Institutional Change in the European Union
- *The role of four decision-making bodies pre-and-post financial debt crisis*

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Abstract

The main objective with the thesis was to analyze institutional change in the European Union pre-and-post financial debt crisis, with particular focus on the roles of the Parliament, the Commission, the Council as well as the Court of Justice. To attain the objective, the thesis intended to answer the subsequent queries; (i) what notable institutional changes were brought in the European Union pre-and-post financial debt crisis; (ii) what role did the Parliament, the Commission, the Council and the Court of Justice play pre-and-post financial debt crisis; were their roles enhanced by the financial debt crisis? In order to attain the objective, the thesis utilized an institutional analysis and development framework. This theoretical framework relied on a qualitative content analysis.

The results of the thesis exhibit that the European Union’s progression route was not free from crises. With the Union’s expansion, more decisions ought to be taken by the four institutional bodies. The role of the European institutional bodies resulted in various institutional changes with the establishment of the Treaty of Lisbon; from having a normative power to encompass an executive one. The Treaty of Lisbon also changed the decision-making procedure to an ordinary legislative procedure. Apropos decision-making, the Treaty of Lisbon also enhanced the Council and the Parliament’s role pre-financial debt crisis by making the Parliament and Council equal in the new co-decision procedure. The role of the Council has been dynamic since its formation, while the role of the three other institutions could somewhat vary throughout the pre-financial debt crisis. With regards to institutional change after the financial debt crisis, the results reveal that institutional changes occurred mainly in economic and fiscal policies, for instance strengthening the EMU with the intergovernmental Treaty on Stability and Coordination and Governance. Whilst the Treaty of Lisbon brought more supranationalism in the European Union, the period after the financial debt crisis rather celebrated intergovernmentalism in the Union. The role of the Council was dynamic even post-financial debt crisis, decreasing the role of the Commission in the agenda setting. However, with the introduction of the Six-Pack and the Banking Union, the Commission and the Parliament’s role became evidently enhanced, whilst the Court of Justice, did not play a key role in the financial debt crisis.

*Key words: European Union, Institutional Change, Decision-making, Financial Debt Crisis, European Parliament, European Commission, European Council, European Court of Justice*
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Abbreviations

- CEU - Council of the European Union
- CFSP - Common Foreign and Security Policy
- CSDP - Common Security and Defense Policy
- EBA - European Banking Authority
- EC - European Commission
- ECB - European Central Bank
- ECJ - European Court of Justice
- ECOFIN - Council of Economic and Financial Ministers
- ECSC - European Coal and Steel Community
- EDC - European Defence Community
- EEC - European Economic Community
- EFSF - European Financial Stability Facility
- EFSM - European Financial Stability Mechanism
- EIOPA - European Insurance and Occupational Pensions Authority
- EMS - European Monetary System
- EMU - European Monetary Union
- ESA - European Supervisory Authorities
- ESCB - European System of Central Banks
- ESFS - European System of Financial Supervision
- ESCB - European System of Central Banks
- ESMA - European Securities and Markets Authority
- ESRB - European Systemic Risk Board
- EU - European Union
- EURATOM - European Coal and Steel Community, the European Community, the European Atomic Energy Community Treaty
- HR - High Representative of the Union for Foreign Affairs and Security Policy
- IAD - institutional analysis and development framework
- IGC - Intergovernmental Conferences
- NATO - North Atlantic Treaty Organization
- PJCC - Police and Judicial Co-operation in Criminal Matters
- PSC - Political and Security Committee
- SEA - Single European Act
- SGP - Stability and Growth Pact
- SRM - Single Resolution Mechanism
- SSM - Single Supervisory Mechanism
- TCE - Treaty establishing a Constitution for Europe
- TEU - Treaty on the European Union
- TFEU - Treaty of Functioning the European Union
- TSCG - Treaty on Stability, Coordination and Governance in Economic and Monetary Union
1. Introduction

1.1 Background and problem formulation

In 1978, Jean Monnet wrote in his memoirs that “Europe will be built through crises and that it would be the sum of their solutions” (McCormick, 2012: 5). The phrase indicated that Europe would be the outcome of its institutional decision-making process given that the institutional process itself deals with crisis situations. In one way or another, Monnet was right. The establishment of the European Union was an historical covenant, bringing together two hostile nations Germany and France, both dealing with hardship during that time. It is during the hardship, that changes tend to come. Member nations of the European Union usually agree on changes when confronted with challenges and necessities. The formation of the European Union was a long process, initiating as a peacemaker with a normative power in a joint market to later encompass a union of twenty-eight member nations. The formation of the European Union was however, not free from issues and challenges coming along the way. But, instead of perceiving the challenges as something to be frightened of, the European Union rather considered these worries as a possibility to enhance the ability of dealing with institutional difficulties (McCormick, 2012; Miller, 2012).

Besides, the European Union is considered to be an ever-changing architecture, meaning that the Union is continuously changing. To understand the European Union, one ought to have a look back at its roots and scrutinize the decisions that have been taken. Institutional changes that have emerged throughout the European Union’s progression route are the outcome to the European Union that we are acquainted with today. With its ever-changing architecture, the European Union has managed to enlarge the Union while simultaneously be keener to upcoming difficulties. However, the progression is not handled by itself. The European Union commenced with only four institutional bodies, the European Parliament, the Council of the European Union, the Commission as well as the European Court of Justice. Each of these decision-making bodies had their own roles to strengthen the European Union yet further. These institutional operate regularly with the Union’s progression route, by introducing new regulations, acts or treaties or just amend the existing ones to be more functional (Miller, 2012). Their roles may be reflected in their decision-making process, meaning that the decision-making procedure is what eventually resulted in institutional change. To obtain a profound comprehension of these institutional changes, it is of vital importance to begin with the Treaty of Lisbon. The Treaty of Lisbon is a perfect example of previous regulations, acts
and treaties being replaced by the latter. The Treaty of Lisbon has taken the institutionalization of the European Union yet further, for instance by creating a new institutional framework. A new institutional framework does in fact verify that several institutional changes must have occurred within this decision-making process. However, apart from the Treaty of Lisbon, the European Union was yet put into test with new challenges, this time with a so-called financial debt crisis. The financial debt crisis was something new in the European era, making the Union’s institutional bodies work harder with new decisions and regulations in order to settle down the financial debt crisis. Decision-making is thus a vital component in dealing with crises in the European Union. Without the four institutions’ decision-making process, no regulations or institutional changes ought to happen, and nor will crisis situations come to an end for that matter.

1.2 Aim of the thesis
The main objective with the thesis is to analyze institutional change in the European Union pre-and-post financial debt crisis, with particular focus on the roles of the Parliament, the Commission, the Council as well as the Court of Justice. To attain the objective, the thesis intends to answer the following queries:
- What notable institutional changes were brought in the European Union pre-and-post financial debt crisis?
- What role did the Parliament, the Commission, the Council and the Court of Justice play pre-and-post financial debt crisis; were their roles enhanced during the crisis?

The thesis is limited from the signation of the Treaty of Lisbon in 2007 to 2014, pre-financial debt crisis. The focus does not rely on the financial debt crisis; the thesis rather relies on the roles of the four institutions while analyzing the most notably institutional changes that have occurred in the European Union during this decision-making process.
2. Theory

The following theoretical section comprises the crucial term of the thesis, namely institution (-s). A theorization of this term is of vital importance to endow the reader with its meaning and how it can be understood throughout the thesis. Thereafter, previous research will be reviewed pertaining to supranational vs. intergovernmental institutions in the European Union, along with previous research on institutional change in the European Union. The theoretical section ends with the theoretical framework of the thesis, namely the institutional analysis and development framework. The theoretical framework is supposed to operate as an analytical device in the results-section.

2.1 Theorizing institution (-s)

Institutional theory was at first utilized to understand and explain the homogeneousness within organizations (DiMaggio & Powell, 1983). This theory is now more or less used to describe isomorphism and institutional burdens that exist within or between several organizations. Institution as a term on its own is wide-ranging, including several norms, laws and other guiding principles. Douglass North is among the authors to define institutions as a system that encompasses “the rules of the game in a society, or more formally (…) the humanly devised constraints that shape human interaction” (North, 1990: 3). In fact, institutions operate in condensing the uncertainty and vagueness that comes along the way, simply by endowing people with a structure that comprises both formal- and informal regulations. Institutions are believed to encompass well-made regulations, where these regulations direct human interaction (DiMaggio & Powell, 1983; North, 1990). But then again to be more specific, what do author mean by formal and informal regulations? Formal regulations are often written laws, rules, acts, treaties etcetera within an institution, whereas informal regulations are unwritten norms, beliefs and values that are shared within a given institution.

Moreover, the combined regulations of formal and informal rules help in coordinating the actors’ behavior. Actors may in this sense involve private persons, political actors, organizations etcetera. This thesis merely focuses on the four European institutions as the sole actors involved. Institutions without some form of regulations may not be long-lasting; institutions ought therefore to have regulations that respect the interests and requirements of
human society. The combination of regulations, institutions, and the human society, is perfectly depicted by Thomas Jefferson:

“Laws and institutions must go hand in hand with the progress of the human mind. As that becomes more developed, more enlightened, as new discoveries are made, new truths disclosed, and manners and opinions change with the change of circumstances, institutions must advance also, and keep pace with the times” (Kathy, 2008: 2661).

Given that institutions play a vital part in creating regulations, these regulations are thus done on the best interests of sovereign states. This kind of affiliation is in particular, utilized when institutions want to go beyond national borders. The procedure of creating institutions is much easier on national level. Conversely, on international level sovereign states take the role as the main actors of change - making the progression process more complex. An intergovernmental institution on the other hand, encompasses several assigned sovereign states to build up an amalgamation. These institutions are usually recognized by a treaty or agreement that exists between numerous governments of several nations. But, before becoming a member of an intergovernmental institutions, a nation ought to go through a ratification procedure to get an approval (North, 1990).

2.2 Previous research

2.2.1 Supranational vs. intergovernmental institutions in the European Union

Supranationality and intergovernmentalism are two vital terms to discuss in order to obtain a comprehension of the European Union’s sovereignty and thereby also understand how these two terms may alter the Union’s institutional development in terms of institutional changes that may occur along the way. To be more specific, the various institutions of the European Union are usually considered to have either a supranational or an intergovernmental framework. Technically, the characterization of the terms supranational and intergovernmental institutions, are not encompassed in the European Treaties, although the terms have been advanced to signify institutional changes in the Union’s operative functions. The query that is raised here is what does it mean to be a supranational or an intergovernmental institution? Ian Bache and George Smith defines in their book “Politics in the European Union”, that supranational institutions in the Union usually encompasses preferred persons to not only represent the shared European interest, but also to help in attaining it. Both Bache and Smith argues that supranational institutions celebrate the
sovereign decision-making authority of the European Union and comprises thus the right to implement a given regulation and decision pertaining to the Union’s member nations. The power of supranational institutions is thus given to an authority, meaning the Union itself. The European Commission along with the European Parliament are strongly considered to be supranational institutions, according to Bache and Smith (Bache & Smith, 2006).

When it comes to intergovernmental institutions, Neill Nugent defines the intergovernmental term in his book “Government and Politics of the European Union” as an institution that lays its focal point on the member nations’ procedure of forming extended European Union regulations. Intergovernmental institutions have usually the power to control member nations and the cooperation in between. Supranational institutions in contrast to intergovernmental ones, lacks the right to veto and are ought to accept majority decisions concerning collaboration between the nations, whereas intergovernmental institutions have the right to decide if, or if not, they want to collaborate with other nations. Nugent’s consider the Council of the European Union as an intergovernmental institution, comprising of government ministers and representatives (Nuget, 2006). Intergovernmental institutions in contrast to supranational ones, do not represent the shared European interest in the decision-making procedure, but rather represent the interest of each individual member nation of the Union. The institutional changes that have occurred within the European Union can be understood by supranational and intergovernmental institutions, but due to the Union’s complex and ever-changing nature, it is however, hard to confirm whether the Union is considered to be supranational or intergovernmental, according to Bach and Smith (Bach & Smith, 2006).

2.2.2 Institutional change in the European Union

Previous researches defines institutional changes as a centralized procedure encompassing a collective action in where regulations are overtly defined by a collective union, for instance a nation, a supranational institution or an intergovernmental institution. Individuals within the collective union may try to change the institution’s regulation for their beneficial reasons – leading to a conflict or an economic crisis. Neill Nuget mentions in his book “Government and Politics of the European Union” that it is the ‘property’ regulations that supervises the daily interaction in the European Union. Diverse conformations of these regulations require different distribution where the member nations of European Union starts to negotiate in order to increase their desires, but this may with all probability cross the rules of an agreement. This behavior is called ‘contracting’. With contracting, Nuget means that the member nations are
directed by a higher level. The higher level of the European Union consists of the several institutions and regulations which subsequently operates to solve the matter by changing the rules of the lower-level (the member nations of the EU), leading to an institutional change. That is to say, an institutional change usually relies on a higher-level directive that determines how decision-makers may observe a rule-changing impact. Defining institutional change does not only depend on rule-changing, but also on the role of the institutions involved (Nuget, 2006). Sandra Lavenex, on the other hand, explains in her book “The Europeanization of refugee policies: normative challenges and institutional legacies” that institutional change in the European Union can be explained by its historical roots and the actors that acted during the institutional process. The European Union is formed by the institutions’ past activities which can be seen as historical strategies or events. Institutional changes in the Union have thus created an institutional framework consisting of the member nations’ preferences and interests. Thelen argues that the institutional framework could not have been created without the institutions’ operative role in dealing with crisis that has emerged with the Union’s progression route. The institutions have repeatedly established new regulations, or reformed existing ones into being more functional. Institutional changes in the European Union have hence without a doubt followed a dependency path, meaning that previous actions or decisions, may have restricted the Union’s current decision-making – they are somehow correlated with one another (Lavenex, 2001). The various institutions of the European Union play thus a key role on the route to institutional change. By discussing different perspectives on how institutions may result in an institutional change, and what role they play during this process, does not always give a clear answer, according to Lavenex. The reason for this may with all probability be due to the fact that each institution has its own function.

Moreover, institutional change is also mentioned by Douglass North in his book “Institutions, Institutional Change and Economic Performance”. Douglass hints that institutional change in the European Union is usually associated with new regulations such as new acts or laws. As proclaimed by Douglass and many other scholars within the field of intergovernmentalism, the European Union is the result of the different agreements that occurred between national actors in intergovernmental meetings. In these meetings, national actors were able to discuss the economic preferences and interests that concerned their nation. Treaties have therefore helped national governments in delegating policies. The national actors that exchanged information from public bureaucrats (for example, Jean Monett as mentioned earlier) are also the actors that comes with new thoughts and alertness that leads the progression of the EU
forward. Both national and supra-national actors of the political leaders that were involved were vitally important in the accumulation and founding of the EU. In accordance with Douglass, EU treaties has thus not only resulted in institutional changes, but has also had a positive impact on Europe in general. These treaties did not only improve the development of the European Union, they also changed the supranational polity by including new international relations to the member nations of the European Union (Douglass, 1990).

Previous researches has thus thoroughly revealed that the European Union is built by its crises; forcing EU institutions to take action in the decision-making and at the same time, make member nations to approve the new agreements (Douglass, 1990). Renaud Dehousse agrees with Douglass in his book “The Community Method, the EU’s “Default” Operating System” that a formation of an institutional model has been the outcome from the various treaties that have been established in the European Union. In this institutional model, Dehousse mentions two diverse interests that were incorporated in the European Union back in time; the decision-making body, that is the intergovernmental Council which had the role to embody the interests of a single state, whereas the interest of the European Union in general, was embodied by the Commission. However, this institutional model, did change with time when the relationship between the two of them became confrontational, making the Council cooperate with the Parliament instead. These new institutional roles were also the institutions that were supposed to receive more authority when it came to the institutionalization of a European transnational system (Dehousse, 2013).

2.3 Theoretical framework

2.3.1 The institutional analysis and development framework

The theory of the institutional analysis and development framework (IAD) comes originally from Elinor Ostrom. Elinor Ostrom is a not only a political economist, she is also the winner of Nobel Memorial Prize in Economic Sciences. Ostrom’s IAD framework has been defined by several scholars within the field of economics and political science for over thirty years. The structure of IAD framework elucidates how a group of people or a nation, collaborates with one another to create a unification that goes beyond state boundaries, this in turn to get hold of common and shared resources. The route to obtain these common resources may be a long and complex process (Ostrom, 2005). To be more specific, the design of the IAD was created to analyze the changing aspects of institutions since their establishment. To utilize this theory as an analytical device, is much considered in comparative research that aim to answer
queries as how a nation may converges, and how institutional decision-makers cooperate to obtain a given outcome. Economic and political researches that are comparative in content, are either based on its essential subject matter, for instance an economic or a political system, or based in an expressive manner that aim at increasing the information regarding an ever-changing process, as the European Union’s institutionalization procedure (Ibid).

Moreover, the framework of the IAD is of vital importance when analyzing an institutional context like the EU; the IAD focuses on how economic and political actors take action in order to make an institutional change (Powell, 2013). The actors’ role during an institutional process is of vital importance since they are the ones that realizes their ideas into acts and rules which later results in an institutional change. The institutional analysis and development framework helps the researcher to comprehend how European regulations are formed, by whom, and how does the surrounding (member nations of the Union) observe these rules, are they willing to new changes or do they simply reject the proposals (Ostrom, 2005). This part will be very helpful in analyzing how the four institutions within the European Union’s have cooperated, not only with one another but also with the public, in order to reach a reasonable decision. Since the institutions are not formed by themselves, the IAD framework is once again suitable to trace the European Union back to its roots to understand how the whole institutional and decision-making process began before analyzing pre-and-post financial debt crisis.

The structure of IAD encompasses a list of variables, for instance actors, regulations, institutional background, policies and so forth. The list of variables work as a strategic research plan endowing the researcher with a study structure that keeps the various variables into an organized scheme. This will in fact, prevent the researcher from obtaining needless and superfluous data in the evaluation procedure. Since the framework of the IAD gives the impression of being quite simple, the evaluation process may get complex when several mechanisms will be further exposed. Once again, the IAD as an analysis device is beneficial thanks to its flexibility. The flexibility usually reveals the data in detail, which avoids data complexity and complication from occurring (Ostrom, 2005).
Figure 1, exhibits the IAD framework in more detail. The framework initiates with the action arena, it is here were the four European institutions are comprised. These institutions take action in an interaction pattern, which is through boards, meetings, collaboration etcetera. In the interaction process, the national or European interest in general may be discussed, as well as upcoming challenges, risk, crises etcetera. But, before a decision ought to be taken, it has to go through an evaluation procedure, where member nations or EU institutions can decide if they want to adopt a new decision in the European Union. If the member nations along with the four institutions of the European Union approve the proposed decision, this step will result in the outcome part, i.e. in a new regulation being established. Once a new regulation is established, an institutional change has thus occurred. The thesis will utilize this IAD framework when analyzing the notable institutional changes pre-and-post financial debt crisis, and the roles of the four European institutions during this process.
3. Methodology

The methodological section begins with the design of the thesis. The material of the thesis will thereafter be discussed along with source criticism. The critical evaluation of sources will be analyzed by Thurén’s four source-criticism criterions: genuineness, temporal association, independency as well as the tendency of freedom principle.

3.1 Design of the thesis

3.1.1 Case study

To attain the objective of the thesis, a case study design along with a qualitative content analysis have been chosen and utilized in this thesis. A case study usually comprises an analysis of an in-depth organization, an institution, a specific event or merely just an act within a particular period of time (Bryman, 2011). Case studies may also analyze more than one specific occasion, the design is thus beneficial when analyzing the European Union, given that the content of the gathered data can be better compared, for instance EU before and after the financial debt crisis. When analyzing EU before and after the financial crisis, the design focuses on specific occasions that have resulted in institutional change - simply by looking at the decision-making processes, henceforth compare the gathered data before the crisis and after the crisis. Queries like, what has emerged, what changes can be identified, how has decision-making processes changed, are among the queries that can be answered with a case study design. Since the European Union encompasses various institutions, the actors within these institutions are the ones that have acted to make institutional changes; the design thus analyzes their roles, their actions, if their role has been advanced overtime etcetera. With respect thereto, the design of a case study is intended to provide the researcher with an explanation of a multilayered subject matter. The design is also beneficial in the sense that the study provides with theoretical assumptions, meaning that data generalization can be assessed in order to draw general conclusions (Bryman, 2011).

Moreover, a case study design combined with a qualitative content analysis goes well along with one another. The methodology of qualitative content analysis commences by gathering significant data from reliable sources (Bryman, 2011). The qualitative content analysis has the advantage on focusing on the most important parts of the amassed data, after analyzing and construing the data, the construed data is thereafter delineated in text. When outlining the construed data in text, the QCA usually categorizes the information in different themes to
keep the structure in place (Bryman, 2011). Worth to mention is that although the theoretical data depend on a qualitative content analysis, it does not mean that statistical data or figures cannot be included. Figures may be included in the thesis to illustrate an amassed process in detail, etcetera. The combination of a case study design and the QCA helps in bringing out the most valuable data of the material, simply by analyzing and interpreting the information (Bryman, 2011).

3.2 Material along with source criticism

3.2.1 Thurén’s four source-criterions

The amassed data for the thesis has been taken from sources concerning the institutionalization process of the European Union. Since a ‘process’ usually goes back in time, the amassed material consists mostly of secondary sources. However, this does not connote that primary sources are excluded. Primary sources are utilized as well, especially when analyzing institutional change after the financial crisis. Before continuing with more detailed information about the material, it is suitable to introduce Thurén’s four criterions of source-criticism. The reason why source-criticism is included here is to make sure that the utilized sources contain trustworthy information. Thurén’s four source-criticism criterions must be fully completed before concluding the fact if the amassed data is trustworthy (Thurén, 2013). The criterions will help in answering queries as: (1) who is the author of the source; (2) is the author familiar with the subject, if so, in what way; (3) has the utilized source gone through some form of examination; (4) when is the source published? Thurén’s four criterions are used to answer queries like these.

The first criterion is genuineness, even known as the reliability principle that determines if a given source is reliable. The principle analyzes the author of the source, if the author is a specialist in the subject etcetera. The second criterion is called the temporal association principle, explaining the publication time of the source, if the date of publication is close to the actual event. The source is considered to be more reliable if the date of publication is close to the actual event. The third criterion is called independency, questioning if there are other sources that reveals the same information. Sources that encompass information that can be found on more than two other sources are considered to be more trustworthy than those that contain merely one source. This criterion also analyzes if the sources are primary or secondary, i.e. a combination of them two. The fourth and final criterion is the co-called tendency of freedom. This criterion lays its focal point on revealing if the source is in
accordance with reality. To be more specific, the tendency of freedom analyzes if a source describes the actual event and not anything else (Thurén, 2013). The following part of this section will thus analyze the thesis’s material by using Thurén’s above-mentioned source-criticism criterions.

3.2.2 Source criticism

The thesis commences with a theory section. The theory section utilizes material coming from different sources to theorize terms as institutions and institutional change. The theoretical section comprises a theoretical framework as well, which is supposed to be the analytical device in the result-section. These sources gather information from authors as Paul DiMaggio, Walter Powell, Douglass North, Thelen Kathleen as well as Gary Libecap. To begin with Thurén’s first criterion, all authors are specialists within their field of study, most of them are professors in the field of political science. In this sense, their work is without doubt reliable. The publication date of their work consists of both primary and secondary sources. Since these authors share almost alike information while referring to same definitions of a term, verifies the fact that the criterions of temporal association and independency are fulfilled. With regards thereto, the last criterion cannot be questioned.

When it comes to the empirical material of the thesis, other sources are encompassed. The empirical material gathers data mainly from the database EUR-Lex. The database EUR-Lex provides with direct access to the European Union Law. There is no point in analyzing this source, it is hundred percent reliable. The database comprises international law (treaties, legislations, regulations, decisions etcetera), international documents and agreements concerning the European Union. This source is regularly updated, but it may also be considered as a secondary source given that some documents are more than 50 years old. Moreover, the empirical data of the thesis gathers information from authors as well, such as Richard Buxbaum, Franco Piodi, Renaud Dehoussse, Angelos Delivorias etcetera. These authors are all specialists within their field of study and their work has been much utilized to explain institutional changes in the EU. These sources comprise both primary and secondary information. Given that their publication date is close to the occurrences, and that these sources complement one another by exhibiting much alike information, verifies the fact that Thurén’s source-criticism criterions are without any doubt fulfilled. By observing the ‘sources’ sources’, the reliability increased even more given that the authors’ sources were considered reliable as well.
4. Results

The subsequent fraction encompasses the results of the thesis. This fraction commences with an historical background of the European Union, initiating with the European Union as a peacemaker to give the reader an insight of how the European Union has emerged. Thereafter follows an introduction of the Treaty of Lisbon as a result of previous failed treaties in the European Union. Here, the Treaty of Lisbon presents a new institutional framework where the Union for Foreign Affairs and Security Policy (abridged as HR), could operate as a bridge between supernationality and intergovernmentalism. Subsequently, the financial debt crisis is revealed, introducing the European Financial and Stability Mechanism as well as the Six-Pack. Thereafter, follows the strengthening of the EMU by introducing the Two-Pack. The result section terminated with the three European Supervisory Authorities that were established within the ESFS in the light of the financial debt crisis.

4.1 Historical background

4.1.1 The formation of the European Union

“Europe will not be made all at once, or according to a single plan. It will be built through concrete achievements which first create a de facto solidarity. The coming together of the nations of Europe requires the elimination of the old-age opposition of France and Germany. Any action taken must in the first place concern these two countries” (Piodi, 2010: 9).

Jean Monnet’s statement explains in one way or another that a change ought to come. The fact that Europe was rowdy and troubled from the end of the Second World War is not quite news. The misery and distress that was left after the war, forced nation states in Europe to come together, especially France and Germany. It was during the Cold War that these two nations converged after the long ongoing conflict since the beginning of 1800\textsuperscript{th} century. The converge made these two nations get involved in integration cases. These integration cases were supposed to federate the nation states of Europe. During the Cold War, Germany was demanded to be armed in order to make sure that Europe was politically stable and military balanced. The demand resulted in a peace treaty with France in 1950. The treaty was proposed by French foreign minister Robert Schuman, which is why the treaty is known as the Schuman Plan or the Schuman Declaration. The declaration promoted a mutual control concerning the steel and coal industry in Germany, which in fact, made it quite impossible for the two nations to have a war (Piodi, 2010).
The European Coal and Steel Community (abridged as the ECSC) was thus the authorised organization which regulated the nations involved. The main objective of ECSC was that the “pooling of coal and steel production should immediately provide for the setting up of common foundations for economic development as a first step in the federation of Europe” simply by altering “the destinies of those regions which have long been devoted to the manufacture of munitions of war, of which they have been the most constant victims” (Piodi, 2010: 9). The ECSC encompassed four different institutions: High Authority (comprising self-regulating appointees), Common Assembly (encompassing national politicians), Special Council as well as the Court of Justice. These four institutions are nowadays more known as the European Commission (EC), European Parliament (EP), the Council of the European Union (CEU) as well as the European Court of Justice (ECJ). The ECSC offered other possibilities and opened hence the participation of other European nations to join the same agreement (European Union, 2017). The agreement referred to a production unity where all member nations could have same fundamentals regarding the industrial production, which would indeed not only result in peace, but also in an economic amalgamation for the nations involved. A year later, Belgium, France, Germany, Italy, Luxembourg as well as the Netherlands signed on the agreement. The year after the Schuman Declaration, another treaty was signed by the same six nations, called the treaty of the European Defence Community (abridged as the EDC). Since both these agreements were signed in Paris, they are thus known as the Paris Treaties, or Treaties of Paris. Both treaties aimed at federating the nations, but the project was somehow unfinished because the French National Assembly’s decided to vote against the ECD agreement, two year after its first signing (Piodo, 2010). For that reason, Europe’s military and security was consequently assigned to the North Atlantic Treaty Organization (abridged as the NATO), whilst the integration of Europe rather became a fiscal project of a joint market. In 1957, the Rome Treaty was signed along with the European Economic Community (abridged as the EEC). But, before introducing the EEC, France was still lacking trust in Germany.

At this moment, French political and economist named Jean Monnet came up with an idea which in fact, would please and modernize France’s demands concerning the unification of the coal and steel part. Monnet wrote the following in his journal that “if the fear of German industrial domination could be allayed, the greatest obstacle to European Union would be lifted. A solution that put the French industry on the same footing as German industry, while feeling the latter from the discrimination born of defeat, would restore the economic and political preconditions for the
mutual understanding so vital to Europe. It could, in fact, become the germ of European unity” (Piodi, 2010: 24).

This idea became a proposal later on, for French foreign minister Robert Schuman. Schuman was taken by Monnet’s idea and decided thus to approve it, but the approval did not go public instantaneously. When Monnet’s approval went public, the EEC was hence created and Monnet was thereafter known as the actor who helped in modernizing the economy of Europe (Piodi, 2010: 24- 25). Moreover, given that the security and safety side were held out from the integration process, contradictory results did thus come along the way. While the nations of Europe were assisted in maximizing their capitals to economic rebuilding, the prerequisite for better integration was on the other hand, prohibited by the American security (Parent, 2011: 138-139). It is thus thanks to the Rome Treaty and European Economic Community that the European Union had the possibility to generate a supra-state plan and policy. The European Union could hence put an end to the long period of wars, simply by nurturing the development of a joint market. The agreement that six nations signed to in 1957, gave with no doubt rise to the European Union.

4.2 Introducing the Treaty of Lisbon as a result of previous failed treaties

With regards to previous treaties that failed to address some political and economic matters, the so-called Treaty of Nice was signed. The Treaty of Nice was implemented in 2003, and was thus supposed to adjust the Treaty of Maastricht, Treaty of Rome as well as the Treaty of Amsterdam. The main objective with the Treaty of Nice was to enable the EU enlargement, allowing more nations to join the Union. In addition, the treaty also assisted in reforming the European Court of Justice. Later, several governments criticized the Treaty by stating that the treaty was undemocratic and at the same time, was lacking the power to set the EU enlargement. It is thus not surprising that the treaty was abandoned by the Union’s member nations in referendums held in France and Netherland. This verifies the fact that EU’s institutional changes somehow reduced the pillars’ discrepancy. But here, one may wonder, what pillars? A co-decision procedure was presented which celebrated the role of the European Parliament, making the institution equal to the Council. In accordance with Garret:

“the roles of the Council and Parliament are affectively reversed from the cooperation procedure. In the co-decision endgame, if the conciliation committee cannot agree to a joint text, agenda setting power reverts to the Council which can make a proposal to the Parliament which it must accept or reject unconditionally” (Garret, 1995: 303).
As a complement to the co-decision procedure, three different “pillars” were established along the way; these pillars were all decision-making supervisions that were supposed to cope with different policy issues.

Figure 2. The Pillar Scheme of the European Union’s co-decision procedure.

The first pillar comprises the European Coal and Steel Community, the European Community, the European Atomic Energy Community Treaty (abridged as the EURATOM) etcetera. In addition, this pillar organizes the policies of single markets where the Community approach is utilized. It is also in this pillar where the reunification part with Germany occurred; the underlying strategy which resulted in a single currency, took place within this pillar. The second pillar on the other hand, encompasses the Common Foreign and Security Policy (abridged as the CFSP), which deals with foreign policy and security issues. The procedure of intergovernmental decision-making occurs in this pillar, and this procedure usually hinge on unanimity. Whilst the European Commission and the European Parliament has a crucial role in this pillar, the European Court of Justice does not. The Court of Justice does however, have a say in the third and last pillar. The third pillar deals thus with the field of justice, to be more specific, the Police and Judicial Co-operation in Criminal Matters.
(abridged as the PJCC). The decision-making procedure within this pillar is intergovernmental, meaning that the European Union has as a duty to make sure that the citizens of the member nations are well protected with security, justice as well as liberty. The second and third pillar are more alike and differ thus from in the first pillar, because both these pillars comprises the intergovernmental decision-making procedure, whereas the first pillar does not (Lavenex, 2001).

Moreover, since the communication and the collaboration between many policies fields was growing, the distinction of institutions and policies that were established by previous treaties came into question. Some events have hence led to a pillar being affected by another. The third pillar’s collaboration was for instance, reinforced by the European Union after the terrorist attacks in 2001. The reason why this pillar’s collaboration was reinforced was because the hazard of terrorists entering the member nations became a critical matter. The fear of more terrorist entering the nations, made the member states to come together even more and their cooperation between the nations’ governments, resulted in that the pillar became gradually more transnational (Lock, 2015; Miller, 2012). In addition, the Intergovernmental Conference was prearranged to help deal with the increasing challenges in the European Union. The results of the Intergovernmental Conference were not as expected. Due to the unexpected outcome, the European Council took action by holding a constitutional convention at the royal palace of Laeken, in Belgium. The meeting is more known as the Laeken Declaration, where the Union’s institutions and the representatives of every member nation were gathered. The Laeken meeting resulted in a common treaty, namely the Treaty establishing a Constitution for Europe, also known as the Constitutional Treaty. The intention with TCE was to establish a united constitution for the European Union. The TCE aimed at strengthening the legal force, which handled legislative acts, or other regulations and decision-making processes. However, the Treaty was not approved by two member nations, France and the Netherlands. The rejection from these two member nations hindered thus the Treaty from being completed and applied into practice. By this time, the Council required a time and period of reflection (Miller, 2012).

The Council’s period of reflection resulted in the Treaty of Lisbon. The Constitutional Treaty which was rejected in 2005 was believed to have been replaced by the Lisbon Treaty. Although the Treaty was signed in 2007, it was however, not applied into practice until 2009. The Treaty’s objective was to improve the function of the European Union. Several amendments were included in the Treaty of Lisbon, such as the Treaty Establishing the
European Community (abridged as the EURATOM), the then Maastricht Treaty, now more known as the Treaty on European Union (abridged as TEU) as well as the then Treaty of Rome, now known as the Treaty of Functioning the European Union (abridged as the TFEU). The Treaty of Lisbon outlines the structure of the European Union, meaning its role and the way it operates. Policies of the single market were clearly benefitted by the Treaty as well, because formal laws advanced the Union’s development (EUR-Lex, 2015). The Union came to rely on five different acts; the first act was \textit{laws} that were applied on the Union’s member nations. These laws imposed rights and responsibilities on private parties that did not meddle with national laws. The second act was \textit{directives} where member nations were ought to attain a certain outcome within a given time. Directives were usually transferred to the member nations’ national law. The third act was \textit{Decisions} which were compulsory for each member nation. The fourth and fifth acts were \textit{recommendations and opinions} which in fact, were not compulsory in comparison to the other acts. A formal decision-making exists in each institution to handle these acts, but for the decision-making to be completed, the institutions must cooperate with informal relations. To simplify the processes, a judicial twofold chamber was created (EUR-Lex, 2015). The procedure of the judicial twofold chamber is found in Article 289 of the Treaty of Functioning the European Union. The Article 289 states that:

\begin{quote}
“the ordinary legislative procedure shall consist in the joint adoption by the EP and the Council of regulation, directive or decision on a proposal from the Commission (…) In the specific cases provided for by the Treaties, legislative acts may be adopted on the initiative of a group of Member States or of the European Parliament, on a recommendation from the European Central Bank or at the request of the Court of Justice or the European Investment Bank” (The Lisbon Treaty, 2013).
\end{quote}

4.2.1 Creating a new institutional framework – the enhanced role of the four institutions

In proceeding with the Parliament’s progressive role, it becomes quite evident that its active role has advanced the institutional development of the European Union. Ever since the Parliament was directly elected, its role has developed into a significant law-making institution. Member nations of the EP could now also participate and influence the decision-making procedure of the European Union. This was an era where economic and political dynamics became a part of EU’s institutional logic, which in turn gained the right to influence the decision-making process. With other words, Europeanization became the outcome of the internal market; more and more policy parts were moved from their nation area to became a part of the European sphere instead (Piodi, 2010). With the European Parliament’s enhanced role, the Parliament becomes an institution to share an equivalent standing as the European
Council. For instance, although the European Council selected the president of the Commission, it is the European Parliament that must make the final approval. The Parliament ought to make the final approval of the selected Commissioners as well, which the president of the Commission and the European Council has selected. Moreover, for the Treaty of Lisbon, it did not take long to create a system of bilateral legislature, where the European Commission could handle the upcoming jurisdiction proposals (Hagemann, 2010). As a Union institution, the Council akin to the Parliament, is yet another legislature body:

“The Council of the EU made up of representatives of the member states and in most cases chaired by a representative of the member state that holds the six-month rotating presidency, examines, negotiates and adopts EU legislation and coordinates policies. In most cases it co-decides with the European Parliament. While decision-making processes are sometimes complex (…) they have become ever more transparent and open to the public (Council of the European Union, 2016: 1).

To begin with, the president of the Council was elected by a majority of members for a period of two and half years. The role of the Council was enhanced the most in comparison to the other three institutions. The Council was successful in developing the European Union’s policies regarding common foreign and security matters. The Council may be regarded as the European Union’s external action given that the Council along with the High Representative of the Union for Foreign and Security Policy makes sure that agreement, uniformity as well as efficiency is a part of the Union’s progression route (Hageman, 2010). Nonetheless, many confuse the Council with the European Council:

“politically and administratively, a close organic relationship exists between the Council and the European Council. However, the European Council is not simply an extension of the Council, nor the Council at a higher level. Each has its own distinct role in the EU’s institutional architecture” (Council of the European Union, 2016: 1).

The European Council does not have the right to exercise judicial functions, which in fact, makes the distinction with the Council quite apparent. They simply do not rely on the same institutional basis; the European Council is involved with executive actions, whilst the Council rather deals with legislative activities. The Council has ever since its establishment, been a crucial part in the Union’s institutional development, especially after the Treaty of Lisbon. The background history of the Council, exhibits how its willpowers have resulted in various policies and how its ambition on resolving crises have shoved the Union’s institutional development further. The establishment of the Council has emerged due to the
Commission’s uncertain way of dealing with public administration. The Council as a decision-making institution has also the role of being a communicator to other institutions such as the Commission and the Parliament. In addition, the Commission holds even the Union’s member nations balanced by involving them in the decision-making procedure (Hageman, 2010). The system of bilateral legislature which the Treaty of Lisbon had created has made the European Commission endorsing the common interests of the European Union. The European Commission akin to the other institutions, is regulated and delimited by the European Court of Justice and is thus ought to follow the Court’s laws, although the European Commission is the sole institution that proposes new laws. Political or economic matters that cannot be solved at national level are usually dealt by the Commission. In cooperation with the Court of Justice, the Commission makes sure that member nations of the European Union impose and follow the EU law. Together with the Council and the Parliament, the Commission operates not only in the management of European Union policies, the Commission also funds the member nations’ budgets by administering how the money is spent. In addition, the Commission represents the Union’s member nations in international trade policy etcetera, at the same time as it makes international contracts and agreements for the European Union (Hageman, 2010).

4.2.2 HR as bridge between supernationality and intergovernmentalism

The integration process was not only advanced through juridictive acts; the European Union has also developed by forming a decision-making procedure that relied on an intergovernmental constitution. In short, the Maastricht Treaty’s numerous compromises were reused by the Lisbon Treaty. The limits existing between supranationality and intergovernmentalism are yet not set, however these limits are possible to fix when reflecting how a pillar can be changed to comprise an intergovernmental policy from having a supranational one from the start. The Treaty of Lisbon legally fixed the intergovernmental approach concerning both policy and decision-making. What is attained here is a so-called governmental system. This governmental system does not allow any discrepancy to exist in between national governments, intergovernmental institutions etcetera, regardless of executive and legislative acts. For instance, in the Economic and Monetary Union, the Treaty of Lisbon stated that integration ought not to comprise legislative acts that were compulsory for all the parts involved. The Treaty on European Union mentions in Article 24.1, that the implementation of legislative acts must be left out. It is not merely the European Parliament that is left out of the decision-making procedure, but also the Court of Justice. The Court of
Justice is only involved if decisions concerning the foreign policy intrude on the Union’s essential rights and principles. Besides, the Treaty of Lisbon endowed the Foreign Affairs Council with a special status.

The Foreign Affairs Council, was established by the Treaty of Lisbon in 2009 and is a confirmation of the Council of the European Union. The conformation is presided by the High Representative of the Union for Foreign Affairs and Security Policy (abridged as the HR), instead of the Presidency of the Council of the European Union as some would believe. The High Representative of the Union for Foreign Affairs and Security Policy is the main director of the Common Foreign and Security Policy (abridged as the CFSP). The HR became utterly changed by the Treaty of Lisbon, although it did exist prior to the treaty. The HR’s objective is to endow the Foreign Affairs Council with technical assistance. The HR has not only received the role as chairperson of the Foreign Affairs Council, the Treaty of Lisbon has also appointed the HR as the vice-president of the European Commission. Moreover, the Political and Security Committee (abridged as the PSC) supports the movement of the HR and the Foreign Affairs Council. The Political and Security Committee deals with international cases that are signed to the Common Security and Defense Policy (abridged as the CSDP) and Common Foreign and Security Policy (abridged as the CFSP). The PSC along with CSDP and CFSP, “keep track of the international situation in the areas falling within the common foreign and security policy, help define policies by drawing up "opinions" for the Council, either at the request of the Council or on its own initiative, and monitor implementation of agreed policies” (EUR-Lex, 2001:1). The PCS apart from CSDP and CFSP, operates in other cases, for instance debt crises. When dealing with debt crises, the “PSC is the Council body which deals with crisis situations and examines all the options that might be considered as the Union's response within the single institutional framework and without prejudice to the decision-making and implementation procedures of each pillar (...) PSC exercises "political control and strategic direction" of the EU’s military response to the crisis” (EUR-Lex, 2001: 2-3).

The role of the HR is quite complicated, the HR is as a member of both supranational- and intergovernmental institutions; but with diverse roles. The vital role of the HR has in one way or another taken the foreign and security policies several steps closer to supranational institutions. For that reason, the HR is likely to work as a bridge between the Parliament, the Commission and the Council. To be more specific, the decision-making is partially
supranational (where the Parliament and the Commission are involved) and partially intergovernmental (where the Council and the Foreign Affairs Council acts outside a parliamentary chamber). Nevertheless, the Common Foreign and Security Policy have despite the Treaty of Lisbon’s endeavor, continued to follow and operate according to various principles that are within the trans-governmental logic. The trans-governmental logic consists of a socialization procedure that acts between national and governmental actors who certainly are not at the level of chiefs of government. However, it becomes quite apparent that the Foreign Affairs Council is the sole institution to determine the functioning system of the European Union’s foreign policy, which in fact, means that the Foreign Affairs Council may be regarded as a decision-making institution within the Council (Lavenex, 2001: 854).

When it comes to the economic policy of the European Union, it is the logic of the Economic and Monetary Union that is utilized. Economic policies that are allocated to the European Central Bank, are usually obliged to share the joint currency, and these economic policies are habitually governed by member nations own national government. It is therefore quite apparent that the Treaty of Lisbon utilizes the Economic and Monetary Union’s strategy, which initially was created by the Treaty of Maastricht. This derivative strategy encompasses both the centralization of the monetary policy and the decentralization of economic policy. The economic policies that exist within the European Union, are closely coordinated with the member nations. The Economic and Financial Affairs Council, also known as ECOFIN Council, regulates the European policy in three different fields, one of them is the economic policy. In this field, it is the decision-making that the ECOFIN Council controls. The European Commission has the authority to influence the decision-making of the economic policies given that it endows the ECOFIN Council with valuable data and recommendations. In accordance with Article 126 of the Treaty on the Functioning of the European Union, the Council ought to act unanimously with the special judicial process and implement the economic guiding principles only after the European Parliament have agreed upon them. The Commission may propose a law, which the Council can approve once discussing it with the European Parliament first. Nevertheless, the Council has recurrently adopted legislation without the European Parliament’s agreement (TFEU, Article 126.14). The advisory body of the European Union is the Economic and Financial Committee. By being its supervisor, the EFC formally supports the actions of the ECOFIN Council. The ECOFIN Council has the right and authority to adopt and implement various legislations that has to do with economic and financial guidelines of the European Union. In addition, the economic compromise of the
Stability and Growth Pact, was celebrated by the Treaty of Lisbon. Nonetheless, its structure is still starkly intergovernmental, not to mention the Stability and Growth Pact’s anticlimax in 2003. Although, the Commission embraces the Pact’s active role, the Council continues to perceive its role only as secondary. Once the Council has received the Commission’s approval concerning a topic, the Council is thereafter ought to frame a strategic plan for the comprehensive guiding principles of the member nations’ economic and financial policies (TFEU, Article 121.2).

The Commission has a compulsory role to exhibit the progress of the economic condition as well as the government debt situation of the Union’s member nations. By doing this, the Commission may get the information if, or if not, the Union’s member nations are following the mandatory criteria (TFEU, Article 126.2). Additionally, the Commission has also the authority to utter any kind of opinion that concerns the member nations. The Commission’s opinion can sometimes endow the Council with the information whether an extreme deficit in a given member nation is going to happen or not (TFEU, Article 126.5). If the Commission’s information is factual, the Council is enforced to create a plan or recommendation (approved by the Commission) to resolve the problem in the member nation within a particular period of time. However, the role of the Commission in this case, operates more as a proposal that encompasses recommendation and guidance, in the end; it is the ECOFIN Council that takes action. When it comes to the guidelines of the economic and financial matters, the ECOFIN Council has the right to choose between agreement and refuse. The role of the European Commission does in fact matter in this procedure, solely with its technical assistance though. Anyhow, it does not comprise any decision-making role in this procedure. The economic and financial guidelines depend on an Open Method of Coordination (abridged as the OMX); this method has an intergovernmental basis where the member nations of the European Union can voluntarily cooperate with one another. It is thus up to the member nations government, if they are willing to help a nation that is going through an extreme deficit.

4.3 The financial debt crisis

The end of 2009 destined the European Union to go through a financial debt crisis, perhaps more known as the Eurozone crisis, European debt crisis or European sovereign debt crisis. It all began when the government of Greece confirmed the fact that Greece was not able to solve their debits on their own. Once the government’s statement hit the public, the European
market was frightened and in shock, whilst other member nations which had alarming situations, become worried. The European Union itself, was afraid of encountering a breakdown. There were thus many reasons for the European Union to help Greece. The European Council held a meeting with Greece in 2010, providing with a strictly program. The strictly program demanded Greece to decrease pensions and salaries, while at the same time increase the tax rates. The program made the financial crisis case even worse, resulting in unemployment and furious marchers. With the on-going financial crisis, we need to go back to Jean Monnet statement once again, that Europe cannot “be made all at once, or according to a single plan. It will be built through concrete achievements which first create a de facto solidarity” (Piodi, 2010: 9). In order to create solidarity, nations must once again come together and help the nations in need.

4.3.1 Taking action by introducing the European Financial Stability Mechanism
The enduring crisis gave rise to ‘euro-skeptic’ and extreme right-wing political parties as the National Front in France. It was of vital importance for institutions of the European Union to act. The European Council began instantaneously with the procedure of policy-making. The European Commission was relegated when the crisis began, and the European Parliament was completely inactive. The crisis was a critical matter, which in fact, was changing and leading the present institutional route into another direction. The European Council’s governmental actors started to take possession of this matter by improving their cooperation with the Union’s member nations. The advanced cooperation was supposed to tackle the financial crisis (Stanislas, 2015). To complement the cooperation, the European Council relied on one of its own configuration, namely the Economic and Financial Affairs Council (abridged as the ECOFIN). The ECOFIN encompasses finance ministers of the twenty-eight member nations of the Union. The European Commission supported the European Council and started to take action as well. However, the Commission and the ECOFIN’s engagement to the financial matter did, not show any progressive results. This in fact, disappointed the European Council.

Owing to that, the ECOFIN began to strengthen the leadership by implementing a new rule. This rule resulted in the European Financial Stability Mechanism (abridged as EFSM). In 2010; the EFSM was approved by the Union’s euro-nations. The EFSM was thus the Commission’s urgent answer to the crisis where the EFSM was intended to endow any euro-nation (that was going through an economic difficulty) with financial aid. To do this, the EFSM depended on the economic market’s finances, and if these funds would not have been enough, European Union’s budget was utilized as plan b. The EFSM was utilized to bestow
Greece with its first financial aid. Greece received over one hundred billion euro, with a five percent rate per annum (Miller, 2012). Greece was not the only member nation that was bestowed with financial aid by the EFSM, Ireland and Portugal were aided as well. Besides, as a complement to the EFSM, the so-called European Semester was introduced. The European Semester was recognized to improve the coordination of the European economic policy, by allowing the Union’s member nations to meet and discuss their financial plans before trying to achieve these plans within a given time. Whilst, the EFSM was brought into force to help financial struggling nations such as Portugal, Ireland and Greece, the European Semester was established to hinder upcoming debt crises from happening. During the crisis, the European Semester cooperated with the Stability and Growth Pact (abridged as the SGP) to advance the member nations’ financial and economic policies.

4.3.2 Introducing the Six-Pack

Since the economic crises began to worse and grows rapidly. The European Council thus took numerous actions concerning this matter. The first measure was the Six-Pack, “the Regulations and Directive that form the ‘six-pack’ were introduced in 2011 with the ambition of reducing macroeconomic imbalances and ensuring the viability of national finances through either preventive or corrective actions. They apply to all Member States; although some rules (e.g. those relating to sanctions) apply only to the euro area” (Delivorias, 2014: 1).

In addition, the Six-Pack intended to “bring the surveillance of fiscal and economic policies under the European Semester, to ensure that the policy advice given to Member States is consistent” as well as “introduce a macroeconomic imbalance procedure relying on an early-warning system and enforcement regime” (Delivorias, 2014: 1). The resolving process of the euro crisis was shoved further when the European Council tried to accelerate the support of the European Stability Mechanism treaty. With regards thereto, “the European Council agreed (…) on the need for euro area Member States to establish a permanent stability mechanism. This European Stability Mechanism (abridged as the ESM) will assume the tasks currently fulfilled by the European Financial Stability Facility (abridged as the EFSF) and the European Financial Stabilization Mechanism (abridges as the EFSM) in providing, where needed, financial assistance to euro area Member States” (European Commission, 2012: 3).

As a result of this modification, the EFSM was recognized to be the member nations’ new euro-treaty. Although, the treaty was signed in 2011, it was however not applied into practice until a year later. With the ESM’s efficient role in the euro-area, the EFSM and the EFSF’s
operative system did not seem to advance the procedure any further. For that reason, the ESM thus more or less replaced them both. However, the EFSM and EFSF still continued to deal with some of their roles, like observing the member nations’ bailout loans etcetera. During the time when the ESM waited for its approval, the Treaty on Stability, Coordination and Governance in Economic and Monetary Union (abridged as the TSCG) was agreed by almost all EU member nations in 2012. This treaty did not come into force until 2013, but once it was entered into practice, it aimed at strengthening the:

“fiscal discipline including, inter alia, further automaticity of sanctions, transposition of a balanced budget rule into national legislation and ex ante reporting of public debt issuance plans (…) on economic policy coordination and convergence, including commitments to deepen the Economic and Monetary Union and ex ante coordination of major economic policy reforms; and (…) on the governance of the euro area, including the organisation of Euro Summits and of a conference of members of national parliaments and the European Parliament” (De Finance, 2015: 6).

Moreover, the TSCG lays one of its focal focuses on the demand to decrease the nations’ government debt. In addition, this treaty is the first authorized treaty to actually decrease the government debts mechanically. In accordance with Dehousse, having an intergovernmental treaty like the TSCG along with other EU treaties, is probably not the best choice. Dehousse exhibits scepticism toward the new compact by including two various Articles in his research: Article 7 and Article 8 of the Treaty on the Functioning of the European Union. Pertaining to Article 7, the Council takes decisions concerning the extreme debit process by acting on the Commission’s recommendation of a qualified majority. It is not news that the Six-Pack frame has shown progressive results by reinforcing the Union’s management, by creating devices that decreased government debts while at the same time enhancing the indicators of macro-economy. This in fact has, revealed that some fiscal assets may have concealed other disproportions along the way. Consequently, since the Commission’s authority can merely be refused by the qualified majority, which makes the regulation process more complex. Dehousse states in his research that:

“when the Commission’s proposals and recommendations concerning Eurozone countries are debated in the Council, according to Article 7 the members of the zone in question are committed to supporting them. If that were all there was, it could have been argued that the “fiscal compact” managed to impose stricter discipline with- out contravening to Article 126. However, because the French government has refused to accept automatic sanctions, the new commitment contained in Article 7 no longer stands if a majority of member states oppose the Commission’s conclusions. This qualification
not only weakens the credibility of the threat, but substitutes a rule (reversed qualified majority) for one that exists in the TFEU whereas, as was seen, an intergovernmental treaty may in no way contradict the principles contained” (Dehousse, 2012: 3).

That is to say, a negative response from a nation may with all probability have the power to change the outcome.

4.3.3 Strengthening the EMU
The Court of Justice did not play a key role during the financial crisis; the question here remains – why? It is revealed that the Court of Justice required a legal basis to get involved in the debit process. The government leaders of the Union exhibited a judicial role for the Court in Article 273 of the Treaty on the Functioning of the European Union, where the “Court of Justice shall have jurisdiction in any dispute between Member States which relates to the subject matter of the Treaties if the dispute is submitted to it under a special agreement between the parties” (Lock, 2015: 121). Given that the financial plan was now under the rule of law, it may sometimes be criticized for not falling under the omission of Article 126 of TFEU. This could, however explain why the Court’s power was suddenly restricted to the so-called ‘golden rule’ of fiscal policy. The ‘golden rule’ is a principle that focuses on the financial cycle, to be more exact, governments have the right to have a loan, but only for the governments with investment purposes. Since the Court’s power was restricted to the golden role, its role has relegated drastically and thus the involvement in the debit process. The role of the Court merely operates on cases where impartial financial plans need to be conveyed in the member nations’ national law (De Finance, 2015).

Moreover, the intergovernmental Treaty on Stability and Coordination and Governance in the Economic and Monetary Union is under the judicial control of the European Court of Justice. Both the European Stability Mechanism and the Treaty on Stability and Coordination and Governance in the Economic and Monetary Union depend on an intergovernmental basis. Approval from all member nations of the Union is not considered necessary for decision-making in the new intergovernmental treaties. When the Treaty on Stability and Coordination and Governance in the Economic and Monetary Union was created, the treaty demanded no less than two-thirds of the votes from the member nations to be realized and applied into practice (Miller, 2012). The nation that does not respect a treaty is now handled by the Commission’s quasi-automatic system. Nevertheless, the Treaty on Stability and Coordination and Governance in the Economic and Monetary Union does not utilize this system; the treaty
rather utilizes the system called the Euro Summit or the Eurozone Summit. The Present of Euro Summit gathers the President of the European Commission and the heads of state of the euro-area nations to create new principles for the nations’ fiscal policy. The Euro Summit bestows with strategic assistance to guarantee a well functioned operation of the Economic and Monetary Union. The meetings make it possible for euro-area nations to discuss economic and political matters on national level, as well as to have an effect on the decision-and policy-making (De Finance, 2015; Miller, 2012).

Furthermore, it became apparent that economic measures could not quite handle the financial crises. At this time, the European Council had to strengthen its force by encompassing the two intergovernmental treaties the European Stability Mechanism and the Treaty on Stability and Coordination and Governance in the Economic and Monetary Union. The executive measures of these two treaties ought to be changed and supported in the modernized Economic and Monetary Union. In the report by President of the European Council, Van Rompuy stated that:

“the implementation of contractual arrangements and the associated incentives would support a convergence process, leading (...) to the establishment of a fiscal capacity to facilitate adjustment to economic shocks. This could take the form of an insurance-type mechanism between euro area countries to buffer large country-specific economic shocks. Such a function would ensure a form of fiscal solidarity exercised over economic cycles, improving the resilience of the euro area as a whole and reducing the financial and output costs associated with macroeconomic adjustments. By contributing to macroeconomic stability, it would usefully complement the crisis management framework based on the European Stability Mechanism. Since a well-functioning shock absorption function would require a further degree of convergence between economic structures and policies of the Member States, the two objectives of supporting growth-enhancing structural reforms and cushioning country-specific economic shocks are complementary and mutually reinforcing” (Van Rompuy et al., 2012: 9).

The European Council’s report comprises thus a very thorough and strategic plan that is not only economic, but political as well. The European Parliament did in fact not take part of the collaboration; the Parliament was however slightly involved because it was the sole institution that had to make sure the decision-making was in accordance with several rules.

4.3.4 Introducing the Two-Pack

In the meantime, the financial crises continued to show inadequacies in economic governance. With regards thereto, the so-called Two-Pack was established. The Two-Pack is considered to
be the complement part of the Six-Pack which was applied into practice in 2011. Two-Pack was not established because the Six-Pack was not efficient, it was rather established to strengthen the former, advance and reinforce the Stability and Growth Pact as well as to strengthen the member nations’ coordination regarding economic policies and intergovernmentalism. In this sense, the Two-Pack treaty could also strengthen the Economic and Monetary Union. The financial crisis has indisputably added the need for a more cautious fiscal decision-making. The Stability and Growth Pact along with the Six-Pack has more or less required new economic rules and fiscal policy-making, whereas the Two-Pack on the other hand, lays its focal attention on coordination. During the financial crisis, it became apparent that the budgetary coordination and surveillance had to be advanced in the euro-area nations. Previous economic policy-decisions seem to have amplified the will to strengthen the joint surveillance and reinforce the collaboration between member nations (Delivorias, 2014). The Two-Pack treaty ought to follow Article 136 of the Treaty on the Functioning of the European Union which states that:

“In order to ensure the proper functioning of economic and monetary union, and in accordance with the relevant provisions of the Treaties, the Council shall (...) adopt measures specific to those Member States whose currency is the euro (...) strengthen the coordination and surveillance of their budgetary discipline (...) to set out economic policy guidelines for them” and that “only members of the Council representing Member States whose currency is the euro shall take part in the vote” (EUR-Lex, 2008: 1, 106).

To strengthen and accelerate the process, two other rules were approved to join the Two-Pack. Once these rules were approved, they did legally bind all euro-area nations. These rules depended on the European Semester and Stability and Growth Pact basis regarding the euro-area nations’ fiscal policies. These regulations demand the member nations to draw a plan and proposal concerning their budgetary plans for the next year to the Euro Group and the European Commission (Delivorias, 2014). The European Commission and the Euro Group reviews these budgetary plans and makes sure that fiscal policy and the financial governance regulations are coordinated and respected in all euro-area nations. The assessment is divided into three various categories: (1) in compliance, (2) largely in compliance or (3) threatened to be at risk of not being in compliant - each of them explains if a euro-nation meet the requirements. The Commission has a compulsory role here, to exhibit the progress of the economic condition as well as the government debt situation of the Union’s member nations. By doing this, the Commission may get the information if the Union’s member nations are
following the mandatory criteria. Additionally, the Commission has also the authority to utter any kind of opinion that concerns the member nations. The Commission’s opinion can sometimes endow the Council with the information whether an extreme deficit in a given member nation is going to happen or not. If the Commission’s information is factual, the Council is enforced to create a plan or recommendation (approved by the Commission) to resolve the problem in the member nation within a particular period of time (European Commission, 2014).

4.3.5 The European Union shved towards a fiscal union?

The European Union’s financial supervision system is the European System of Financial Supervision (abridged as the ESFS). In the light of the financial debt crisis, three European Supervisory Authorities (abridged as ESA) were established within the ESFS; (1) European Securities and Markets Authority (abridged as the ESMA), (2) European Insurance and Occupational Pensions Authority (abridged as the EIOPA), as well as (3) the European Banking Authority (abridged as the EBA). As a complement to the ESA, a European Systemic Risk Board (abridged as the ESRB) as formed as a rejoinder to the enduring financial debt crisis. The ongoing financial crisis demanded thus reformation and alterations in the micro- and macro prudential financial system. While the ESA deals with micro-prudential matters, the ESRB operates with macro-prudential in turn to hinder upcoming challenges and risks in the financial system. The micro-prudential regulation is described as:

“the supervision of individual institutions is characterized by a multi-layered system of authorities. The various layers can be separated according to the sectoral area (banking, insurance and securities markets) and the level of supervision and regulation (European and national). In order to ensure consistency and coherence between the different layers, various coordination bodies and instruments have been created. In addition, coordination of the entities at international level has to be ensured” (European Parliament, 2017: 1).

Micro-prudential supervisions cannot operate without the lending hand of the macro-prudential supervision. To be more specific, the macro-prudential supervision deals with “the interactions among individual financial institutions, as well as the feedback loops of the financial sector with the real economy, including the costs that systemic risk entails in terms of output losses” (European Central Bank, 2014: 136). If a critical risk is detected by the ESRB, the Council is the first institution that is informed of this matter. The Council’s role in this situation is to calculate the amassed information and provide the ESA with a decision relating to the challenging situation. While the Council is evaluating the amassed data, the
Parliament ought to be informed about the matter. Some challenging situations may force the Council and the Parliament to meet the ESRB to further scrutinize financial challenges in detail.

Since the ESRB endowed the Union with a more effective and more endurable system, the financial stability was hence strengthened in the European Union. This financial stability also strengthened the internal market which in fact, outcomes in an economic progression. Not to mention, the ESRB evidently enhanced the role of the Commission; the Commission did not only operate in proposing ESA and ESRB, the representatives of the Commission also operates within this board, along with other supervisory authorities of the Union’s member nations. The role of the Commission is not the only enhanced role; the role of the Council and the Parliament played a key role in establishing the ESFS as well. The Council and the Parliament as co-legislators were both active in negotiating new regulations regarding the different pillars of the European Union. More specifically, the Parliament operated not only in delegating several acts, but also in applying these adopted acts into practice. Since the Council and the Parliament approves the decision-making directors and the chairpersons of the ESA, they thus receive the right to obtain annual and wide-ranging data coming from ESA reports etcetera. The Parliament can also demand the ESA’s opinion in a given context because the Parliament comprises the right “to decide whether to grant discharge for the budget of the various authorities each year” (European Parliament, 2017: 4).

Moreover, while the financial system’s risks and complexity is addressed and strengthened by the ESFS and the ESRB’s effective functions, ESA on the other hand, cooperated with national supervisory authorities to handle different economic institutions. The objective with the ESA and the three supervisory authorities within it was to form safety and stability in the financial system of the European Union. In order to attain the objective, the ESA adopted several new institutional laws and regulations to improve the existing system. However, the ESFS’s reformed financial system was only effective in the beginning of its establishment. Unfortunately, the ESFS was in need of a more efficient basis, that is to say, uniformity and a more effective executive procedure. In deficient of this, the utilization of ESFS could be fully harmonized in the European Union (Demarigny et al., 2014). The financial debt crisis also revealed that harmonization of the ESFS’s financial system was not adequate in hindering disintegration in the financial market. As a response to this matter, the Commission took action by proposing the European Banking Union. The intention with a Banking Union was to attain a more integrated method and at the same time strengthen the single market along with
the single currency field. The Banking Union encompasses two initiatives or “pillars”. The first one is the Single Supervisory Mechanism (abridged as the SSM), which was applied into force in November 2014, whilst the second initiative the Single Resolution Mechanism (abridged as the SRM) was planned to be implemented into force two years after. The SSM’s role is:

“to ensure consistent and coherent supervision of credit institutions in order to prevent regulatory arbitrage and fragmentation of the financial services market in the Union. The SSM (…) confers specific tasks relating to the prudential supervision of credit institutions in the participating Member States on the ECB. They include authorizing credit institutions, ensuring compliance with prudential and other regulatory requirements, and carrying out supervisory reviews” (European Parliament, 2017: 3).

Unlike the SSM, the SRM is relatively new. The role of the SRM “provides tools and instruments for the recovery and resolution of credit institutions and certain investment firms in the euro area and in other participating Member States” (European Parliament, 2017:4). Similar to other decisions and acts that were taken during the financial debt crisis, the SRM is considered to be an intergovernmental agreement as well. Nevertheless, although the Council, the Commission and the Parliament were among the institutions that were most involved in the financial debt crisis, their progressive roles seem despite this fact, not to have make major changes in the financial crises. Even though some nations have mended from their financial debts, the high unemployment, vast debits, and inflexible markets continued to persist despite the institutions progressive operation (Delivorias, 2014).
5. Conclusion along with discussion

The main objective with the thesis was to analyze institutional change in the European Union pre-and-post financial debt crisis, with particular focus on the roles of the Parliament, the Commission, the Council as well as the Court of Justice. To attain the objective, the thesis intended to answer the subsequent queries. The initial query was *what notable institutional changes were brought in the European Union pre-and-post financial debt crisis?* The second query of the thesis was *what role did the Parliament, the Commission, the Council and the Court of Justice play pre-and-post financial debt crisis; were their roles enhanced by the financial debt crisis?*

To commence with, once Jean Monnet uttered the words of a common union – everything changed. This in turn, made it possible for nations to join in, resulting in a wide-ranging European Union. With the enlargement of the Union, several institutions were established to take action, including the Commission, the Council, the Parliament as well as the Court of Justice. With the establishment of the Treaty of Lisbon, several institutional changes occurred in the European Union. The Treaty of Lisbon, made the EU more formal; from having a normative power into encompassing an executive one, dealing with political and economic policies. This became quite evident in the decision-making procedure; from having ‘a qualified majority’ system, the decision-making procedure altered to an ordinary legislative procedure, also known as the co-decision procedure. The treaty also presented three different pillars that may be utilized within the procedure. Since some challenges from the EU enlargement affected the pillar’s discrepancy, the Intergovernmental Conference was prearranged – keeping a European balance between supranationality and intergovernmentalism. The Treaty did however; bring more supranationalism rather than intergovernmentalism in the European Union.

Subsequently, the Treaty of Lisbon brought new institutional changes by creating a new institutional framework. The institutional framework introduced new amendments that improved the single market and enhanced the role of all four institutions, especially the role of the Council. The role of the Commission and the Court of Justice was vital in the introduction of a joint market – the institutions reinforced the collaboration and the financial support between the Union’s member nations, whereas the Parliament’s role was considered as rather secondary here. Nonetheless, the European Single Act endowed the parliament with a law-
making role, giving member nations the right to have an impact on decision-making procedures. The Lisbon Treaty came to improve the Parliament’s role yet more by making the Parliament and Council equal in the new co-decision procedure. The Treaty’s introduction of a bilateral legislature was yet another institutional change encompassing two chamber of a bilateral legislature system. The role of the Council has been dynamic since its formation, while the role of the three other institutions could somewhat vary throughout the progression of the European Union. When the Council’s configuration HR was established, the role of the Commission, Council and the Parliament were comprised in a trilogy decision-making operation, with the HR acting as a bridge between the three of them.

With regards to institutional change after the financial debt crisis, the results reveal that institutional changes occurred mainly in economic and fiscal policies, for instance the strengthening of the EMU with the intergovernmental Treaty on Stability and Coordination and Governance. The Council was the first institution to take action, while the Commission was relegated and the Parliament was completely inactive. This is interesting because many would have believed that the Commission and the Parliament would be among the first European institutions to take action. Although, the Commission started to react on the crisis, its role was rather decreased in the agenda setting, whilst the Council’s role exhibited progress. The market policies concerning international trade, the internal market etcetera, were suddenly centralized due to the financial debt crisis, hence the establishment of the European Semester - to improve the coordination of the European national economic policy. While the other institutions were inactive, the Council thus operated outside the trilogy. Given that the power was centralized by the crisis, it meant that the Council had more responsibility to deal with national economic policy. The role of the Court of Justice did not show any progress. Due to the golden rule restriction, the role of the Court was relegated, with almost no involvement in the debit process. The only involvement was its operation on cases where impartial financial plans needed to be conveyed in the member nations’ national law.

The Commission on the other hand supported the Council, by applying common policies into practice, instead of deciding. With the introduction of the Six-Pack, the Commission’s role was slightly enhanced concerning financial and budgetary policy. The Parliament, did not play a key role in the financial debt crisis until three European Supervisory Authorities were established within the ESFS. The Parliament and the Council acted as co-legislators in negotiating new regulations regarding the different pillars of the European Union. The role of the Commission was also slightly enhanced by the ESRB, but it was however not enhanced as
much as when the Commission proposed a Banking Union. This institutional change strengthened the single market along with the single currency field.

To sum up, although the Six-Pack, Two-Pack, the ESFS as well as the Banking Union showed progress in strengthening the fiscal economic policies, they were however, not enough to solve the whole financial debt crisis. The decisions that were taken during the financial debt crisis show that the European Union has a capacity to absorb panic situations and a capacity to bring institutional changes. Not to mention, the balance between supranationality and intergovernmentalism has been changed by the crisis, encompassing more of the latter – making the European Union yet more of a formal institution.
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