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Clara Isabella Siegle

EMU Reform Mechanisms

A Multi-Level Analysis of the European Sovereign Debt Crisis in a Case Study of Ireland and Spain

Tectum

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Edited by Prof. Dr. Christian Lequesne
and Prof. Dr. Wolfgang Wessels

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With a Foreword by Prof. Dr. Wolfgang Wessels

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Foreword

Confronted with the serious consequences of a polycrisis, it is highly relevant to study the EU's mechanisms to deal with the Sovereign Debt Crisis as a case study to understand the reactions of the EU and its Member States to past and present challenges.

Clara Siegle's MA thesis, written at the College of Europe during the academic year 2022/2023 under supervision of Professor Westlake, a leading expert on EU policies, presents a stimulating analysis of the interplay between the national and the European level. As a considerable added value, we can profit from Siegle's approach to develop – with a critical review of the theoretical literature on the EU's multilevel system – a theoretical framework of an "upward spiral of mutually perpetuated reform". We can also benefit from her test of three hypotheses by using the empirical evidence of two different countries as highly significant case studies.

The conclusion offers a valid contribution to the academic research on the EU's crisis management and to the political debate on how the EU and its members should deal with major challenges.

Prof. Dr. Wolfgang Wessels

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Abstract

This paper explores the mechanisms behind the emergence of reform on the national and on the European level during the European sovereign debt crisis by asking itself how these adjustments were enabled when reform had faced substantial constraints on both levels in the years prior to the crisis. The paper establishes a theoretical framework of an *upward spiral of mutually perpetuated reform* by basing its approach on a multi-level analysis of reform-enhancing and -restraining factors in the national and the supranational realm. This approach regards the high level of interdependence between the member states and the Economic and Monetary Union (EMU) as the reason behind the accelerated reform implementation in the crisis years, claiming that the exceptional situation of the eurocrisis created a unique window of opportunity for change on the national and on the supranational level. More precisely, adjustments were enabled by each level possessing weaknesses whose change however was constrained due to level-specific factors. Thus, only the pressure exercised by the respective other level enabled the implementation of reform once the urgency of the crisis necessitated adjustments as the only remedy against collective failure.

To exemplify its claims, this paper analyses two of the most affected countries of the European sovereign debt crisis, Ireland and Spain, and assesses the interaction of these member states with the supranational level in the establishment of reform. With the help of three hypotheses, a holistic analysis of the mechanisms behind the eurocrisis reforms is enabled, regarding the interconnected system both in its entirety and in its individual levels of member states and the EMU.

The first hypothesis claims that the high degree of interdependence between the two levels existed in the implementation of reforms due to the integrated, yet incomplete nature of their relation, rendering each level dependent on the other to implement much-needed reform to counter the crisis effects. The second hypothesis concentrates on the member-state level, arguing that change in Ireland and Spain would not have been possible without the intervention of the European level as national reform was constrained by domestic factors. The member states' dependence on the EMU's financial assistance created the necessary impetus to establish reform due to the strict conditionality that the supranational aid encompassed. In a mirrored logic, the third hypothesis claims that previously impossible change to the supranational level of the EMU was only enabled in the crisis context when member state failure necessitated the intervention by a strong and credible EMU that was only attainable through the implementation of change to its lacking architecture.

Applying the real-world evidence of reforms achieved in Ireland, Spain, and the EMU to its claims, the paper concludes that the substantial reforms which each level implemented during the crisis can be explained with the highly interconnected nature of the member states and the European level because it created the necessary pressure that facilitated reform in an exceptional situation where the contextual urgency and risks at stake allowed for change that had previously been constrained.

Keywords

EMU
Reform
European integration
European sovereign debt crisis
Two-level interdependence
Ireland
Spain

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List of Abbreviations

CEBS	Committee of European Banking Supervisors
EBA	European Banking Authority
ECB	European Central Bank
EDP	Excessive Deficit Procedure
EFSF	European Financial Stability Facility
EFSM	European Financial Stability Mechanism
EIP	Excessive Imbalance Procedure
EMU	Economic and Monetary Union
ESM	European Stability Mechanism
ESRB	European Systemic Risk Board
EU	European Union
GDP	Gross Domestic Product
H	Hypothesis

IMF	International Monetary Fund
MIP	Macroeconomic Imbalance Procedure
NAMA	National Asset Management Agency (Ireland)
OHIO	“Own House In Order”
OMT	Outright Monetary Transactions
PEPP	Pandemic Emergency Purchase Programme
SAREB	Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria (Spanish “bad bank”)
SGP	Stability and Growth Pact
SMP	Securities Markets Programme
SRF	Single Resolution Fund
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
TFEU	Treaty on the Functioning of the European Union
USA	United States of America