Walking the Tightrope: Politicization and the Commission’s Enforcement of the SGP*

REINOUT ARTHUR VAN DER VEER
Department of Political Science, Radboud University Nijmegen, Nijmegen, the Netherlands

Abstract
Recent research indicates that bottom-up EU politicization shapes top-down EU policy enforcement, yet leaves open questions on the pervasiveness of these effects in policy areas that are depoliticized by design. This contribution asks how societal EU politicization shaped the enforcement of the Stability and Growth Pact up until its COVID-19-induced suspension. It employs causal process-tracing to analyse fiscal rule enforcement under varying levels and constellations of EU politicization. Results indicate that enforcement by the European Commission is shaped both by mandate and exogenous pressures created by politicization and the reputational concerns they induce. Moreover, politicization has gradually pushed the Commission towards increasingly flexible enforcement of EU fiscal rules. These conclusions are relevant because they show that politicization permeates even the most depoliticized areas of EU policy. Additionally, they suggest that the SGP’s COVID-19-induced suspension can be understood as a continuation of existing enforcement strategies.

Keywords: Economic and Monetary Union; European Commission; Politicization; Policy enforcement; Bureaucratic reputation

Introduction
The COVID-19 pandemic epitomizes the series of crises facing the European Union (EU), placing its institutions under severe performative pressure. Concurrently, EU institutions face mounting political pressure: the EU’s ‘constraining dissensus’ has come into maturity (Hooghe and Marks, 2009) and the societal politicization of European integration (hereafter: politicization), defined as ‘the growing salience of European governance, involving a polarisation of opinion and an expansion of actors and audiences engaged in monitoring EU affairs’ (De Wilde et al., 2016, p.4), has become the backdrop against which all EU activity occurs. Recent research has increasingly focussed on politicization and its consequences for day-to-day EU operations, including in the European Semester (ES).

EU institutions are found to strategically engage in politicization ‘management’ (Bressanelli et al., 2020; Schimmelfennig, 2020) and recent studies have shown ES

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enforcement to be affected by politicization (for example Van der Veer, 2021; Miró, 2020; Mérand, 2021; see also Baerg and Hallerberg, 2022). Yet this research has thus far left the black box regarding the process by which EU institutions respond to politicization unopened (De Wilde and Rauh, 2019). There is limited understanding of the causal mechanisms driving such responsiveness by EU actors (Zhelyazkova et al., 2019).

This contribution addresses this lacuna by empirically testing for the presence of two causal mechanisms stemming from a rational-choice model of European Commission responsiveness to the heterogeneous threats posed by politicization among different audiences during ES enforcement. The point of such theory-testing causal process tracing is to assess the validity of specific, theoretically-informative but conditional causal mechanisms, not to formulate one-size-fits-all mechanisms that apply to a population of cases (Beach and Pedersen, 2019). Thus, this article seeks to explain the Commission’s differentiated responsiveness to politicization among different audiences under conditions where enforcement conditions are such that ‘the rules’ no longer provide sufficient guidance. The empirical analysis draws on the corrective arm of the currently-suspended Stability and Growth Pact (SGP): the Excessive Deficit Procedure (EDP).

The exercise indicates that politicization shapes Commission decision-making under ambiguity by altering the various institutional risks and reputational threats the Commission faces during SGP enforcement. Specifically, politicization expands the audiences taking an interest in enforcement decisions, most notably Eurosceptic audiences opposing supranational meddling and audiences supporting stringent fiscal supervision in creditor states. Moreover, it shows how institutional changes aimed at strengthening SGP enforcement have increased the Commission’s susceptibility to these politicization-enhanced reputational threats (see Mérand, 2021).

Hence, this contribution speaks directly to the second question posed in the introduction to this special issue. By demonstrating the importance of domestic audiences and actors in shaping the enforcement of the ES (for the impact of the ES on domestic politics, see Bokhorst, 2022 as well as D’Erman et al., 2022), it offers a fine-grained understanding of the mechanisms underlying the supranational responsiveness of EU policy enforcement. The SGP-specific analysis shows that politicization permeates the EU’s most technically complex and legally intricate surveillance schemes, which are affected by much broader sets of audiences than usual-suspects stakeholders (Van der Veer and Haverland, 2019).

I. The Stability and Growth Pact

The SGP is the EU’s main means of securing a low budgetary deficit and sustainable sovereign debt regime, committing member states to nominal deficits below 3 per cent and gross debts below 60 per cent, of GDP. Yet its application is far more complicated, as various reforms have sought to operationalize the framework while making it more sensitive to economic context. The SGP now consists of a myriad of methodologies and protocols including benchmarks and exception clauses which are laid out in a 108-page Vade Mecum (European Commission, 2019).

The SGP’s credibility has been fiercely debated since its inception (Heipertz and Verdun, 2010). This debate and questions about the Commission’s capacity for enforcement was especially visible surrounding the Council’s suspension of the Pact in 2003.
following a Franco-German request. While reforms in 2005 initially weakened the Commission, subsequent changes significantly strengthened its autonomy and discretion. Most notably, while the Council (ECOFIN) must formally endorse most Commission enforcement decisions, the 2011 ‘Six-Pack’ reforms introduced more sanctions and made Reversed Qualified Majority Voting (RQMV – that is, a qualified majority is required to block Commission proposals) the default voting rule regarding sanctions. It also put the debt criterion on equal footing with the deficit criterion, which increases the likelihood of debt-based EDPs.

These reforms have also invigorated existing critiques on SGP enforcement. Audiences in creditor member states criticize the Commission for leniency towards fiscally irresponsible member states (Schmidt, 2019). Others argue that the SGP centralizes control over ‘core state powers’ (Genschel and Jachtenfuchs, 2018) in the hands of unelected Commission experts, as democratic delegation and accountability chains leading to the Commission are thin (Scharpf, 2015; Seikel, 2016; Sanchez-Cuenca, 2017). Politicization thus yields strongly heterogeneous pressures on the Commission, depending on the audience involved.

II. Legitimacy, Reputation and Politicization

This article draws on theories of reputation and legitimacy management, which provide explanations for audience-induced Commission behaviour under conditions of audience heterogeneity (Van der Veer, 2021). Their premise is that public organizations face challenges to their authority and must legitimate their actions to safeguard their institutional positions (e.g. Busuioc and Rimkutė, 2019; Rauh, 2019). Poor performance or political dissatisfaction yield cuts in organizational budgets or mandate weakening, displacement or termination. For the European Commission, such generic risks are compounded by the politicization of EU legitimacy, including the growing opposition to supranational authority (Zürn, 2018).

Organizational legitimacy demands that ‘the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions’ (Suchman, 1995, p. 574). Organizational reputation refers to the ‘beliefs about a public organisation’s capacities, roles and obligations that are embedded in a network of multiple audiences’ (Carpenter, 2010, p. 45). The key difference is isomorphism (Deephouse and Carter, 2005): to be legitimate, organizations must convince audiences to accept them as part of the population of endorsed public authorities. For a strong reputation, organizations must convince audiences of the unique qualities that set them apart from ‘rival’ authorities with similar mandates (Maor and Sulitzeanu-Kenan, 2016; Rimkutė, 2018). Yet given that both are characterized by a quest for audience approval, this contribution will treat processes of reputation and legitimacy management as identical unless specified otherwise.

Safeguarding a reputation requires the constant employment of reputation-balancing and protection tactics (Maor et al., 2013; Rimkutė, 2018). Organizations can highlight several reputational dimensions (Carpenter, 2010): performance reputation (capacity to effectively achieve objectives), moral reputation (adherence to law and social norms), procedural reputation (justness and quality of decision-making) and technical reputation (specialization, expertise and an adherence to scientific standards). Reputations are
constructed through interaction between the organization and the multiple, often heterogeneous, audiences in its environment. This has two important implications: first, audiences can pose reputational threats (or legitimacy threats, Rauh, 2019) to the organization and pressure organizations to mitigate these threats (Carpenter, 2010; Busuioc and Lodge, 2016). Second, organizations often rely on differentiated and audience-specific reputation-management strategies. Organizations with enforcement mandates may take reputational damage both when audiences believe they are over-enforcing or under-enforcing policy (Gilad et al., 2013).

Societal EU politicization amplifies the threats posed to the European Commission in a number of ways. By raising the salience and opposition to the EU, politicization greatly expands the population of audiences engaged in monitoring Commission behaviour. The resulting increase in political mobilization generally concerns societal and legislative actors (Grande and Hutter, 2016), which amplify reputational threats selectively but greatly raise the stakes involved for the Commission. In a politicized environment, the Commission is more likely to face scrutiny and criticism by more mobilized audiences during its enforcement activities. The consequences of reputational losses may be more severe, as opposition by these audiences may have grave long-term consequences for the EU.

Politicization can push the Commission to cultivate legitimacy by signalling responsiveness to public demands (Rauh, 2019). In its role as fiscal watchdog, however, politicization has a differentiated effect on Commission behaviour. Politicization feeds into the SGP-specific political conflict structure (Miró, 2020; Mérand, 2021; Van der Veer, 2021): there are heated debates over desired levels of rule- and enforcement flexibility. Audiences in creditor states favour stringent supervision, whereas audiences in debtor states favour flexibility. Politicization amplifies the reputational threats of over- and under-enforcement for these audiences. First, it infuses them with more fundamental objections to EU meddling in the ‘core state power’ of national budgetary policy (Genschel and Jachtenfuchs, 2018). Second, it sensitizes non-executive audiences to SGP enforcement, thus increasing the likelihood that conflict over enforcement feeds political contestation of the EU more generally.

Contested enforcement decisions may thus threaten the legitimacy of the Commission and the EU by pushing audiences towards increasingly anti-Commission or Eurosceptic positions. This may incite actors to pursue member state exits, or to demand the removal of competences from the EU. But there are also uniquely reputational threats for the Commission: the area of EU economic governance hosts several rival authorities (e.g. the ECB, European Fiscal Board and ESM) that can potentially take over the fiscal supervision mandate from the Commission, should member states decide to remove it.1 Hence, the Commission must ward off critique regarding its authority to interfere in national fiscal policy, but must also convince audiences that it is the right organization for the job.

III. How Politicization Affects Enforcement

This contribution proposes two causal mechanisms, resolve and appeasement, that explain the way politicization affects SGP enforcement. These mechanisms are presented in Figures 1 and 2.

1Naturally, this would require major changes to be made to the EU treaties, but recent proposals for SGP reform suggest this debate is far from theoretical.
Both mechanisms start from the assumption that politicization *only* matters for Commission decision-making when enforcement conditions (that is, the fiscal situation of the member state under surveillance) are sufficiently ambiguous. This condition is necessary for both mechanisms, because when a breach of the SGP’s thresholds is irrefutable or non-existent, the Commission can and will simply follow the rules-based framework that the SGP provides (Van der Veer, 2021). In such cases, there is less scope for external audiences to question and contest Commission decisions.
The noticeable presence of EU politicization in the target member state is a necessary condition for both mechanisms, as this sensitizes the Commission to the reputational threats involved with enforcement (Van der Veer and Haverland, 2018; Van der Veer, 2021). As the salience and contestation of the EU increases, politicization enhances the threat of over-enforcement, especially when Eurosceptic audiences oppose EU interference. Through EU politicization, the possibility of an EDP is more likely to be noticed, opposed and protested against by these Eurosceptic audiences. Thus, EU politicization in the target state, given ambiguity regarding enforcement conditions, forces the Commission to bring reputational calculations into its decision-making. Recent research suggests that the issue salience of the specific enforcement decision and the mobilization of Eurosceptic audiences in the target state are especially likely to sensitize the Commission to the risk of over-enforcement (Rauh, 2019; Van der Veer, 2021).

Moreover, by the same logic, the presence of EU politicization and issue salience in creditor states creates the reputational conundrum for the Commission by simultaneously enhancing the threat of under-enforcement (Van der Veer, 2021). As creditor audiences favour strict enforcement of EU fiscal rules, politicization among these audiences increases the likelihood that non-enforcement for non-compliant member states is noticed, opposed and objected to. The risk that non-enforcement is perceived as an appeasement of Eurosceptic audiences in the target state makes the Commission especially sensitive to reputational losses among creditor audiences.

The conditions for both mechanisms vary on one important dimension: the degree of institutional discretion left to the Commission (Miró, 2020; Mérand, 2021). Discretion matters for reputation-seeking behaviour in two ways. First, absent any discretion, the Commission simply operates in an algorithmic fashion and is unable to adjust enforcement to accommodate reputational threats. Second, the more discretion the Commission enjoys, the more it is forced to take responsibility for the decisions that it makes. A non-negligible degree of discretion was already present prior to the euro area financial crisis (EAFC), but was increased considerably — both de jure and de facto — with the introduction of the Six-Pack. As Mérand (2021) shows, especially the change to RQMV in the Council has shifted the locus of political decision-making on SGP enforcement from the Council to the Commission.

The confluence of these conditions triggers the reputational decision-making mechanisms within the Commission. The first element for both mechanisms is an awareness within the Commission that various audiences are watching and that its reputation for fiscal surveillance is indeed threatened and/or impaired. Moreover, it is aware that the lack of clarity regarding enforcement conditions creates sufficient scope for audiences to criticize its decisions and that EU politicization amplifies this.

If the Commission is sensitive to the reputational costs of different enforcement options, it will subsequently assess the degree to which external audiences will attribute responsibility for enforcement outcomes to the Commission. If Commission discretion is limited (resolve mechanism), external audiences are more likely to attribute at least part of the responsibility of the decision to the Council. This makes it easier for the Commission to demonstrate its willingness to uphold the rules and signal resolve in the face of politicization in the target state. Yet if the Commission enjoys considerable discretion (leniency mechanism), its audiences are more likely to attribute the blame for unpopular decisions to the Commission alone.
The final element of both mechanisms is the Commission’s weighing of the severity of the two opposing threats of over- and under-enforcement, for which the balance of politicization across audiences is decisive. If the Commission shows leniency for the target member state, it harms its reputation as credible fiscal watchdog for creditor audiences. If it instead signals resolve through the visibly strict application of fiscal rules, it projects overly technocratic unresponsiveness and invasiveness to audiences in the target state calling for more leniency. The resolve mechanism supposes that the Commission decides that showing leniency is more damaging to its reputation among audiences in creditor states, especially since its rules-based constraints make it difficult to show extensive flexibility to the target state. Here, the outcome is a visible signal of resolve intended to bolster its reputation as a credible fiscal watchdog for creditor audiences.

The leniency mechanism instead supposes that the Commission concludes that reputational losses for audiences in the target state will have graver consequences. The availability of sufficient discretion enables the Commission to show leniency to the target state, which it is inclined to do as the it is most likely to be attributed responsibility for the enforcement decision. This makes it more sensitive to politicization in the target state, especially when levels of EU politicization and issue salience exceed those same levels among creditor audiences. In this case, the threat of over-enforcement is significantly higher than the threat of under-enforcement, resulting in the visible signalling of leniency by the Commission to audiences in the target state.

IV. Method

The point of theory-testing process-tracing is to investigate whether hypothesized mechanisms were present in specific cases. This requires that case selection is deliberately informed by both X and Y, including relevant scope conditions (Beach and Pedersen, 2019, p. 150). To ensure comparability of the evidence across cases, the empirical examination of the mechanisms was restricted to the relatively well-documented and standardized process of the launching of EDPs. Three episodes of fiscal surveillance were selected: the UK (2008), Finland (2010–15) and Italy (2018).² Jointly, these cover four enforcement decisions which were likely to be driven by politicization-enhanced reputational calculations.

Fiscal conditions in these cases were sufficiently ambiguous to allow the Commission to open or avoid an EDP and EU politicization was present at the time of the decisions. The cases evenly took place both before and after the 2011 reform, ensuring variation in Commission discretion vis-à-vis the Council. The selection of cases from the initial wave of EDPs that was launched at the onset of the EAFC was purposefully avoided, as procedures were launched in bulk and became normalized during this period. Whereas the UK case was an outlier in terms of its exceptions under Protocol 15

²Neither the UK nor Finland are net-debtors to other member states. Moreover, the UK never was a euro area country. Yet the argument made here is that enforcement vis-à-vis non-debtor and non-EMU states also influences perceptions of Commission efficacy in net-creditor countries. Creditor audiences tend to view the SGP’s ruleset as a uniform set of hard rules that is not negotiable and should apply to all member states equally. If creditor audiences perceive the Commission as largely incapable of upholding these rules for member states where stakes are low and governments are generally supportive of or indifferent to strict enforcement, how should they expect the Commission to behave when stakes are high and governments demand leniency?
TEU/TFEU, the case is of high theoretical relevance as it allows for a test of the resolve mechanism prior to the EAFC. Hence, if the mechanism is found here, we can assume that a politicization-effect on SGP enforcement is not conditional on the presence of crisis.

The principal sources used for the process tracing were policy documents (D#), such as formal mandates, legislation and reports by EU institutions, 12 participant interviews (I#) with experts closely involved in the surveillance processes and newspaper coverage (N#). The interviews covered all cases and relevant institutions: that is, the Commission, Council, Economic and Financial Committee (EFC) and Finance Ministries. Where possible, multiple sources were used to crosscheck data points.

The complete set of observable implications, as well as typical corroborating evidence, for the different parts of the hypothesized mechanisms is given in a more extensive ‘evidential ledger’ in the Online Appendix (Table A1). This appendix also includes details on the qualitative sources used, as well as descriptive quantitative indicators for the levels of EU politicization in the target member states over time. These descriptive indicators aided the case selection process by ensuring the presence of politicization in the selected cases.

Here, it suffices to note that all observables of the model’s conditions originate from interviews, further supported by documentation and newspaper sources. The interviews were key in understanding the extent to which Commission actors experienced the ambiguity of fiscal conditions, the uncertainty of appropriate enforcement steps, the available discretion and levels of politicization and issue salience. Ambiguity regarding enforcement conditions should be especially (but not exclusively) visible through disagreement between the key actors in the surveillance process, most notably between the target member state and DG ECFIN. Whereas the descriptive quantitative indicators suggest the presence of politicization in all cases, the impact of politicization is primarily observable when interviewees refer to its dimensions and in newspaper coverage.

The observables of the reputation-seeking mechanism were a combination of interviewee perceptions of the Commission’s reputation and the (non)existence of reputational threats, further supported by external signals of reputational threats found in newspaper articles. In several cases, different types of threats were discussed with participants to gauge the extent to which they were actually experienced as challenges to the Commission’s reputation. Lastly, key observables for the outcomes were the final Commission decisions (EDP opened/avoided) given the scope for alternatives and especially the justification thereof.

V. Results

An EDP is launched when the Commission identifies a breach of the deficit or the debt criterion, which may occur based on outturn data, planned government spending or Commission forecasts. The Commission subsequently prepares an Article 126(3) report,
assessing the case for an EDP. Vital to this assessment is the possible application of exception clauses. Member states breaching the deficit criterion are considered in compliance if the breach is *exceptional, close* (below 3.5 per cent) and *temporary* (a single year). Breaches have been considered exceptional due to unexpected economic downturns, earthquakes, refugee crises and pension reforms. Member states may also present relevant factors to the Commission. For a deficit breach, these are taken into account if the debt-to-GDP ratio is below 60 per cent, or if the breach is close and temporary. For a debt breach, these are always considered, including a member state’s progress under the preventive arm.

After the 126(3) TFEU report is issued, the Economic and Financial Committee (EFC), composed of officials from each member state, the ECB and the Commission, issues its opinion. If the Commission subsequently concludes that a breach exists, it formally triggers the EDP, setting out an adjustment path and timeline for correction. The Commission periodically assesses the progress of the member state and may decide to step up or abrogate the EDP accordingly. The Commission may recommend sanctions in cases of serious noncompliance at various stages, including when launching procedures.

The presentation of each of the cases below begins with an overview of the conditions, followed by an assessment of the reputation-seeking mechanism. Each concludes with the enforcement decision (EDP opened or avoided) and the immediate reputational consequences for the Commission.

### The United Kingdom, 2008

Despite the UK’s partial opt-out to SGP rules, the Commission has always aimed for equal treatment regarding the applicable surveillance steps (I7/I10). After the UK’s first EDP was abrogated in September 2007, UK authorities again notified the Commission of a planned deficit breach for the ‘08/09 fiscal year in April 2008. The Commission issued its assessment report in June: both Commission and UK Treasury forecasts indicated a breach of the 3 per cent threshold for 2008/09. However, the \( t + 2 \) forecasts put the Treasury (2.8 per cent) and Commission (3.3 per cent) at opposite ends of the breach threshold (Table 1).

The difference led to intense discussions between UK officials and the Commission, which were reinforced by the UK’s partial exemptions under SGP rules (I7/Q1). The Commission considered several ameliorating factors, but ultimately argued that the

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* = Forecasts.
Source: European Commission (D1).
non-temporary nature of its estimated breach barred the application of exception clauses. This was strongly contested by the UK, which argued its breach was temporary and hence all relevant factors should be taken into account (D1).

This put the UK on a path to a new EDP shortly after the abrogation of the first, while the UK’s levels of EU politicization had consistently topped those of other member states. While levels of issue salience were comparatively low, the EU itself was salient. Eurosceptic pieces were published in major UK newspapers on a weekly basis and more frequently as debates over the adoption of the Lisbon Treaty intensified. Articles warned of ceding more sovereignty to the ‘heap of corruption and self-aggrandisement’ that was the European Commission (N1/N2/N4) and called on David Cameron, then leader of the Conservatives in opposition, to take the UK out of the Lisbon Treaty (N3). In creditor countries, on the other hand, the British breach and EU response were closely watched (e.g. N20/N21).

Mechanism. All interviewees acknowledged the impaired reputation of the Commission regarding SGP enforcement, which some traced back to the Franco-German suspension of the Pact in 2003 (I3/I6/I9). The debate over fiscal surveillance has been divisive since the SGP’s inception (I3/I6). Before the EAFC, fiscal surveillance was not politicized among mass audiences and member states rarely weighed in on specific cases regarding fiscal surveillance of other countries (I7). However, broader concerns regarding non-enforcement were often voiced in Commission-creditor state bilaterals and it was clear to the Commission that under-enforcement would negatively impact its credibility in this case (I2/I5/I7/I12). Moreover, interviewees note that before the 2011 ‘Six-Pack’ reforms, the Commission was more prone to a stricter reading of the SGP rules and serious fudging only occurred when proposals reached the Council (I3/I4/I6/I7). There was a shared understanding that, ultimately, it was the ECOFIN Council that decided over the surveillance process (I3/I4/I6/I7/I9).

EU politicization, most recognizable for interviewees through high levels of Euroscepticism in the UK, was something the Commission was aware of at the time (I7/I9). Yet those involved note that appeasing Eurosceptic UK audiences was not a driver of Commission decision-making. Instead, interviewees noted that non-enforcement would have damaged the Commission’s reputation for member states supportive of fiscal discipline and the ECB (I7/I9).

Outcome. Interviewees point to the Commission’s no-policy-change assumption as a major factor in the divergent forecasts, vis-à-vis more optimistic UK growth assumptions (I7/I9). London argued that the breach was due to automatic stabilizers, which were triggered by ‘exceptional disruption in the global financial markets’ (D1). Although the Commission assessment warned of a ‘weak economic context’, even the more pessimistic Commission forecast did not foresee a major financial crisis looming on the horizon.5

The Commission claimed that it had not included further tax cuts announced by the UK, which would raise the 2008/09 deficit to 3.5 per cent. Moreover, in an unusual move, it published an additional technical working document along with its report, which further detailed its assessment (D2). Despite objections by the UK government, the Commission proposed the EDP in July. The ECOFIN Council adopted the Commission

5The Commission’s negative economic forecasts for 2008/09 did ‘not constitute a severe economic downturn’ (D1).
recommendation that same month, while only softening the language in the Commission’s proposal (D3).

Despite low levels of issue salience prior to the launch it was widely picked up in UK media, which predominately used the EDP to criticize Gordon Brown’s ‘economic incompetence’ (N5). Shortly after the launch the EAFC hit Europe. The UK’s 08/09 and 2009/10 deficits would turn out to be 5.2 and 10.1 per cent of GDP, respectively.

**Finland, 2010**

As the crisis hit Europe, the Commission explicitly called on member states to use fiscal stimuli (D4). Most countries entered EDPs by 2009. In April 2010, Finland notified the Commission of its latest forecast, which estimated that its deficit for 2010 would reach 4.1 per cent of GDP (Table 2).

In 2010, EU politicization in Finland was moderate but increasing: public Euroscepticism had been relatively high for years, but Finland lacked a strong Eurosceptic party in the Eduskunta. Finland also lacked widely read news outlets that consistently conveyed a Eurosceptic message. Still, there were signs that the Eurosceptic True Finns (TF) party, which held 5/200 seats in parliament and actively campaigned on a pro-sovereignty agenda, was quickly gaining popularity ahead of the upcoming 2011 elections (N6/I11). TF’s attempts to politicize the EU’s crisis management and solidarity operations to Southern Europe had prompted the Greek ambassador in Helsinki to publicly plea for understanding amidst growing anti-Greek media discourse (N7/I11). The EAFC greatly raised the salience of EU fiscal surveillance in other EMU creditor states. The Finnish breach was also reported on by major news outlets in creditor countries, partially due to Finland’s role model status regarding fiscal prudence (N22/N23).

**Mechanism.** The Commission’s reputational calculations echoed those of the UK case. Despite the normalization of EDPs during the crisis, the Commission had not re-established a strong watchdog reputation by 2010 (I6/I9/I11). Especially to creditor audiences, the severity of the crisis had only further reinforced the notion that EU fiscal surveillance had failed.

After the onset of the EAFC, Commission officials entered crisis-management mode, but also grew more aware of calls for more sovereignty in some member states (I1/I6/I8/I9/I11). Their priority was to create faith among market audiences that the EU would survive the crisis. This came with a necessity to ‘signal action’ and a need to establish

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* = Forecasts.
Source: European Commission (D5).

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the credibility of EU fiscal surveillance (I8/I11). This ‘signalling’ of action was aimed at bolstering performance reputation for key creditor audiences, most notably the Dutch and the Germans. Interviewees note that the predominant rationale for such signalling was the need for credibility as part of an effective EU crisis response (I9/I11).

**Outcome.** Again, the Commission opened the Finnish EDP despite having clear outs. When the Commission issued its 126(3) TFEU report in May, it had already revised the estimate down to 3.8 per cent: the Finnish forecast was too pessimistic (D5). Moreover, it forecast the 2011 deficit to fall below 3 per cent. Nonetheless, it ruled that the breach was exceptional and temporary, but not sufficiently close to 3 per cent to warrant exception. Consequently, the Commission recommended the EDP in June despite emerging indications that a breach would not occur (I11/I12). The Council’s adoption of the EDP in July was ‘largely symbolic’ (Hodson, 2011); Finland’s deficit would not exceed 2.6 per cent of GDP. The case had been especially suitable for symbolic action because Helsinki did not oppose the EDP (I11/I12): the Finns did not wish to openly question the Commission’s procedures. Moreover, Olli Rehn, the ECOFIN Commissioner who was partially responsible for the launch, was Finnish.

The EDP drew little attention in Finnish media and public discourse, despite the True Finns’ growing politicization of sovereignty concerns (I11). In January 2011, the Commission decided that Finland had taken adequate action and abrogated the EDP in practice (I11). Yet formal abrogation only occurred in July, when Eurostat confirmed Finland’s outturn data for 2010. By then, the True Finns had won a landslide victory in the April 2011 national elections, increasing their share of seats in parliament from 2.5 to 22.5 per cent.

**Finland, 2015**

In November 2014, the Juncker Commission succeeded the Barroso II Commission and immediately moved to develop a new and more flexible approach to the enforcement of the SGP, which it laid out in January 2015 (Q2/D7). Shortly afterwards, Finland reported its second breach of the deficit criterion. The Finnish outturn deficit reached 3.2 percent of GDP in 2014. Finland’s fiscal reporting to Eurostat occurred during the April 2015 elections and as government formation was underway, its reporting used a no-policy-change assumption. In turn, the Commission argued the deficit breach was not temporary and that Finland would also breach the debt criterion, making Finland the first member state since the Six-Pack to breach this threshold ‘from below’ (I12) (Table 3).

The 2011 SGP overhaul, which included the change to RQMV, had led the Finnish government, which now included the True Finns, to grow more critical of the increasing complexity of EU fiscal surveillance (I11/I12). This time the outgoing Finnish government did object, arguing the debt increase was largely due to Finnish financial assistance to other euro area countries and a new government would take adequate action once it had been formed (D8/I12). Moreover, Finland breached the deficit threshold in 2014 by surprise as a change in Eurostat methodology (ESA2010) had altered the way the outturn deficits were calculated.

The EU’s handling of the EAFC had remained a fiercely debated issue in Finnish politics since the 2010 EDP. Similarly, the threat of the 2015 EDP in the middle of the government formation process led to a strong reaction in Finnish politics and Finnish media had ‘a field day’ given Finnish financial support to Southern Europe (see for example N8/
I12). Yet despite the ongoing politicization of sovereignty concerns (I11/I12), True Finns’ MPs did not explicitly politicize the looming EDP. Whereas the True Finns were still the only Finnish party catering to anti-EU sentiment among voters (Salo and Rydgren, 2018), it was part of the outgoing government and was a likely candidate for the incoming one.

**Mechanism.** The Six-Pack had important implications for the assessment of appropriate surveillance steps within the Commission. The approach taken by Juncker’s ‘political Commission’ was more flexible and this had further polarized the debate on SGP enforcement (I4/I6). This further intensified the reputational threats posed to the Commission, including from domestic audiences in Finland (I1/I5/I6/I10). Whereas the reform had enhanced the Commission’s capacity to put pressure on governments de jure, it also made the Commission more vulnerable to critique (I1/I4/I6). Before the Six-Pack, the Commission could rely on the Council to ‘shoot things down’ once the threat of sanctions became real; after 2011, it became clear that a more cautious Commission now felt directly responsible for enforcement decisions (I1/I3/I6/I9).

Moreover, the crisis mobilized Eurosceptic audiences like the True Finns that actively pursued anti-EU agendas. Euroscepticism and sovereignty concerns were now seriously on the Commission’s radar and were increasingly weighing in on decision-making in the College of Commissioners (I1/I2/I3/I5/I6/I7/I8/I9/I11). Simultaneously, EU fiscal surveillance remained a highly salient issue in creditor member states and several creditor governments explicitly asked the Commission to commit to cracking down on excessive debt levels (I2/I4/I11).

**Outcome.** The fierce Finnish response to the potential EDP led to intensive discussion between the prospective governing parties, including the True Finns, and the Commission (I12). The Commission eventually compromised: its April report concluded that Finland was breaching both criteria, but no further action would be taken until a new Finnish government had submitted a Stability Programme in September.

In its November 2015 report the Commission ultimately concluded that the new measures announced by Helsinki were sufficient to declare Finland’s situation exceptional. For the Commission, the case had seemed suitable to set a precedent on the enforcement of the debt criterion (I11) but Finnish opposition had been too strong (Q3/I12). The Commission added an addendum to Finland’s Stability Programme meant to signal the unconventionality of the exception (D8). During a November College meeting, Commissioners discussed the European Semester. Several Commissioners commented on the ‘the

<table>
<thead>
<tr>
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<th>2013</th>
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<tr>
<td>Nominal deficit</td>
<td>2.5</td>
<td>3.2</td>
<td>3.3</td>
<td>3.2</td>
</tr>
<tr>
<td>Gross debt</td>
<td>55.8</td>
<td>59.3</td>
<td>62.6</td>
<td>62.8</td>
</tr>
<tr>
<td>Gross debt (cycl.-adjusted)</td>
<td>57.1</td>
<td>56.9</td>
<td>61.3</td>
<td>64.4</td>
</tr>
<tr>
<td>Nominal deficit (outturn)</td>
<td>2.6</td>
<td>3.2</td>
<td>2.8</td>
<td>1.7</td>
</tr>
<tr>
<td>Gross debt (outturn)</td>
<td>56.5</td>
<td>60.2</td>
<td>63.4</td>
<td>63.0</td>
</tr>
</tbody>
</table>

* = Forecasts.

Source: European Commission (D6).
regrettable fact that the authorities in certain Member States had in some cases resorted to denigrating the Commission’ (D9).

**Italy, 2018**

Italy has been in significant breach of the debt criterion ever since the launch of the SGP. This created tense moments before 2018, most notably at the peak of the EAFC. Yet Italian governments had always been cooperative towards Brussels. In 2011, during ongoing negotiations between the Commission and Italy regarding potential financial aid and voluntary IMF surveillance, the Italian spread rose to record levels over market fears over Italy’s debt levels and potential contagion effects across EMU. In August, two months before it was replaced by the technocratic and Europhilic Monti cabinet, Berlusconi’s government already introduced a series of crisis measures that were said to have been taken directly from a ‘secret’ letter sent by ECB presidents Draghi and Trichet in return for ECB emergency purchases of Italian bonds (N24).

The Commission’s own enhanced surveillance of Italy’s debt began in 2015, when the cooldown period of Italy’s last EDP (2009–13) expired. Italy is required to cut its debt by 1/20 of the excess over the 60 per cent threshold, while improving its structural balance in line with targets set by the Commission (D10). The Renzi and Gentiloni governments had continued Italy’s cooperation with EU institutions by moving in this direction. Yet this changed when the Conte government took over in June 2018 (I9/I10).

Throughout the EAFC, levels of politicization in Italy had gradually risen from some of the EU’s lowest levels to those on par only with the UK. The Conte government consisted of two parties, Lega Nord and M5S, which had won the 2018 general elections with populist and openly Eurosceptic campaigns. The parties’ figureheads, Matteo Salvini (Lega) and Luigi Di Maio (M5S), both deputy prime ministers, were de facto pulling the strings in the Conte government. Lega’s campaign and in-office rhetoric was especially hostile towards the EU, with Salvini propagating ‘Italexit’ (or ‘Italeave’) while blaming Brussels for Italy’s immigrants, economic woes and the Genoa bridge collapse (N9).

In October 2018, Rome tabled a draft budget that aimed at fiscal expansion, not consolidation (Table 4). It was the first time in SGP history that a budget was so ‘blatantly’ not in line with the rules and went against the Council recommendations that had been endorsed by the previous Italian government earlier that year (I1/I10). Moreover, Italy’s Parliamentary Budget Office had not been willing to endorse the forecasts underlying the budget.

**Table 4: Italian 2018 Fiscal Stance (% of GDP)**

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
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<tr>
<td></td>
<td>COM</td>
<td>ITA</td>
<td>COM</td>
</tr>
<tr>
<td>Nominal deficit</td>
<td>2.4</td>
<td>1.9*</td>
<td>1.8*</td>
</tr>
<tr>
<td>Gross debt</td>
<td>131.2</td>
<td>131.1*</td>
<td>130.9*</td>
</tr>
<tr>
<td>Gap to debt reduction benchmark</td>
<td>6.6</td>
<td>6.6</td>
<td>3.7</td>
</tr>
<tr>
<td>Change in structural balance</td>
<td>−0.3</td>
<td>0</td>
<td>0.2</td>
</tr>
</tbody>
</table>

* = Forecasts.

Source: European Commission (D10).
This yielded the most confrontational conflict over fiscal surveillance since the introduction of the SGP. In Italy, the issue was especially salient because it was actively politicized by its government and sensitive because Italian and international media reported on the possibility of sanctions (for example N12/N13): since the Commission considered Italy in ‘particularly serious non-compliance’ with the preventive arm, it could propose a sanction (non-interest-bearing deposit) upon launching a procedure (European Commission, 2019). Across the rest of (especially Northern) Europe, the standoff also yielded high levels of press coverage (I2/I12). This political tension spurred panic on the financial markets, further increasing the pressure on Italy, which initially bolstered the Commission’s position vis-à-vis Rome.

Yet ongoing anti-European Gilets Jaunes protests in several EU member states, most notably in Paris and Brussels EU district, also aided Salvini and Di Maio (I1/I5/I12). While these protests did not notably spread to Italy, in France they caused president Macron to pledge fiscal expansion to meet protesters’ demands while placing France at odds with SGP commitments. Salvini and Di Maio publicly expressed support for the protest, claiming their expansionary budget would prevent similar protests in Italy (N18). Commission officials forcefully contradicted the alleged similarity between both cases publicly (N19).

**Mechanism.** The standoff forced the Commission into a ‘lose–lose’ game, caught between two severe reputational threats (I3/I4/I6/I9). Salvini and Di Maio openly antagonized the Commission as they sought to paint Brussels as the ‘enemy of the Italian people’ (I3). However, fiscal ‘hawks’, anticipating that rising market pressure would break Rome, were urging the Commission to be rigid. This threat became especially pronounced when a group of creditor states led by the Dutch (the ‘Hanseatic league’), openly criticized the Commission for its hesitation while proposing to transfer the fiscal surveillance mandate to the European Stability Mechanism (N14/I10/I12). The dilemma was clearly understood within the Commission (Q4/I10).

In an unprecedented move that sent shockwaves through Europe, the Commission was forced to reject the Italian draft budgetary plan and ask for a revision. This rejection led to an intense standoff between the Commission, openly backed by most member states, and the Italian government, with the former threatening to open a debt-based EDP (N10). The Italian government remained defiant, with Salvini responding that Italy was ‘not changing a comma of the budget’ (N11). In November, Rome sent in a revision of the budget in which ‘very limited’ changes had been made (D10). Consequently, a second rejection followed. The Commission also published a 126(3) TFEU report in preparation of a new EDP. Meanwhile, some Commissioners cautioned against ‘the extensive use of flexibility clauses, which were sometimes misused, for example to stabilize a political situation’ (D11, p. 24).

**Outcome.** After intense negotiations, the Commission persuaded Rome to adjust its planned deficit from 2.4 to 2.04 per cent of GDP. This December deal allowed the Commission to conclude that Italy was ‘broadly compliant’ with the preventive arm. As Italy’s spread declined, those involved felt that a crisis had been avoided (I1/I6/I9/I10). Yet the decision to exempt Italy from an EDP led to more criticism on the Commission’s...
enforcement — especially from the Dutch (N15/I2). The lack of any written repercussions, as had been the case for Finland, was particularly problematic in the eyes of creditor states (I2/I12).

The impressions that remained were one of ‘understandable fudging’ by the Commission, given the polarized situation (I3). The overall Commission approach was widely interpreted as one fearful of antagonizing Eurosceptic audiences (for example N16/N17). Those involved agree that politicization in creditor states had been a factor the rejection of the budget, but politicization in Italy shaped the decision not to launch the EDP (I1/I3/I4/I5/I6/I9/I10).

VI. Discussion

The cases demonstrate how ambiguous enforcement conditions, EU politicization and issue salience across audiences, and institutional changes have shaped SGP enforcement by a reputation-seeking Commission. The resolve mechanism is visible in the pre-2011 cases, as reputational calculations within the Commission made it willing to push hard for the opening of procedures in the face of a general politicization of the EU in the UK and Finland. The Commission considered reputational losses for audiences supportive of fiscal discipline the greater threat, but also felt that the ease with which the Council could overturn decisions meant it was less likely to be the sole target of any potential political backlash. Low levels of issue salience in the UK and Finland further enabled the explicit signalling of resolve in these cases.

The post-2011 cases follow the logic of the appeasement mechanism instead. In these cases, a significant increase in politicization among audiences in the target state, most notably on the elements of mobilization and issue salience, made the Commission wary of the adverse consequences of strict enforcement. This was exacerbated by the 2011 SGP reform, which has shifted the responsibility for enforcement decisions from the Council to the Commission. SGP enforcement has become more salient since these reforms, which further sensitizes societal and legislative audiences to Commission action. This echoes Mérand’s (2021) conclusion that the Six-Pack appears to have only strengthened enforcement de jure.

Eurosceptic actors can weaken enforcement by strategically linking public hostility towards the EU to concerns over fiscal sovereignty. This was especially evident in Italy, where the government capitalized on a combination of domestic anti-EU sentiment and EU-level conflict over fiscal surveillance to enhance the Eurosceptic threat to the Commission. Yet the analysis also sheds light on the distinctly reputational (vis-à-vis legitimacy) threats the Commission faces: losses of performance reputation among creditor audiences yield calls for competence-transfers to other EU institutions, as opposed to a full removal of fiscal surveillance from the EU.

These findings remain subject to a number of limitations. While the selection of cases on both X and Y is in line with the recommendations for theory-testing causal process tracing (Beach and Pedersen, 2019), the key condition of ambiguity regarding enforcement conditions is absent in the vast majority of other cases. For example, breaches are often significant and/or established on outturn data. In these cases, reputational concerns spurred by politicization may still play a role in Commission decision-making but are unlikely to prove decisive. Yet this contribution aimed to validate the causal mechanisms
behind reputation-seeking behaviour under conditions of enforcement ambiguity and as such does not have the ambition to provide a catch-all explanation for SGP enforcement across the population of cases (see Van der Veer, 2021).

Finally, this study’s rational-choice model of Commission decision-making has not paid explicit attention to the role of politicization-spurred preferential shifts towards more flexible enforcement within the Commission (see Miró, 2020), or whether the Commission itself proactively contributed to the politicization of SGP enforcement (see Mérand, 2021). Juncker’s Commission was indeed more comfortable acting politically compared to the Barroso Commissions and power within the Commission centralized since the EAFC (Peterson, 2017; Nugent and Rhinard, 2019). Yet the spectacular failure of the Spitzenkandidat process in 2019 shows how fickle the electoral links to the Commission still are.

Importantly, this contribution shows that Commission responsiveness to EU politicization during policy enforcement is not a uniquely recent or post-EAFC phenomenon. Yet the degree to which EU politicization amplifies reputational threats has risen greatly over the past decade. The Commission, formally still constrained by a rules-based framework, has sought to build a reputation for fiscal surveillance amidst two diametrically opposed camps of audiences. The fact that the rapid increase in flexibility occurred after the 2011 reforms that made the Commission more directly responsible suggest that the Commission sought more procedural leeway to adequately respond to the increases in EU politicization in member states during SGP enforcement. Yet absent a stronger political mandate, the Commission is still forced to legitimate its responsiveness to EU politicization by appealing to rules, numbers and economic rationality. This is perhaps the greatest threat to the credibility of the SGP and its enforcement.

Conclusion

The enforcement of the SGP has been a highly political process from the outset, but EU politicization was not thus far not causally linked to policy enforcement by EU institutions. This contribution shows that such a link does exist: EU politicization has greatly expanded the audiences involved in EU policy enforcement and with it, the reputational threats posed to the responsible EU institutions. EU politicization affects the enforcement of the EU’s most rules-based and expertise-driven surveillance schemes. These findings make an important contribution to emerging research on the consequences of (de-)politicization at the EU level (Zürn, 2019; Bressanelli et al., 2020; Schimmelfennig, 2020). They indicate that EU institutions do not resort to a single type of responsiveness, but fine-tune responsiveness to the threats they face and employ different modes of responsiveness even within single policy domains.

These conclusions also have important implications for the questions posed in this special issue. They show that the degree to which domestic actors can impact the workings of the ES is far greater than commonly assumed. In this light, the current EU response to the COVID-19 crisis, specifically the suspension of the SGP and the paradigm shift towards fiscal stimulus under the Recovery and Resilience Facility (see also Fabbrini, 2022), should be regarded as a consequence of both the economic and political backlash that followed the years of austerity of the previous decade. Moreover, this contribution suggests that any overhaul of the system of burden-sharing between euro area members must
take especially seriously questions of political mandate. The continued deference of conflict mediation to non-majoritarian EU institutions obscures the fact that such decisions are often redistributive, yet are legitimated through technocratic insistence on rules and analyses. In the absence of proper democratic legitimation this only serves to erode EU legitimacy further.

Correspondence:
Reinout Arthur van der Veer
Department of Political Science
Radboud University Nijmegen
6525 AJ Nijmegen, the Netherlands.
email: reinout.vanderveer@ru.nl

References


**Supporting Information**

Additional supporting information may be found online in the Supporting Information section at the end of the article.

**Data S1.** Supporting information.