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EU's Economic Governance Reform in the Context
of the Global Financial and Economic Crisis.

Phd Thesis

(EXTENDED SYNOPSIS)

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Introduction and methodological considerations

A. Introduction

A.1. Background

Confronted with the most severe financial and economic crisis since The Great Depression of 1930, Western democratic polities reacted by employing conventional monetary and fiscal policies on a massive scale. Since these measures proved insufficient, unprecedented bailout measures were taken both in the United States and in the European Union (EU). Public debts and deficits soared. *Although the initial response to the global crisis was quite similar in United States (US) and Europe, starting with the year 2010, and the prevalence of the sovereign debt crises, EU significantly changed its response to the crisis.* While the US insisted on the need to urgently restore growth, in the EU stability became the household star with an emphasis on financial sustainability. Austerity followed. We relate to the current crisis as to a critical juncture that exposed and exacerbated latent paradoxes and contradictions in the EU, especially with reference to European Monetary Union. The current crisis forced EU to be realistic about its possibilities, to clarify its priorities and to reform its Economic Governance.

Adopting the premise of the prevalence of politics over economic policy, we will try to look at this reform as to a change of story. In a way, reforming the European Economic Governance is retelling the story of the EU as a political and economic project. In order to maintain its vigor and support, any political and economic project needs a plausible and motivating story. The critical juncture of the European economic crisis can lead to a significant institutional drift that, in the long run, can place EU and the US in radically different political and economic situations. Even though our interest in the global economic crisis and the responses to it inevitably draws us into a logic of comparison (USA-EU response to the crisis), our intention is not to release a verdict about which way is the better way. Rather, we seek to understand why Europe has chosen its specific way and how the EU response to the crisis has been playing out not only from the perspective of political economy, but also from that of the discourses in official and nonofficial, political, governmental, financial and media circles justifying or opposing the measures proposed to overcome this crisis.

A.2. Purpose of the thesis

Our goal was to explore how the EU as a polity legitimizes, internally and externally, the reform process it initiated in the wake of the latest economic crisis. For many, the crisis and the way EU deals with it is "a make or break" point for this polity. We also considered the divergent views on and the significantly different solutions to the crisis that the EU and the US adopted after 2010. Once a course of action was decided, the public had to be persuaded that the political solutions agreed on were the right, or the only possible response, to the crisis.

A.3. Synopsis of the thesis

In order to arrive at a holistic understanding of the EU economic governance system in the global context, we considered that conceptual clarifications about governance and an understanding of how globalization influenced state sovereignty (in general and more specific in terms of economic sovereignty) are extremely important. Therefore, our **first chapter** traces the evolution of the concept of public authority in the context of globalization, integration and regionalization, presenting the significant shift from government to governance in political science vocabulary as an obvious sign for a substantial change in the way regulation and control is perceived and exercised in the era of globalization.

Globalization and governance emerged as concepts that are increasingly used to define the contemporary state of the world, and, respectively, the way authority is perceived, influence is exercised and rules are created and enforced in contemporary times. Their relation is mutually reinforcing, as the emergence of governance was made possible by the changing conditions that accompanied globalization in shaping the social and political environment.

The essence of shift from government to governance is regulation. As governance becomes broader, and more inclusive, the result is an increased level of regulation and control over a broader base of individuals and populations, continually adding to the extent of the sphere of control and influence new areas of life and society. Increased participation can imply, and indeed does imply greater control, but control can be exerted in many directions, including a greater state control over society. More inclusive focus of regulation can be correlated with stricter regulation. This "Big Governance" perspective suggests that the transformations brought by globalization and the shifts in governance is potentially

about leaner, and in many respects more capable states. According to this view, government and governance are not in a tensional relation, as if governance expands at the expense of government or the other way around. In an era of major shifts and increased complexity and interdependence brought by globalization, both government and governance can expand.

In no other field was the state sovereignty challenged so seriously as in the realm of economic matters. In a global economy, transnational corporations, and especially transnational capital and international financial institutions shape and constrain the possibilities of nation states in ways unseen before the liberalization of capital movements and the emergence of global financial markets. The European Union is the most striking example of economic integration and of supranational constructivism that has a tremendous impact on state sovereignty.

In this chapter we reviewed the main strands of thinking about globalization from the perspective of state sovereignty and we briefly presented three major schools of thought, namely the globalists, the internationalists and the transformationalists. The globalists claim that nation states became irrelevant and obsolete due to the rise of globalization and their weakening capacities. Internationalists (or skeptics) maintain the view that states remain the most important actor on the international arena, while transformationalists come with a balanced, more nuanced view that is still state-centric, closer to the internationalists view, yet acknowledging that due to the challenges brought by globalization, states changed their role and capabilities, adapting to the new context by resorting to indirect regulatory mechanisms to exert control in the public sphere, sometimes by sharing or delegating sovereignty. The distinction between state and society becomes more diffuse, the locus of authority apparently losing weight. Precisely because of these diffusions of boundaries, the social influence of public authority increases. Globalization is driven by antagonistic forces, diverging from the level of nation state toward both integration and fragmentation

Besides reviewing the major schools of thought on states and globalization (globalism, internationalism/realism and transformationalism), we tried to bring conceptual clarifications about a field of study that is still “in a state of creative disorder”. Governance literature is vast and yet lacking operational definitions leading to a clustering of consensus around consecrated paradigms. Various strands of governance perspectives range from realist to cosmopolitan.

From a cosmopolitan perspective, governance is a more powerful concept than government, encompassing all the relevant participants and stakeholders and stressing the importance of processes over the importance of structures. From a realist perspective, strongly anchored in concepts as sovereignty and power, governance, in spite of being a broader concept, it is considered a weaker concept than government, because it fails to clearly establish responsibility relations, while the lack of precise assignment of authority is perceived as hindering the efficiency of the decision making process and the implementation of the rules in the public sphere. Regardless of the preferred perspective, the growing incidence of the usage of the term governance cannot be ignored, and the growing prevalence of governance over government points toward substantial changes in the way authority is understood that goes beyond linguistic preferences.

Out of the myriad definitions and theories on governance, an influential model that is also relevant for the purpose of this thesis is a legitimacy centered approach to governance that considers legitimacy stemming from two dimensions: *input* (focused on the process: democratic procedures + respect for the rule of law) and *output* (focused on results: capacity + effectiveness + public opinion acceptance). This approach has both a descriptive and a normative dimension. *Governance is defined as managing the rules of the game in order to enhance the legitimacy of the public realm.* Legitimacy is assessed on two dimensions, respectively *input legitimacy* and *output legitimacy*, as legitimacy derives both from democracy and efficiency.

The second chapter discusses the state of economics from a perspective that aims to recover an integrative view of economics as a social science, and to reconcile, from an eclectic perspective, the preoccupation with rigor with the aspiration to understand the complexity of economic dynamics in their philosophical, historical, institutional and social contexts.

Economics is not merely method. It has a soul also, even if it is buried deep within. The recent crisis prompted a discussion about the role of economics as a science, redefined expectations and invited some soul-searching in economics. The economic crisis was an invitation to question the very foundations of economics. In trying to explain what happened and why, those involved in the debates were often challenged to acknowledge and to evaluate the fundamental assumptions on which the competing theories in economics are constructed. After the crisis, there are more people in the academic

community and in policy making willing to ask important, fundamental questions aimed at discovering and exposing the assumptions that were implicit so far.

It has been said this is the golden age of economic philosophers. In this chapter we point out to the need for recovering a sense of purpose in economics and rethinking the role of economic expertise in policy making. As the economics profession was largely taken by surprise by the 2008 financial and economic crisis, it was also felt as a crisis of economics and of the economic profession, therefore heterodox approaches that point toward the need to bring back moral considerations into economic thinking gained more visibility in the aftermath of the crisis. Most of these critiques indicated the need to go back to the origins of economics (mainly political economy) and to recuperate the lost ontological preoccupation of economics for human beings and human well-being. It is often forgotten nowadays that the classic *homo economicus* was built with Judeo-Christian assumptions and situated within a moral context. *“Through most of its long history, the liberal tradition was imbued with classical and Christian ideals of dignity, civility and tolerance. It is a superficial conception of liberalism that sees it as implying neutrality between different visions of the good. In any case, neutrality is a fiction.”* (Skidelsky and Skidelsky, 2012)

In order to become a rigorous, mathematically complicated field, economics had to assume from the start an outstanding oversimplification of its primordial assumptions. The tradeoff resulted in a condition where economists refined their methods and were capable of increasingly accurate calculations. While this trade-off benefited the developments of economics as a science, it led to ignoring the complexity of the economic reality. Keynes expressed the perils of such a trade-off when he famously said that “it is better to be roughly right than precisely wrong.” This seems to be long forgotten. We can see this from people’s general expectations from economists to deliver forecasts and make unambiguous policy recommendations, in spite of an almost unaffected record of wrong predictions. The insistence upon maintaining unrealistic assumptions in economic theory, was seen as the only way to transform economics into a positive science. The adoption of the ergodic hypothesis laid the foundation for determinist thinking toward the economy. Questions about meaning and purpose were ignored or marginalized, as they did not render easily to technical treatment. Sensible questions like “Why?” and “What actually?” were replaced by “How?”. By abandoning any explicit reference to moral considerations, and, indeed any other considerations outside the narrow view of self-interested entities in a quest for utility maximization, classical political economy metamorphosed into economics, aspiring to the status of a hard science. Political economy was once rich,

diverse, multidimensional and pluralistic; through the desocialization and dehistoricization of the dismal science, economics isolated itself from other fields such as philosophy, economic history and sociology. Indeed it aspired to the title “the queen of social sciences”, but this elitist isolation also had undesired consequences. Economics became excessively preoccupied with efficiency, losing sight of examining the goals and avoiding as much as possible important discussions about aspects that, just because do not easily render themselves to investigation by quantitative methods, were abandoned or assumed “*as if*” irrelevant.

We conclude the second chapter by claiming that, in spite of the attempts of economists to make abstractions of normative judgements, and the expectations of politicians that economists will provide objective, technical solutions to economic problems, values are central to economics, but this is not a reason to worry about the discipline objectivity. Since values are inevitably present, it would be better to acknowledge them, to make the necessary distinctions between the direct and indirect role of values in scientific research and expert advice. The politicization of economics under the false assumptions of political and moral neutrality can be avoided by being opened about the underlying assumptions. This honesty will ensure the integrity of the scientific endeavor and will also lay the premises for embracing democracy and take responsibility for our economic policy decisions, in light of the values that underpin them. It is absolutely alright to have values. Instead of claiming value-neutrality where such a state is both impossible and undesirable, it is better to embrace our values and let them explicitly guide our way forward. As the Czech economist Thomas Sedlacek boldly said it, we need more meta-economics, not less. We dare to say, we also need more moral values in economics and politics, not less.

The third chapter is a study on the aetiology of financial and economic crises and an attempt to make sense of various crisis narratives and explanatory genres for the recent crisis. This chapter makes use of the analyzes made in the first and second chapters by connecting globalization to economics in order to shed light on crisis economics debates in an attempt to bring insights about the relation between globalization and the way we experience inability in an increasingly interdependent world. We try to bring insights on how globalization changes the way the economy experiences (global) crises.

Globalization, which is probably most evident in the realm of finance, changed the way financial crises manifest and their impact across the world. The more interdependence, or

“thick globalism’, to use Nye’s formulation we experience, the greater the risk to experience global and deep financial crises. In spite of the fact that research on the origin of crises, bubbles, instabilities, and sudden phase changes in the state of the economy has not been central to macroeconomics, if we look to history we observe that crises are commonplace.

Compensating the fact that mainstream economic theories give little attention to economic crises, the literature on the crisis economics exploded in the aftermath of the most recent crisis. Although multiple explanations have been provided for the crisis, most of the accounts were incomplete, being either case by case or one-dimensional explanations, and no single narrative emerged from this broad and often contradictory collection of interpretations. None of these explanations can fully account individually for the origins or the mechanisms of the crisis, thus a comprehensive analysis will have to make use of all these strings of literature. This lack of attention granted to researching instabilities is due to the fact that such research is incompatible with the premise of rational agency, which was the dominant perspective in mainstream economics.

In the aftermath of the crisis, organic perspectives of the economic system gained more influence and visibility. Rejecting the deterministic perspective, such views borrow from system and network theories and from disciplines such as epidemiology and ecology. According to organic perspectives, a system is non-summative and irreducible to its parts, and there is also mutual causality (both top-down and bottom-up). Searches for remedies to our current economic problems increasingly go astray from a deterministic rhetoric toward one that does not look for fixes, but for ways to avoid decay. Synergy dynamics vs entropy are taken seriously, so the question is: how to stop “the vicious circles”, “the decay” and how to get the “virtuous circles” spinning. Decay is always a danger, once complacency gains ground and “vicious circles” creep in. We will never be able to set things straight once and for all, the dominant view is, but we can look for solutions to improve the resilience of our economic system. As we see from complex systems in the real world, such as natural ecosystems, complexity without diversification is a sign of fragility and it is a threat to stability. Every complex system in the natural world, in order to ensure its resilience, is also redundant to a certain degree. In finance, idleness of money, as a safeguard against unknown shocks was seen until recently as a lack of efficiency.

Besides presenting the main categories of narratives explaining the crisis, largely focusing on giving a picture of what happened, we briefly mentioned the most disputed aspects concerning the response to the crisis, mainly debt, deficits and austerity. These are the issues that cause the most heated debates. There is a tension between competing visions about the proper reactions to the crisis. On the one hand, there are those who concentrate on criticizing austerity as a cruel and unnecessary measure that will only hamper the recovery. On the other hand, there are those who argue that mitigating the adverse effects of the crisis by borrowing more is not an option, because it can put economies in a more dangerous situation, placing them on an unsustainable path and narrowing the range of options for macroeconomic policies. The solution indicated by the latter strand of argumentation is a structural reform and a strong commitment toward fiscal discipline that will make the European economies more robust and more resilient to crisis. The argument goes even further, stating that once structural change is implemented, future shocks and their potential to have severe social and economic impact will be more easily contained and the much-craved growth will emerge.

This chapter also discusses the role of epistemic communities, expert advice and the political context of economic scientific advice. The prestige of scientific knowledge serves as a powerful justification for political action and social legitimization. The progress of natural sciences increased the expectations toward social sciences, and led to an enthusiastic belief in the possibility to depersonalize politics. This rationalistic approach fueled “the illusion to escape from politics” and to make the decision making process as much as possible a matter of following general principles and impersonal rules. There are at least two basic perspectives on the science-politics relation: utopian and pragmatic rationalism. Utopian rationalism attributes the lack of clarity of political objectives to intellectual deficiencies which can be overcome by enlightenment or to vested interests which can be unmasked by objective scientific inquiry. For the pragmatic rationalist, ambiguities and contradictions are necessary to the politician who addresses diverse audiences and who seeks to form coalitions of supporters without which no action can be carried out.

We emphasize that by its very nature, liberal democracy is suboptimal, if judged from a rationalistic-economic point of view, because it implies negotiating a compromise in trying to accommodate divergent and inconsistent, often incommensurable competing views and is self-eroded by an ongoing self-critique and openness to challenging alternatives. Giving

in to more efficiency and effectiveness is a dangerous path toward utopian rationalism (the intellectual home for totalitarianism). Over-criticizing democracy from the output-legitimacy end and dismissing it as being unable to deliver efficiently quality “public goods” points to a blunt disregard for a prioritization of values: if we value discipline and effectiveness over freedom, democracy doesn't score very well. However, if we value freedom, then Winston Churchill was right in presenting democracy as “the worst form of Government except for all those other forms that have been tried from time to time....”

We argued that criticizing EU's crisis response simply based on the lack of growth can be irrelevant, given the fact that after massive governmental interventions that sometimes implied public bail out of banks at risk, across Europe, prioritizing growth was surpassed by concerns toward achieving stability, reduce debt levels, deleverage and avoid fiscal deficits. What is generally understood as a critique of the inability of the EU to pursue its interests is rather a critique of the direction that Europe (as opposed to USA) adopted since 2010 as a response to the preeminence of the sovereign debt crisis across the continent. What is then criticized is not the inability of EU to pursue its objectives, but the objectives per se. This distinction is largely missing in the austerity debate.

After reviewing vast amounts of literature on the financial-economic crisis, we conclude chapter three by claiming that macroeconomic problems are not merely technical issues and any attempts to improve the current situation that do not go beyond technicalities and theory-based fundamentalism will fail to deliver real life solutions. In order to better grasp what happened and what the way forward is, we traded rigor for realism. A degree of relativism and an eclectic approach that does not indiscriminately and definitively choose one side or another in the heated debates is consistent with a pragmatic rationalist perspective.

The fourth chapter discusses the crisis in the European Union and the rhetoric surrounding the European Union Economic Governance Reform from a pragmatic rationalist perspective. As seen in the previous chapter, a pragmatic rationalist attitude tolerates and explains ambiguities and contradictions in institutional evolutions, as they reflect the compromises agreed in an extremely complex polity that incorporates diverse member states. Ambiguities and lack of consistence with well-defined policy paradigms are expected even at national levels. All national political systems negotiate between various interests and addresses diverse audiences, seeking to form coalitions of supporters without which no actions can be carried out. If this is true at the national level, in a supra-

national context, such as the EU, challenged multiply exponentially: "...whatever challenges America faced in getting its political parties to agree on regulatory reform paled in comparison with the challenge in Europe. Where reform in the United States required a modicum of agreement between the two parties, progress in the EU required agreement among twenty-seven governments. To be sure, though all governments were equal, some, like Germany's, were more equal than others. But even [...] small countries could cause trouble if they refused to go along." (Einchengreen, 2015, pp. 11)

Willy Brandt, the former German chancellor said that "the European Community's history is a history of its crises", so the recent crisis is just the latest, and the most serious since the introduction of the single currency. In order to give an adequate context to the latest evolutions, we presented a brief history of the European Integration, then we succinctly presented various theories of integration.

The most consistent part of the last chapter presents a critical review of the European Economic Governance institutional architecture. This evaluation is done in a comparative way both cross-sectional (comparing EU's reaction to the crisis and the reform with the reactions in the US) and longitudinal (comparing the changes brought by the latest reform compared with the historical evolution of the European Economic and Monetary Union).

We adopted a five dimension model to assess the reform: *policy paradigm, institutional mix, nature of the decision-making process, accountability and legitimacy, legal framework*. We evaluated the European economic governance prior to the crisis and after the crisis / reform looking at these five dimensions.

If we assess the European Union Economic Governance Reform along the five dimensions proposed in the above model while considering the broader global economic and historical context, there are some interesting observations to be made. The European Union offers a unique political context, a supranational polity framework encompassing diverse sovereign member states, yet integrated economically and politically to a degree unparalleled in history. In spite of virulent critics and some alarmist prophecies uttering the inevitable demise of the EMU project in the wake or aftermath of the crisis, "*that Europe did just enough to hold its monetary union together and that the euro did not go the way of the gold standard in the 1930s were, for many, among the great surprises of the crisis.*" (Einchengreen, 2015, pp. 12)

The *dominant policy paradigm* in EU is the result of an interesting synthesis, reflecting the diversity of the member states. Nevertheless it is stability oriented, testifying for the disproportionate influence of the German view in supranational economic governance: trust in the neutrality of the monetary policy (ECB's mandate is to preserve the stability of the single currency) paralleled by a coordination framework insisting on the need that member states maintain relatively restrictive fiscal policies.

The *institutional mix* is asymmetric, reflecting the asymmetry between the monetary and the economic pillars of the EMU. An independent supranational agency, namely the European Central Bank is in charge of a single monetary policy that has no correspondent in the economic pillar, the Union lacking an analogous body for an economic government. Given the lack of a supranational agency in charge of structural and fiscal policies, at the heart of the economic pillar lies coordination between member states. Structural and fiscal policies are subject to an uncomfortable mix of hard-law and soft-law and competences concerning the economic governance are shared between the supranational level (EU: European Commission, Council of the EU, European Parliament) and member states. It has been said that EMU is an "unfinished" project, or a frozen project, an incomplete and flawed institutional design. If we pay attention to history and to the politics of the EMU, we can clearly see that this "undefined" and "asymmetric" nature of the EMU is intentional.

As concerning the *nature of the decision making process*, before the crisis, both the EU and EMU had rather diverse methodologies in different policy domains. At the end of the negotiation process prior to its establishment, EMU emerged as a form of hybrid governance in which methods that can be categorized as the traditional "méthode communautaire" function alongside the open method of co-ordination (OMC). Rules were, central to both fiscal and monetary policies - though the experience of the SGP showed a disjunction between principles and implementation - and even ECB policy in practice often suggested that more discretion is exercised than is commonly assumed. By contrast, 'softer' methodologies for policy co-ordination are more evident in other policy domains. In 2008 Begg observed that "*economic governance largely eschews political processes at the heart of EMU policy-making*". (Begg, 2008, pp. 5)

Complete centralization of fiscal policy within the Euro Area was politically unacceptable, therefore, in order to sustain the monetary union, a harmonization of the macroeconomic policy mix of member states was pursued through either "hard" or "soft modes of coordination" or a combination of both.

This hybrid approach was potentially creating a *legitimacy* problem, as coordination was “*caught in a political no-man’s land between the Member States and the supranational level.*” (Begg, Hodson and Maher, 2003, pp. 74)

As a result of the reforms taken in responding to the crisis, besides reinforcing the surveillance part of the SGP at the supranational level (“six-pack”, “governance package”—EU secondary law), a strong intergovernmental response led to the adoption of a “Fiscal Compact”¹, an intergovernmental treaty reaffirming the political commitment of member states to upholding common rules for their national budgetary policies. The new rhetoric at the European level insisted on the importance of individual state responsibility in following their convergence programmes (for non-euro zone countries) respectively stability programs (for Euro Zone countries). This intergovernmental approach paralleling the existing EU legislation converged with supranational governance regulation, determining a shift toward “national ownership” of common rules. By elaborating and implementing NRP (National Reform Programmes), submitted yearly to the EC as part of implementing “the European Semester”, member states formally agree to grant the European Commission an increased supervisory role over national fiscal and structural policies.

The nature of coordination changed substantially with the introduction of “the European Semester” in the supranational framework and is paralleled by a political commitment to the fiscal discipline of member states, expressed by signing an international treaty, namely the TSCG in 2012. This step largely compensates and reduces “the political no man’s land” in coordination of fiscal policies. It improved the *input* legitimacy of the European economic governance and, at least formally, it addressed the “politics without policy” critique, by means of national commitment to common rules. In terms of accountability, by signing the “Fiscal Compact”, states actually took ownership of the fiscal discipline rules, committing to “*transpose the "balanced budget rule" into their national legal systems, through binding, permanent and preferably constitutional provisions.*”²

¹The official name is Treaty on Stability Coordination and Governance (TSCG); it was signed by all EU member states, excepting the Czech Republic, the United Kingdom, and Croatia (subsequently acceding the EU in July 2013)

² TSCG, page 4. <http://www.consilium.europa.eu/european-council/pdf/Treaty-on-Stability-Coordination-and-Governance-TSCG/>.

The fact that the proposal to amend member states constitutions in order to include a fiscal “golden rule”, was announced by Angela Merkel and Nicholas Sarkozy following a Franco-German summit (August 2011) and advocated both by Germany and France is in itself of extremely significant rhetorical importance. It send a strong signal, calling member states to political commitment toward upholding the common currency by following common rules. It was nevertheless criticized as an attempt to impose a one size fits all “straight-jacket” to the other countries in the EU (Whelan, 2012). The way things unfolded, with Germany and France taking the lead in shaping the European economic governance reform, testifies to the erosion of state sovereignty in economic policies—at least in the case of smaller states—given the fact that the rules in the Fiscal Compact severely restrict a country’s ability to use fiscal policy in managing its economy.

The adoption of the TSCG (better known as “Fiscal Compact”) bears important significance. In December 2011, due to moral hazard fears, this time “centered not on markets but on politicians” (Einchergreen, 2015, pp. 8) or governments, The European Council agreed that a new fiscal treaty is needed to foster further budgetary discipline.

The initial intention was to adopt such a treaty within the framework of the European Union, but due to UK’s refusal to back such a move, it was agreed that the new treaty would be a purely intergovernmental instrument adopted outside EU framework, but with institutional ties to EU’s legal framework. The unwillingness of the UK government to negotiate a revision of the EU Treaties without obtaining certain “safeguards” for its financial services sector prompted other EU states (mainly Germany and France) to turn to the vehicle of an international treaty to enshrine in law a “Fiscal compact” among participating states. (Armstrong, 2012, Hinarejos, 2015)

Even the name of the treaty is telling from a rhetorical perspective: while SGP (Stability and Growth Pact) had in its title an explicit reference to growth (albeit it was judged by many as a merely cosmetic concession made to France), the TSCG is centred on “stability” and “coordination”, with no reference to “growth” in its title. It epitomizes perfectly the “change of winds” in the European official rhetoric concerning crisis response and European Union’s approach to economic governance. We could say that the path chosen by the EU in reaction to the crisis, and in order to compensate the lack of political integration (no European economic government) was a further step to “more Europe”, not via creation of new supranational institutions, but trough intergovernmental advocacy of

“national appropriation” of German fiscal principles, prioritizing stability over growth. We could say we have more Europe, but a more German Europe.

In terms of budgetary discipline, by signing it, member states commit themselves to adopting national legislation that limits the size of their structural deficits and the size of their debt/GDP ratio, covering similar ground with previous instruments such as the SGP (Stability and Growth Pact) and the “Six-Pack” (“governance pack”) adopted at the EU level. Albeit it adds nothing in terms of thresholds and rules to the two previously mentioned instruments, an important addition is the obligation to translate the SGP and Six-Pack provisions into national law, preferably at the constitutional level. Some discretion was allowed with respect to constitutional changes, by introducing “preferable” in the formulation of the treaty, in order to avoid national referendums (for constitutions specifically requiring referendums for their amendment). As a derogation from “the constitutional level”, the rules should be “otherwise guaranteed to be fully respected and adhered to throughout the national budgetary processes” (Art. 3(2), TSCG). In spite of not being part of the legal system of the EU, countries signing it agreed to give jurisdiction to the Court of Justice of the European Union (CJEU) to monitor compliance with the obligation to implement the rules of budgetary discipline into national law. (Hinarejos, 2015, pp. 38)

With the adoption of “the governance pack” (“Six-Pack”: five regulations and one directive) in December 2011, a major turning point happened: it was deemed to be “the most drastic reinforcement of economic governance since the launch of the EMU”. (de Sadeleer, 2012) While preserving the Maastricht and SGP principles, in terms of emphasis, the new institutional setup place more importance on debt reduction and reinforced multilateral surveillance. The debt criterion is prevailing over the deficit criterion, while more importance is granted to reducing indebtedness (< 60% debt/GDP, MTO-multilateral surveillance). The real target of the new framework is reducing structural deficit, thus allowing for deficits due to countercyclical, temporary fiscal policies. Introducing the European Semester represents the first ex ante coordination of member states macroeconomic policies, provisioning for pre-emptive measures concerning fiscal discipline (each MS follows stability and convergence programmes) and clear commitment to implement structural reforms (NRP—national reform programmes). Under the new rules, the sanctions provisioned for, under the “corrective arm” of the SGP, namely the EDP (extensive deficit procedure) apply quasi-automatically (which constitutes a change

from blocking minority to RQMV—reverse qualified majority voting). The “Two-Pack” proposals (work in progress—discussions between Commission, Council and Parliament are ongoing) also aim at strengthening the surveillance mechanisms for the Euro Zone. (EU economic governance, ec.europa.eu)

From 2009 to 2013 an important change that occurred was made in terms of access to financial assistance facilities for member states confronted with financial distress. It was an evolution from “no bail out clause” (Maastricht Treaty) to the establishment of bail out mechanism.³ (EFSF → EFSM → ESM) While a permanent rescue mechanism was created, the access to the rescue facility is conditional on political commitment to fiscal discipline and structural reforms.

In the aftermath of the 2008 crisis, with the unfolding of the sovereign debt crisis, we saw a depart from community method, as prominent political leaders, mainly Merkel and Sarkozy, were driving the agenda of European economic governance reform. This indicates a securitization of the EU’s Economic Governance, especially in budgetary policy matters. A process of securitization is when an actor, resorting to arguments concerning the seriousness of a threat manages to take action without abiding to rules and procedures which in normal times, need to be upheld. (Buzan, Wæver, de Wilde).

It was argued that throughout the crisis, from the initial bail-out of the systemic banks (clearly a securitization act) to the coordinated response to the crisis, to discussing sovereign debt haircuts and restructuring, the turn to austerity, the widespread use of TINA rhetoric (“there is no alternative”) securitization speech acts played an important role in shaping the unfolding of crisis response. “By uttering security, a securitising actor defines an event as extraordinary, and thereby claims a special right to stop the threatening development. Security utterance is thus marked by survival, urgency and the pre-eminence of action.” (Wæver, 1995, pp. 55, cited by Dahlén, 2009, pp. 43). Securitization frames a public issue as an extraordinary event, moving it beyond the conventional scope of politics. As European leaders framed the economic and financial crisis as an imminent threat and insisted on the adoption of extraordinary measures, it can be considered a securitizing move. The remarks by European leaders characterized by urgency and pre-eminence of action, conveying a sense of emergency were powerful means to legitimize

³ (EFSF → EFSM → ESM) The first two were temporary crisis resolution mechanisms, the last one, European Stability Mechanism is the permanent crisis resolution mechanism for the countries of the euro area.

the adoption of extraordinary measures. During a state of emergency the only thing that is relevant is to address the threat or everything else will become irrelevant. (Dahlén, 2009, pp. 43, 44)

From the perspective of the official rhetoric at the EU level, the adoption of the “Fiscal Compact” (TSCG) “firmly changed the narrative from bailouts and Euro-Zone demise to structural and political reforms, responsibility and competitiveness.” (Eliasson, 2015, pp. 96). It was a clear affirmation that solidarity is only conditional, that each country has to deal with its own structural imbalances in order to overcome the crisis. It was also a clear prioritization of stability over growth; the fact that even the merely cosmetic “G” for “growth” in the SGP was dropped in the new treaty (TSCG), being replaced by “G” for “governance” is extremely suggestive.

The adoption of an intergovernmental treaty, outside EU legal framework was also significant as it was perceived as a solution for bypassing the EU treaty revision process. Given the fact that *“the added value of the 'TSCG' with regard to community law is limited and even uncertain”* (Vitorino, 2012, pp.1), what is it then the reasons for adopting such a treaty?

From a strictly legal standpoint, it is evident that most of its provisions already appear in secondary legislation texts that were already adopted at the date of its ratification (“six pack”) or in the process of being adopted (“two pack” proposals) or which could have been adopted with no need of a new Treaty. The novelty is not in its provisions, but in the fact that it demands that rules already part of the EU legal framework be enshrined in national law “through provisions of binding force and permanent character, preferably constitutional” with the Court of Justice given jurisdiction to ensure that the rule is transposed domestically. Given the fact that it largely parallels already existing legislation, it becomes evident that ***resorting to a new treaty had primarily symbolic and political motivations.*** The “Fiscal Compact” signaled the “irreversibility” of the Euro, as political commitment of member states to defend the common currency by closer coordination of their budgetary policies underpinned its credibility. By including a constitutional “debt brake” in national legislation, member states commit themselves to stay away from populist manipulation of macroeconomic policies. “Constitutionalism” is thus perceived as “a matter of putting things beyond politics” (Armstrong, 2012, Vitorino, 2012, de Sadeleer, 2012)

By playing the card of “national appropriation” of fiscal discipline rules, the creation of a supranational European economic government is avoided while the monetary pillar is completed with a further move toward more integration of the national budgetary policies.

The recent crisis exposed the flaws and structural weaknesses of the EMU and reaffirmed its paradoxes and dilemmas. The much criticized asymmetry was only partially addressed. The reform, while still perpetuating this asymmetry, altered the situation towards more fiscal integration through the SGP reforms and the signing of the “Fiscal Compact”. The EU economic governance reform preserved previous contradictions, and did not eliminate the dilemmas, although a clear commitment to the Euro and to fiscal discipline as the main objective of coordination between member states was reaffirmed. Once again it has been proved that political rather than purely economic criteria shaped the entire question of the single currency. Observing how things unfolded, we can say that EU economic governance was reformed in the direction of more strict rules.

The propensity towards stipulation and strictly defined rules may imply a lack of trust. It certainly looks so, at least at first glance. But nevertheless, clear rules can eventually restore trust on the medium and long run, if applied consistently. It's hard to implement "functional finance" in a polity that tries to accommodate so many sovereign states. When dealing with complex issues as the EMU economic governance, there is a risk that, given the integration of the MS economies, some partners will tend to act in a reckless way towards their public finances and rely on others in order to bail them out in case of financial troubles. It's almost ubiquitous that solidarity comes with a price: the access to common rescue mechanisms comes with conditions, and usually, these conditions are imposed by the most powerful partners in the EMU, Germany and France, the biggest players from an intergovernmental perspective. Those two actors shape the decision making process and have the most influence on the rules adopted at the supranational, EU level. The supranational level is perceived as a governance level beyond the member states, not above the member states, hierarchically speaking.

The way European Union responded to the recent crisis witnessed a return to regulation, a shift from “soft-law” to “hard-law” concerning European economic governance and an increase in the tendency to informal decision-making at the intergovernmental level during critical times. The European response to the crisis showed a clear move toward intergovernmentalism as the main approach to crisis management and institutional design, detrimental to the community method.

The current reform of the Economic governance of the EU came along with a visible turn from deficit spending and stimulus to discipline and stability that was reflected in the afferent change of the official rhetoric. “Understanding is the foundation of legitimacy for reform.” (Minsky, 1986, pp. 321), therefore analyzing the official discourse on the reform is extremely relevant in identifying the ideas that were influential in legitimizing the reform.

The last part of the thesis makes a qualitative and quantitative comparative analysis of the references to the crisis in the State of the Union speeches in EU and the US from 2010 to 2014. We searched for similarities, differences and patterns that are illustrative for understanding how EU and the US framed the crisis and the reaction to the crisis in political discourse.

B. Methodological considerations

In studying complex realities, fundamentalisms offer very limited explanations. Heterodox, eclectic approaches may lead to better understanding and integration of different, sometimes divergent economic and political theories. We started this inquiry from the perspective of the complexity paradigm developed by the French philosopher Edgar Morin. The French thinker pointed to the need of recursive thinking, a manner of thinking that establishes a dynamic and generative feedback loop between concepts that remain both complementary and antagonistic, challenging the fragmentary and reductionist spirit that often dominates scientific research in social sciences. Having in mind such considerations, we nevertheless tried to conduct our research as much as possible in a systematic manner.

Scientific activities always imply the quest for explanations, which are not only empirically based and yield systematic results, but also lead to results that are plausible. In the realm of political science, as experimentation is not an option, a researcher almost always has to rely on comparing the ongoing “real experiments” (i.e. existing polities, institutions, the behavior of actors and the outcomes). Comparative method, whether implicit or explicit lies at the heart of almost any political science research.

“The ‘art of comparing’ is thus one of the most important cornerstones to develop knowledge about society and politics and insights into what is going on, how things develop and, more often than not, the formulation of statements about why this is the case and what it may mean to all of us.” (Pennings, Keman and Kleinnijenhuis, 2006, pp. 4)

“Any comparative approach allows for two types of analysis: one is the explorative type that aims at identifying relationships which may be conducive to theory formation; the other is driven by theory and aims at testing causal relationships, which is necessary to corroborate extant theory and to develop these further.”(Ibid., pp. 7)

Lacking a well-developed and consecrated theory to explain such complex phenomena as institutional reactions to economic crisis in such a broad context as the European Union, we set out in formulating our research questions with no specific theory in mind, therefore our research does not seek to prove or invalidate any existing theory. Given the reality studied, in order to better understand, we might have to trade rigor with realism, adopting an eclectic perspective that is not entirely consistent with any of the existing theories, but makes use of competing strands of literature. In doing so, we might set the stage for the development of an inexact theory of tendencies that offer an explanatory framework for political legitimization of governance reforms in supranational polities, such as the EU.

Macroeconomic governance policy reforms cannot be assessed without a relevant framework. In order to understand the European Economic Governance Reform as a response to the crisis, we will pay special attention to how this reform was legitimized rhetorically in the public discourse. We considered two major dimensions: input (the democratic nature of the decision process - dominant paradigms, ideas, procedural aspects, etc.) and output (capacity, effectiveness, the economic results and the degree of acceptance by the general public).

The lines of inquiry consistently followed a consecrated triad in political sciences (namely politics, polity and policy) in an attempt to see how these three levels interact with each other when confronted with significant challenges.

Easton (1965) introduced a general model that places the polity (the political-institutional framework of any society) in a dynamic context. It's a cybernetic view of the political system and its environment: “the political system receives ‘inputs’ from its environment (i.e. society) in the form of demands (e.g. issues and conditions that are considered to influence societal development) or support (e.g. allegiance to leaders, and acceptance of the existing rules of the game by the population). These inputs are subsequently handled by means of the conversion process of the system (e.g. decision-making by means of democratic procedures or binding regulation through a political elite or bureaucracy),

resulting in ‘outputs’ (public actions and expenditures)”. (Pennings, Keman and Kleinnijenhuis, 2006, pp. 14, 15)

Politics concerns the interactions between (collective) actors within a society on issues where actors (e.g. parties and organized interests) are strongly contested. *Polity* is the available framework of the formal and informal ‘rules of the game’ – also called institutions – directing the behavior of the political actors. *Policy* denotes the political decisions made for a society (often called ‘outputs’), which are subsequently implemented in society (also ‘outcomes’). (Ibid., pp. 26) We acknowledge that the political and socio-economic reality in Europe is much more complex, multifarious and varied than this consecrated triad.

“It is almost impossible to conceive of serious explanatory work in political and social science that is not at least implicitly comparative, but the question whether or not economic developments are also dependent on types of democratic governance and interest intermediation cannot be fully answered by studying one country.” (Ibid, pp 24) In choosing the units of observation submitted to a comparative approach, one is always confronted with the dilemma of choosing between *most similar systems design* (MSSD) and *most different systems design* (MDSD). An MSSD approach assumes the context to be (more or less) identical across all the cases under review, whereas using a MDSD approach, not constrained by the contextual bias, different contexts of cases can be compared. The MSSD (most similar systems design) approach follows a logic of inquiry that is based on the co-variation of variables, focusing on cross-system differences. (Ibid., pp. 39)

B.1. Proposed research design

Assessing the EU response to the crisis is made almost inevitably within a comparative logic to the US reaction to the crisis. By doing so, we consider the EU as a supranational polity, shaped by a supranational institutional bargain process between the polities of member states. Looking at the US - EU cases comes as a most similar systems design (MSSD) not by their institutional design (as we will briefly show, they are different in many ways) but due to the fact that both are democratic and liberal polities, with capitalist economies based on guaranteeing property rights and the rule of law.

The study of the interplay between politics and economics, the analysis of the evolution of the legal framework, and special attention to the public rhetoric surrounding the EU

response to the crisis offers a more comprehensive picture of this reality than a conventional, specialized and fragmented approach does. This also raises a methodological challenge, as we cannot use a unified set of methods in our inquiry.

The two central research questions related to the EU Economic Governance Reform we seek to answer are:

- RQ1: "How, when and, most importantly, why did the EU change its narrative when confronted with what some have called the worst economic crisis after WW II?" (the first questions was largely answered in the present work)

and

- RQ2: "How can this change of story influence the EU as a regional polity, in relation with its member states and within the global context?"
(for the second question we can only briefly indicate few possible scenarios)

We propose an *exploratory research*. It does not have a theory-driven research design, aimed at testing certain hypotheses. We are starting from observation, using relevant information in a comparative way, trying to construct a relevant framework and to raise important questions whose answers may lead to theory formation. This approach is consistent with Grounded Theory (GT) which allows the researcher to develop a theoretical account of the general features of a topic while simultaneously grounding the account in empirical observations or data (Martin & Turner, 1986, p. 141). GT provides a detailed, deep, and systematic method of analysis, which has the advantage of reserving the need for the researcher to conceive preliminary hypotheses. It therefore provides the researcher with greater freedom to explore the research area and allows issues to emerge (Bryant, 2002; Glaser, 1978, 1992, 1998, 2001). As a consequence, GT is useful in providing rigorous insight into areas that are constantly evolving. This approach might be the most suitable for the investigation of complex, multifaceted phenomena (Jones & Alony, 2011). Given the fact that the object of study is the European Economic Governance Reform, an assessment of this Reform is ultimately an assessment of how the story evolved in order to sustain the legitimacy of the EU project.

The *levels of analysis* employed in answering the aforementioned research questions and in examining the European Economic Governance Reform are the following:

1. *The evolution of the EU legal framework (input), the macroeconomic policies adopted and their results (output)*. Initially, for this analysis level we will rely mostly on a qualitative research method - document analysis – as we aimed to review EU's legal framework and the macroeconomic policies adopted as crisis responses. Secondly, we looked at macroeconomic outlooks, mainly GDP evolutions, Debt? GDP, Deficits and unemployment rates—quantitative— secondary data analysis – in order to gauge the economic results and outcomes of anti-crisis policies.

2. *Official public discourse of the European political and policy bodies, as well as the narratives used by epistemic communities and their explanations and recommendations for the crisis need to be thoroughly analyzed – these will serve as proxies for ideas that initially shaped policy design (input) and were used to persuade the public and shape interpretations of the reform (output)*. For this level of analysis we propose the use critical discourse analysis, combined with other quantitative discourse analysis methods, to explore:

i. **Political discourse**: statements made by political leaders such as (a) the President, vice-presidents and members of the European Commission; (b) The President of the European Parliament; (c) members/leaders of selected EP Committees and (d) heads of states or governments of EU member states.

ii. **Policy/technocratic discourse**: statements made by technocratic leaders such as: (a) The President of the European Central Bank, (b) Finance and budget ministers from selected EU Member States and (c) Eurogroup officials.

iii. **The discourse of the epistemic community**: both statements and researches of economists and political scientists who analyze the economic crisis and propose recommendations will be analyzed.

(***Given the limited resources available, we only made a preliminary comparative discourse analysis (both quantitative and qualitative) on the State of the Union Discourses from 2005 until 2014 in EU and USA, to illustrate how the political discourse reflects the radically different approach these two polities took in reacting to the economic crisis.)

3. *The degree of acceptance and understanding of the Reform by the European citizens (output)* was also taken into consideration by analyzing Eurobarometer results concerning European citizens' trust in the EU.

A close look at the political and economic aspects helped us better understand what

actually happened. Analyzing the evolution of the legal framework helped us see how these changes translated into new rules. Studying the official public discourse and what the epistemic community has to say about the current crisis gave us important insights into the reasons powering the reform, the arguments employed and the rhetoric used to promote the changes that this reform entails. Finally, looking at the Eurobarometers gave us a measure of the adherence of the European citizens to the ongoing European Economic Governance Reform.

The *innovative nature* of the present work lies within combining a political economy approach with a careful analysis of the rhetoric shaping the debates, in order to better understand what values, ideas and paradigms shaped the European response to the crisis, and how this influenced EU as a polity. There are significant differences between economics and political economy. While economics presumes isolated rational economic agents operating competitively in a given environment, the core problem is the allocation of given and known resources, and allows for a mechanical model of minimization and maximization based on implicit determinism. A political economy approach is concerned with contingent choices and bounded rationality, institutions and governance mechanisms that constrain and guide macroeconomic policies, and there is more relativism and more attention for particularities and historical circumstances.

Our emphasis on the rhetorical aspects involved in the public discourse, especially the discourse of politicians, technocrats and members of epistemic communities that, by defining the problems and framing the debates, have a significant role in setting the agenda for political debates over economic policies is consistent with a political economy perspective.

We see the European Economic Governance Reform as a change of story, a change of the official rhetoric in the EU concerning the crisis and the right measures to respond to it. An obvious observation is that, in spite of the trumpeted novelty of the Economic Governance Reform, the most important criteria in the rules governing the European Economic and Monetary Union remain unchanged. The 3% deficit and the 60% debt/GDP thresholds are the same from the inception of the project. They were in the Maastricht criteria. The only notable news in The “New” European Economic Governance are moving the attention from the deficit criteria towards a greater importance given to the debt reduction objective, through following the MTO’s (medium term objectives), the introduction

of the European Semester as an ex-ante coordination mechanism for macroeconomic policies across EU and a reverse of the 2005 reform aimed at relaxing and make more flexible the application of the corrective arm of the SGP, EDP (excessive debt procedure). The 2005 reform was made in order to avoid the *de jure* demise of the Stability and Growth Pact, as both France and Germany were in breach of its provisions.

An interesting evolution, testifying to the depart from the community method toward intergovernmental negotiations was the signing of an intergovernmental treaty, namely the Treaty on Stability, Coordination and Governance—TSCG, better known as “The Fiscal Compact”—a treaty outside EU legislation, paralleling existing legislation. This has a powerful rhetorical and political significance, as, at the proposal of France and Germany, it included a clause that binds all signing states to adopt in their constitutions “the golden rule” of fiscal discipline, and to legislate nationally the 3% deficit limit. This appeal to constitutionalism was interpreted as a matter of “*putting things beyond politics*”, as an attempt to further depoliticize fiscal policy (it is only seen as depoliticizing from the point of view of national governments; we acknowledge that the design of the common rules that govern member states macroeconomic behavior is a political process, the result of intergovernmental negotiations). By agreeing to abide by a rule-based approach in handling public finances, national governments significantly reduce their scope of intervention in their national economies. The fact that the intention to introduce a constitutional fiscal rule was promoted by after Franco-German bilateral negotiations is a far cry from the community method and a return to intergovernmental coordination in European Economic Governance matters. Another significant aspect is the dropping of any mention of growth from the title of the Fiscal Compact. Despite the fact that there was a widespread impression that the introduction of “growth” in the Stability and Growth Pact was a merely cosmetic concession made by Germany towards France’s preference for more interventionist approach, we find significant the fact that the Fiscal Compact, signed in 2012 by the majority of EU member states does not even include such manifest references to growth. It became evident, even from the name of the new treaty that stability is more important than growth.

In order to maintain its credibility, and trust among partners, any economic and political project needs a story that has the role to maintain its cohesion, to energize, integrate and refocus its priorities. Only a story can displace a story. In a way, politicians and economists are not just decision makers or, respectively, decision informers but they are storytellers.

Focusing our attention on the rhetorical aspects involved – reform as a change of narrative – we aim to discover more reliable proxies for the relevant arguments that can lead to answers for questions concerned with the reasons behind significant changes, such as reforms. This approach is paying more attention to the argumentation that key political and policy actors employ, alongside the practical steps that are taken in shaping and legitimizing reforms that deeply affects the political and economic European landscape. In following carefully the way the story evolved (crisis / initial response / reform), one can deconstruct in smaller, more manageable, easy to understand steps the whole process, which can lead to a better understanding of the way the reaction to the crisis shaped the configuration of EU as a polity. Trying to deconstruct and clarify this grand narrative is useful for understanding when, how and why the EU choose this particular path in Reforming its Economic Governance and what the possible implications are for its status as a regional polity (in relation with its member states) and in the global context.

B.2. Discourse analysis

Critical Discourse Analysis⁴ represents a methodology which has already built a tradition in assessing how social change is discursively constructed. According to van Dijk, CDA is a methodology concerned with studying spoken and written texts (discourses) in order to discover discursive sources of power, bias, inequality, dominance (van Dijk, 1998). The innovative character of CDA lies in how it enables the researcher to place the text under study into a larger social, cultural or historical framework, thus illustrating how the discursive sources of power are maintained and reproduced throughout history and in specific social, cultural and historical contexts. Our choice of using CDA in the analysis of official public discourse of the European political bodies, policy makers and epistemic communities is determined by precisely the capacity of this methodology to place the discourses of study into the complex context of the crisis. As figure 1 shows, by regarding the discourses of the chosen bodies as texts that can be explored and usefully understood in the context of their production, dissemination and consumption, on the one hand, and in the larger socio-economic and historical context of the crisis, on the other hand. We are thus enabled to identify and explore relationships and determinations that are otherwise opaque to analysis. In this sense, we employ Fairclough's definition of CDA: a method that aims at exploring subtle, opaque relationships of determination and causality between

⁴ The section presenting CDA is part of a collective working paper by Petrice, Moldovan and Fofiu (2015) which served as a draft for an ERC grant application

texts, events, discursive practices and wider social and cultural structures, political relations and processes, economic phenomena (1993).

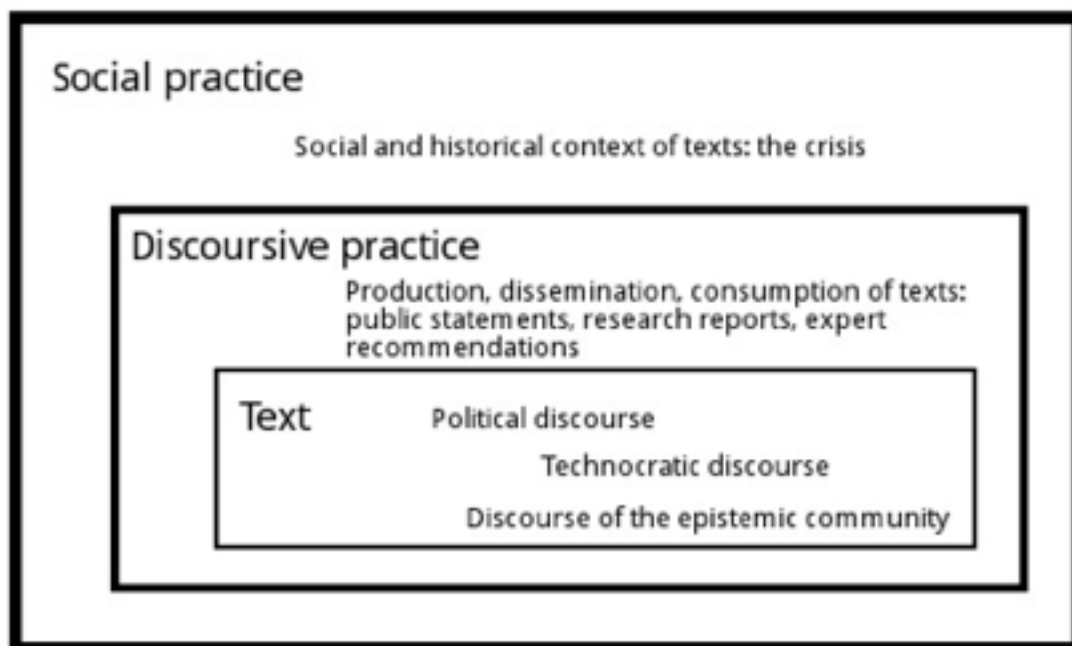


FIGURE: Critical Discourse Analysis on the European discourses of the crisis

CDA belongs to a wider, more complex field that explores policies, politics and politics as discourses - poststructuralist discourse theory and cultural political economy (Howarth, 2009; Jessop, 2009). Our choice of working with CDA positions our proposal in the interpretative, anti-positivist approach in policy studies. Although it is beyond the scope of this thesis to describe and discuss PDT and CPE, we need to mention that CDA, which builds on the two, has already been employed in analyzing discursive reactions to the crisis. In Fairclough and Fairclough's 2012 book, CDA is illustrated as a potent methodology in analyzing and understanding discursive responses to the crisis in the British media and politics. The book develops a framework for analysis and evaluation based on practical reasoning. Namely, political discourse, on any given topic, is seen as a form of practical argumentation for or against particular ways of acting, as a form of argumentation that can ground decision. In this sense, CDA is also the most appropriate approach to political, technocratic and epistemic discourses of the crisis in the European Union as a whole, because it can reveal opaque relationships between texts, practices and contexts to the point of illustrating how decisions are made based on what political agents say about issues and not necessarily based on how these issues present themselves in the social and historical context of choice. (Petrice, Moldovan, Fofiu, 2015)

Consistent with the CDA approach, we were interested not in discourses per se, but in identifying with the help of discourse analysis the mental frames and policy paradigms that were influential in shaping the European Economic Governance Reform.

We particularly looked at the following levels for rhetoric analysis:

1. *discourse analysis*,
2. *policy narratives*,
3. *frame analysis*. (Schmidt, 2002, van der Veen, 2005, Crespy, 2015)

1. “*Policy discourse* is the sum of policy and political actors' accounts of a policy programme's purposes, objectives, and ideals which serve as a guide to action by defining the concepts and norms to be applied, identifying the problems to be solved, explaining the methods to be followed, developing the policy instruments to be used, and, all in all, framing the [...] policy discussion within a given policy arena. The policy discourse itself represents the policy programme in myriad ways. It may introduce not only technical or scientific arguments but also more generally accessible narratives about the causes of current problems and what needs to be done to remedy them.”(Schmidt, 2002, pp. 214)

Vivien Schmidt offers a theoretical model of the ideational dimensions of a discourse that we found it adapts well to our purpose to consider the rhetorical nature of the reform.

The Ideational Dimensions of Discourse			
Function	Form	Ideational core	Representation
Cognitive	Define policy programme's technical purposes and objectives, offer solutions to problems, define policy instruments and methods	Principles and norms of (social) scientific discipline	Narratives, technical/scientific arguments, paradigms, frames of reference, guidelines, techniques, recipes, metaphors, slogans, foundational myths, evocative phrases, images, etc.
Normative	Define policy programme's political goals and ideals, appeal to long- standing or newly emerging values	Principles and norms of public life	

Source: Schmidt, 2002, pp. 214

According to Schmidt, the ideational success of a discourse is dependent on both presenting convincingly the **necessity of change** and *the ability of the discourse to perform a **normative function***.

Ideational Criteria for Success of Discourse About Policy Programme		
Aspect	Logic of argument	Standards of argument
Cognitive	Justifies through logic of necessity	provides core idea with great potential; demonstrates relevance, applicability, coherence, and greater problem-solving capacity of programme
Normative	Justifies through logic of appropriateness	Shows that responds to problems of polity; reflects / affects polity values
Source: Schmidt, 2002, pp. 218		

2. *Frames* refer to “different ways of thinking about the purpose of a particular policy, institution, or other political initiative” Frames specify the interests of actors and help shape their identities, but actors also use frames strategically, to pursue their interests and to shape the interpretations of their actions (van der Veen, 2005) The concept of a frame refers to a basic insights shared politicians, members of epistemic communities and public.

Contentious ideas and discourses generate a process of frame alignment whereby individuals and groups adhere to a specific view on the contested issue and (eventually) engage in collective action.

Frames “assign meaning to and interpret relevant events and conditions in ways that are intended to mobilize potential adherents and constituents, to garner bystander support, and to demobilize antagonists” (Snow and Benford 1986: 198, cited by Crespy, 2015).

Frame analysis may be useful in understanding rhetorical legitimization, as it offers the possibility to attend to texts, speeches and statements with a careful consideration of the argumentation implied, in search for “packages of meanings” (Creed, 2002, cited by

Crespy, 2015) An important question in frame analysis is what holds different—and as we shall see, often inconsistent—elements together.

3. *Policy narratives* perform the same functions as frames: their purpose is to provide a simplified image of reality, to reinforce the cognitive and normative dimensions of problems in order to persuade and eventually suggest what action should be taken. While frames are useful to analyze the various dimensions of discourse—that is how more specific discursive elements relate to and constitute a broader discourse—narratives shed light on the sequencing of discourse. Implicit causal relationship between the different sequences of a narrative is conveyed, but is only assumed and exhibited through drama rather than demonstrated. Thus, narratives entail both a strong predictive dimension (what will result from a specific course of action) and a prescriptive dimension (what should therefore be done). (Crespy, 2015)

Our intention was to identify frames that were instrumental in performing and legitimizing a turn to discipline at the EU level, respectively frames that were instrumental in legitimizing the US consistent response throughout the aftermath of the crisis and the subsequent recovery. We compared SOTEU discourses with SOTU speeches in search for the differences and patterns that make up a frame.

B.3. Identifying rhetorical instruments as proxies for cognitive frames in SOTEU and SOTU discourses (2010-2014)

Emphasizing frames, rather than a single discourse, underscores the fact that a single policy area can be framed in many different ways, using competing frames present in the general societal discourse. *Hence, the way an issue is framed in the minds of the decision-makers can tell us a lot about the shape a policy will take in practice.* Frames are mental constructs, and as such we cannot directly measure them. The question thus becomes: how can we come closest to measuring these mental constructs, given that our only source is statements by policy-makers, that is, discourse? Although we cannot hope to measure the relative strength of different frames in the minds of policy-makers, we can obtain a fairly reliable proxy by looking at elite discourse (van der Veen 2005)

As we showed in detail in chapter 3, section 5, dealing with crisis narratives, different explanatory genres resort to different metaphors, analogies, dichotomies and arguments, but none of the reviewed crisis narratives is without a serious rhetorical arsenal.

By identifying the set of linguistic-rhetorical instruments employed by the speakers, we aim to uncover the discursive routines they resort to in order to persuade their audiences. Such routines carry out operations, of which the audience—most of the times— is not aware. The identification of the rhetorical strategies and instruments sheds light on supplementary information necessary for a better understanding of discursive threads. (Jäger, 2001, in Fuchs and Graph, 2010) Drawing on Jäger (Ibid.), Schmidt (2002), Schmidt and Radaeli (2004), and Vand der Veen (2005), borrowing from their taxonomy of rhetorical-linguistic instruments, and combining some of those categories, we identified the following categories that structure the rhetorical apparatus of the speeches studied: *ideological statements, short sequences, metaphors / analogies, decouplings and dichotomies.*

Ideological statements shed light on the understanding of society, idea of man, or conception of normality the author/speaker assumes a-priori. Such statements gain special attention because they are disproportionally important for the overall interpretation and meaning of the speech act / or text. (Jäger 2001:184, cited by Fuchs and Graph, 2010, pp. 23) (e.g. “*We are part of the American family. We believe that in a country where every race and faith and point of view can be found, we are still bound together as one people; that we share common hopes and a common creed*”, Obama, 2011, SOTU or “*The Union will not achieve its objectives in Europe without the Member States. And the Member States will not achieve their objectives in the world without the European Union.*”, Barosso, 2010, SOTEU)

Short sequences

Short sequences are commonplace in oral communication. Such sequences tend to be incomplete sentences, frequently placed at the end of a paragraph, in which the elision of the object in the sentence structure, for instance, constitutes meaning. Thereby, the short sequences frequently add a commentary or emphasis on what was discussed or it is already known, without explicitly saying so. (e.g. Obama, SOTU 2010: “*Let’s try common sense. It’s novel...*” or “*the days of betting on someone else’s house burning down are over*”, Barosso, 2010, SOTEU) Sometimes short sequences in oral speech include alliterations and sayings, but are not too present in our sample of speeches, given the official nature of the discourses. (Although Obama, by implying a more familiar, non-formal discursive style, sometimes resort to sayings and popular speech figures)

Metaphors / Analogies

We discussed in more detail in chapter 2 section 6, the nature of metaphors and their role in economic thinking (both cognitive and rhetorical/persuasive). In our comparative analysis, by metaphors we understand pictographic demonstrations, or implicit comparisons / short analogies. Analogies are defined here as a rhetorical instruments conveying explicitly the sense of similarity between analogous phenomena from different fields. Similar to the use of other linguistic-rhetorical elements, often analogies are used to add a normative evaluation to the framing of an issue.

Examples of such metaphors and analogies abound in the academic and non-academic crisis literature, in the media coverage of the crisis and in the discourses about the crisis. Various metaphors imply different explanatory frames for the crisis, ranging from portraying it as an abstract given, or a natural disaster, which, if it occurs it implies no human responsibility in causing it to references to “gambling”, “casino”, irresponsible (moral hazard) and even intentional bad conduct (“arson”).

The metaphors implied tells us a great deal about how the speaker/writer describes the problem and have significant predictive value concerning what would likely be the proposed solution for crisis resolution. Exemplifying, if the crisis is like a hurricane or an earthquake, than there is little if any human responsibility involved, thus “weathering the storm” and trying to cope with the aftermath is the only thing humans can do. On the other extreme, if the crisis is the result of hazardous, irresponsible or ill-intentioned human conduct, there is a point in trying to assign blame and eventually to restore normality by punishing the perpetrators.

Without further insisting on the importance of metaphors and analogies in framing the crisis, we will briefly present the most frequent depictions of crisis we came across while reviewing vast amount on literature and media coverage on crisis economics. The situation is stylistically portrayed as follows: ***crisis as a meteorological cataclysmic event***: “storm”, “meltdown”, “hurricane”, “earthquake”; ***crisis as illness or epidemics***: “malaise”; ***crisis as environmental disaster or catastrophic, man-made accident***: “toxic waste”, “spreading like wildfire”, “nuclear chain reaction”; crisis ***as irresponsible and risky conduct***: “gambling”, “sin”, “casino”, even using of metaphors suggesting not only negligence, but outright bad intentions: “setting the house on fire”).

Some analogies describe the financial crash of 2008 as the end of the American Dream. Such analogies serve as promoters for a dramatic description of the situation and are instrumental in mobilizing adherence or dissent.

Drama is enhanced by a range of stylistic resort to adverbs and adjectives denoting astonishment, sometimes outrage: “suddenly”, “now”, “at once”, “surprisingly”, “moreover”, etc. (Fuchs, and Graph, 2010, pp. 21)

Dichotomies and decouplings

Dichotomies constitute meaning by relating, often in opposition, but not necessarily, dual concepts: “body and soul”, “boom and bust”, or complement instruments: “monetary and fiscal policy”, “taxation and spending”. Antagonizing dichotomies are: “good vs bad”, “responsible vs irresponsible”, “austerity vs growth”, “bad best vs good debt”, “spending-investment”, etc.

Decouplings often develop starting from dichotomies, revealing contrasting interpretations and lack of connection: “big money vs people’s savings”, “wall street vs main street”, “finance vs workers”, “Brussels vs national economies”, “Planet Washington vs Planet Earth” or even divergence: “Brussels vs Washington”. The most frequent use of decouplings present the financial system as disconnected from the real economy, conveying a sense of loss of purpose: Pope Francis expressed this as follows: “a financial system that does not serve, but rules”. Decouplings are mostly used by the “workers saving bankers” or “taxpayers bailing out banks” rhetoric.

C. Limitations and further research

We placed special emphasis on the importance of considering the rhetorical aspects involved in the public discourse, especially the discourse of politicians, technocrats and members of epistemic communities that, by defining the problems and framing the debates, have a significant role in setting the agenda for public debates over economic policies. Part of our effort was a consistent and systematic comparative review of various explanatory genres and crisis narratives, in an attempt to identify the main categories of explanations and the most important debates about what happened and what is the way out of the crisis. Apart from this, we paid attention to what politicians had to say about the crisis.

While due to limited resources, in the present work we only made a systematic comparative discourse analysis of state of the union speeches of three key political figures (Obama, Barosso and Junckers), an extended investigation, that beside including more political actors in the analysis, will add to the political discourse level of analysis the other two categories proposed (respectively policy/technocratic discourse and epistemic community discourse) will vastly improve the understanding of how political discourse played the role as an ideational and interactive component of change.

Furthermore, in order to ensure that we obtain an accurate image of what happened and find the best responses to our research questions, an expansion of the *time frame* of our analysis to the period before the crisis (2004/2005) would give us the possibility to assess the impact of crisis on thinking of politicians, policy implementers (technocratic discourse) and policy advisers (members of the epistemic communities). This would ensure that further research will also include the discourse/rhetoric promoted by decision makers and stakeholders before the economic crisis, and thus allow us to capture the incremental changes and sudden deviations in political and economic rhetoric manifested through time. As such, a more detailed and extensive research will span over more than a decade, starting from 2004/2005 and continuing throughout the implementation of the research project.