring at the supranational level, somehow set aside, by design, the influence of national/domestic motives on the observed outcomes.[145] Yet, this limitation has to be qualified. First, it is the fruit of a deliberate analytical focus that is motivated both by an ontological perspective on learning in policy making and by the fact that the literature dealing with interstate bargaining in economic policy coordination is already abundant. Second, since the very beginning it was made clear that the sort of causation theorised and tested in this dissertation is not alternative to other explanatory factors but it integrates them.

This consideration leads us to suggestion for future research. A first, obvious pathway is to tackle the same case studies analysed in this dissertation by looking more consistently and systematically at how the learning dimension interacts with interstate bargaining and powering.

Another obvious avenue for further learning-informed research on fiscal policy coordination under EMU is to analyse the implementation courses of the regime arising out of the reforms analysed in Chapter 8 through the “policy learning measuring instrument”. The hypothesis one should test, drawing on how the regime was reformed, is that the crisis led to a return to the *healthy* conditionality and instrumental learning that characterized the Maastricht convergence process. This is because the new regime engrained a vast array of provisions meant to strengthen coordination, monitoring and, ultimately, discipline. That being said, even a casual observation of the implementation of

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[145] Although the policy learning measuring instrument is also designed to embed strategic aspects into the analysis of learning processes and mechanisms (see Chapter 3, Section 3).

fiscal coordination since 2011 yet again points toward the prevalence of political discretion (Hallerberg et al. 2011), perhaps offering the ultimate proof that without a watertight threat of exclusion from the benefits of monetary union, compliance with coordination arrangements (even hard and *strengthened*) will always be perceived as politically negotiable.

Finally, another pathway for future research consists of longitudinally analysing the scientific production of the ECB and the Commission, that is, extending the analysis performed in Chapter 8 to the whole lifespan of EMU. Such a research project would seek to systematically and diachronically pin down the policy advice stemming from the internal scientific outputs of EU actors and evaluate to what extent the shifts, reforms and changes undergone by EMU were related to the solutions proposed by internal experts/epistemic actors. Quite surprisingly, political science and EU scholarship, have shown relatively little interest in this typology of policy input. This is unexpected for at least three reasons: first, the ECB is a *sui generis* central bank that, lacking a political counterpart, is active in different fields of economic policy making, well beyond its mandate on monetary policy. Second, the creeping task expansion and increased strategic role pursued by the ECB during the crisis (Schwarzer 2012; Torres 2013; Kamkhaji and Radelli 2013) makes this kind of investigation extremely significant. Third, EU integration studies put ideas at centre stage, yet ideas seem to emerge only from national preferences or supranational functional drivers. The new line of research would aim to complement the literature on the role of ideas in the context of EU economic integration by looking at the rich and varied policy input and advice that emerges from the internal scientific production of the EU.

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