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Impact of the European Union on Domestic Fiscal Policies

Study on the Decision-Making Processes of Estonia, the Netherlands and Greece from 2008 to 2012

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List of Abbreviations

AGS	Annual Growth Survey
AMR	Alert Mechanism Report
CDA	Dutch Christen Democrats Party
CEE	Central and Eastern European
COCOPS	Coordinating for Cohesion in the Public Sector of the Future
CPB	Dutch Bureau for Economic Policy Analysis
CSR	Country Specific Recommendations
CU	Dutch Christen Party
D66	Dutch Democrats Party
DG ECFIN	Directorate General of Economic and Financial Affairs
DISY	Democratic Alliance – Greek political party
DL	Democratic left – Greek political party
ECB	European Central Bank
ECOFIN	European Council of Economic and Financial Affairs
EDP	Excessive Deficit Procedure
EFSF	European Financial Stability Fund
EMS	European Monetary System
EMU	Economic and Monetary Union
ERM	Exchange Rate Mechanism
ESCB	European System of Central Banks
ESM	European Stability Mechanism
EU	European Union
GDP	Gross Domestic Product
GL	Dutch Green Party
IMF	International Monetary Fund
KKE	Communist Party of Greece
LAOS	Popular Orthodox Rally – Greek political party
MP	Member of Parliament
MTO	Medium-Term Objective
ND	New Democrats – Greek conservative Christen Democratic Party
PASOK	Panhellenic Socialist Movement – Greek Social Democrat Party
PvdA	Dutch Labour Party
PVV	Dutch Right Wing Populist Party
SGP	Stability and Growth Pact
Syriza	Coalition of Radical Left – Greek political party
TEU	Treaty of the European Union
VVD	Dutch Liberal Party

Chapter 1. Introduction

Fiscal policies of member states of the European Union have received much attention in recent years due to the effects of the global financial crisis on these policies. In September 2008, the global financial crisis started when the investment bank Lehman Brothers filed for bankruptcy (Global financial crisis: five key stages 2007-2011, The Guardian, 2011). Following the events, banks were unable to comply with their payment obligations (Aanpak Kredietcrisis Nederland, Rijksoverheid). The fear of contagion of collapsing banks forced western governments to support their financial institutions. These governments injected capital into their domestic banks to prevent their banks from collapsing (Global financial crisis: five key stages 2007-2011, The Guardian, 2011). In 2010, the banking crisis was followed by an economic crisis. Trying to reduce the effects of the crisis, many western governments took incentive measures to boost the economy (Global financial crisis: five key stages 2007-2011, The Guardian, 2011). For example, the Netherlands implemented a stimulus package of almost six billion Euros in 2009 and 2010 (Aanpak Kredietcrisis Nederland, Rijksoverheid). As a result, the budget deficit of European states increased. Governments were faced with the challenge of handling the increasing deficits.

The decision-making processes on fiscal policies of European states did not only take place at the domestic level, but at the level of the European Union as well. The European Union provides a budgetary framework with rules and procedures. Since 1990, the rules of the framework on fiscal policies of the European Union increased more than a sevenfold. These rules are defined in the Stability and Growth Pact and the legislative framework consisting of the six pack and two pack (Fiscal Governance, European Commission). The principle of the budgetary framework is a balanced budget. According to these rules, the budget deficit of member states of the European Union may not exceed three percent of Gross Domestic Product (GDP) and the public debt may not exceed sixty percent of GDP (Treaty on European Union, European Union). When member states of the European Union exceed the fiscal thresholds, they have to comply with an excessive budgetary procedure. Since the global financial crisis, many member states of the European Union have not complied with the rules of the fiscal framework.

There has been extensive research regarding the decision-making processes of domestic fiscal policies in fourteen member states of the European Union in the framework of the research project Coordinating for Cohesion in the Public Sector of the Future (COCOPS) (WP7: coordination after the crisis, COCOPS). Research was limited to the decision making in response to the global financial crisis of national governments. Although the domestic decision-making processes on fiscal policies were taken into account, little attention has been paid to the influence of the European Union on the decision-making processes of domestic fiscal policies. The purpose of this study is to examine the impact of the European Union on decision-making processes on domestic fiscal policies.

The impact of the European Union on the decision-making processes of domestic fiscal policies is analyzed by using the theoretical concept Europeanization. The outcome of Europeanization pressure can differ between member states (Bulmer in Graziano & Vink, 2008, p51). In this study, the outcome of Europeanization pressure is examined in three member states. In order to examine the impact of the European Union, the decision-making processes in the Netherlands, Estonia and Greece are analyzed.

These three member states have been chosen on account of different expectations of the outcomes of Europeanization pressure.

First, the expected outcome of the impact of the European Union on the fiscal policies of the Netherlands is little impact. The Netherlands has a cultural historical background of applying strong budget discipline on itself. Moreover, the Netherlands was one of first member states of the European Union that proposed the fiscal legislation and was in favour of the strict budgetary rules within the European Union. Through the budgetary framework of the European Union, other member states had to comply with budgetary discipline as well. In 2009, the Netherlands had a public debt of 56.5 percent of GDP and a budget deficit of 5.5 percent of GDP in 2009 (General Government Gross Debt, Eurostat) (General Government Deficit/ Surplus, Eurostat). The budget deficit of the Netherlands first exceeded three percent of GDP in October 2009 (Putting the public finances in order, Government of the Netherlands). Consequently, the Netherlands exceeded the fiscal thresholds which it proposed itself. In 2010, the Dutch government chose to consolidate. Which results in the following question: did the Netherlands choose to consolidate itself or did it do so as a result of pressure from the European Union?

Second, the expected outcome of the impact of the European Union on the fiscal policies of Estonia is unknown. Since the early 2000s, the Estonian economy had entered a boom phase with strong economic growth. Estonia carried out conservative fiscal policies. As a result, Estonia had a balanced budget with a budget surplus during several years. However, early 2008, Estonia faced a domestic economic crisis. The economic crisis resulted in a deterioration of the budget from a budget surplus of 2.5 percent of GDP in 2007 to a budget deficit of 2.8 percent of GDP in 2008 (Budgeting Country Note Estonia, OECD). In 2008, Estonia chose to consolidate. They implemented austerity measures on the expenditure side. Moreover, they increased revenues (Staehr, 2013). At that time, Estonia was not a member of the European Union. However, Estonia wanted to join the Eurozone. Therefore, did the European Union have an impact on the Estonian fiscal policies?

Third, the expected outcome of the impact of the European Union on the fiscal policies of Greece is great impact. Greece was unable to finance its government debt deficit. Since May 2010, Greece received financial support from the European Union and the International Monetary Fund to cope with the increasing government debt and deficit (Financial Assistance to Greece, European Commission). Greece had to comply with the austerity and reform measures which were agreed upon with their creditors. The Troika, consisting of the European Commission, the International Monetary Fund (IMF) and the European Central Bank (ECB), reviewed the implementation and progress of the measures (Financial Assistance to Greece, European Commission). As a result, impact of the European Union on the fiscal policies of Greece can be expected. However, the West-European normative view on this matter argues that Greece did not comply with the agreements. In this thesis, a descriptive non-normative overview of the impact of the European Union on the Greek fiscal policies is conducted.

In this study, I will discuss the impact of the European Union on the domestic fiscal policies of the three previously mentioned member states. The problem I attempt to solve in this study is to examine the impact of the European Union on decision-making processes of domestic fiscal policies from a political administrative perspective. To analyze this impact of the European Union, I will examine and compare three member states of the European Union. In conclusion, the purpose of this study is:

This study examines the impact of the European Union on decision-making processes of domestic fiscal policies.

To examine the impact of the European Union on decision-making processes of domestic fiscal policies, this study focuses in specific on the decision-making processes of the Netherlands, Estonia and Greece after the global financial crisis broke out. In this study, I present the following research question:

What impact did the European Union have on the decision-making process of the domestic fiscal policies in the Netherlands, Estonia and Greece from 2008 to 2012?

In order to answer the research question, first, I will discuss the legislation of the European Union with which member states have to comply with; specifically the rules and procedures on domestic fiscal policies. Furthermore, I will argue what impact is from a theoretical perspective after which I will present the conceptual model of this study. This model will be used to examine the three cases. I address the following sub questions in this study:

- Which rules and procedures of the European Union on domestic fiscal policies apply to the European member states?
- What is the expected outcome of the impact of the European Union on domestic fiscal policies from the theoretical perspective Europeanization?
- How did the decision-making process of the fiscal policies take place in the Netherlands, Estonia and Greece in 2010 and 2012?
- What was the impact of the European Union on the domestic fiscal policies of the Netherlands, Estonia and Greece in 2010 and 2012?
- Which recommendations can be proposed?

These are the questions which are addressed in this study. In the next section, the literature review is discussed.

Social and Academic Relevance

Extensive research has been conducted regarding the decision-making process of domestic fiscal policies in fourteen member states of the European Union in response to the global financial crisis of 2008. Research has been conducted in the framework of the research project COCOPS, in specific work package 7: coordination after the crisis (WP7: coordination after the crisis, COCOPS). These studies were limited to the decision-making process of domestic governments. Although the domestic decision-making processes on fiscal policies were demonstrated, little attention has been paid to the influence of the European Union on the decision-making processes of domestic fiscal policies.

Moreover, research has been conducted on the influence of the European Union on other policy areas, however, not yet on fiscal policies. With this study, I will contribute to the understanding of the influence of the European Union on the decision-making of domestic fiscal policies.

In addition, after the global financial crisis in 2008 broke out, fiscal policies have been relevant in the public and political debate. Since then, the European Union strengthened the rules on domestic fiscal policies and created a rescue fund. Today, the fiscal policies are still being discussed. When conducting this study, negotiations took place between the Troika and Greece on further financial support which is precisely the topic of this study. With this study, a better understanding of the influence of the European Union on the decision-making process of domestic fiscal policies can contribute to the public and political debate.

This study is organized as follows: chapter two reviews the existing literature. The third chapter discusses the methodology used in this study. In chapter four the rules and procedures of the European Union on domestic fiscal policies are discussed. The fifth chapter discusses the empirical results. Based on the analyses in chapter six, the paper ends with a conclusion and recommendations in Chapter seven.

Chapter 2. Literature review

This chapter discusses the literature exploration of impact on decision-making processes. I will discuss the following theoretical approaches: power, multi-level governance and Europeanization.
I will analyze these theoretical approaches after which the theory on Europeanization will result in the conceptual model of this study.

§2.1 Power

In this study, I am looking for a theoretical approach to define the impact of the European Union on the domestic level. I want to define the causal relation between the European Union and the decision-making process on domestic fiscal policies. Therefore, I first explored the view of power which indicates the top-down power of the European Union on its member states. Lukes (2005) defines power as “A has power over B”. In 1974, Lukes (1974) proposed his top-down view of power. In 2005, he published a new version of his book which is used in this study. Lukes (2005, p.30) defined power as “A exercises power over B when A affects B in a manner contrary to B’s interests” (Lukes, 2005, p.30). Power is seen as the *power over* another (Haugaard, 2012, p.35). As in ‘A over B’ (Reason & Bradbury, 2008, p.174). Power could be interpreted as domination or coercion. Essentially, it means to get someone to do what they otherwise would not have done, by the threat of sanctions or the use of force (Haugaard, 2012, p.35). Power is the product of conflicts between A and B to determine who loses and who wins (Reason & Bradbury, 2008). Lukes (2005) argues that someone can prevail over another in a way that may be beneficial to the one that is being prevailed upon, in an instance where A knows B’s interest better than B knows them him- or herself.

However, the view on power by Lukes (2005) falls short when examining the impact of the European Union on domestic policies of its member states. When the definition “A has power over B” is applied in this study, the European Union has *power over* its member states. Although I am looking for a theoretical approach to define a causal relation, the European Union has not only top-down power over its member states. Both levels are interconnected with each other and have interaction from both sides. Thus, the supranational level and the domestic level are connected in the decision-making process on domestic fiscal policies. This indicates not only power as domination over member states, but member states perform power on the supranational level as well. Furthermore, Lukes (2005) definition of power lacks the approach on how power can act within decision-making processes. Therefore, the definition of Lukes (2005) of power is not sufficient to examine the impact of the European Union.

§2.2 Multi-Level Governance

In order to fully understand the interaction between different levels of governance, I will explore the theoretical approach multi-level governance. This approach explains how decision-making processes take place between different levels of governance. Lelieveldt & Princen (2011) define governance as the “term used to refer to a mode of governing characterized by collaborative and networked forms of policy-making” (2011: p.41). The decision-making process takes place between different levels of governance. Thus, in addition to the domestic levels, the decision-making processes include subnational and supranational levels as well (Lelieveldt & Princen, 2011, p.43). Political arenas are connected

(Hooghe & Marks, 2001, p.4). Domestic governments are dependent on the resources of other governance levels when preparing and implementing policies (Lelieveldt & Princen, 2011, p.43).

The supranational level of the European Union plays an independent part in policy making (Hooghe & Marks, 2001, p.3). Therefore, the supranational level does not prevail over lower levels on what to do. Policy-making consists of negotiations and deliberations between different levels of governance (Lelieveldt & Princen, 2011, p.43-44).

Multi-level governance does not reject that domestic governments and national political arenas have an important part in the decision making. The decision making is not monopolized by domestic actors, yet the competencies of the decision making are shared by actors at different government levels. The supranational institutions have independent mandates to influence policy making (Hooghe & Marks, 2001, p.3). In 2011, the position of the European Commission was strengthened when the European Semester came into force (Making It Happen: the European Semester, European Commission).

Multi-Level Governance explains how different levels of governance are related to each other in decision-making processes. In sum, the decision-making process takes place between different levels of governance and consists of negotiations and deliberations between these levels. In order to examine the causal relation between the European Union and its member states, I will discuss the theoretical approach Europeanization in the next subsection.

§2.3 Europeanization

Europeanization studies explain the causal relationship between the European Union and its member states (Bulner, 2008, p.48). In this subsection, Europeanization is discussed.

The conceptualization of the domestic impact of Europeanization is "a process of change at the domestic level in which the member states adapt their processes, policies and institutions to new practices, norms, rules and procedures that emanate from the emerging European system of governance" (Featherstone & Radaelli, 2003, p.63). Europeanization research explains that member states may have had a part in influencing the legislation of the European Union which is transposed into domestic law. In addition, member states may have uploaded domestic preferences to the supranational level (Ladrech, 2010, p.22). Member states have impact on the policies and practices of the European Union as well, which is defined as a feedback loop by Schmidt (2002, p.896).

Europeanization is defined by Lelieveldt & Princen as "the impact of the European Union on policies, political processes and institutions in the member states" (2011: p.196). A more multifaceted definition is given by Featherstone & Radaelli (2003): "Europeanization consists of processes of a) construction, b) diffusion and c) institutionalization of formal and informal rules, procedures, policy paradigms, styles, 'ways of doing things' and shared beliefs and norms which are first defined and consolidated in the EU policy process and then incorporated in the logic of domestic (national and sub national) discourse, political structures and public policies" (Featherstone & Radaelli, 2003: p30).

Three mechanisms of Europeanization are distinguished by Knill and Kehnkul (2002). The first mechanism of Europeanization is institutional compliance. Member states have to comply with binding legislation of the European Union. The legislation is imposed by the European Union on the member states. The European Union has defined a budgetary and legislative framework which includes the rules and procedures of the European Union on domestic fiscal policies (Knill & Lehnkuhl, 2002).

The second mechanism of Europeanization is changing domestic opportunity structures. Norms and rules of the European Union affect the domestic political context. Domestic political actors have new options outside their own member state (Knill & Lehnkuhl, 2002).

The third mechanism of Europeanization is the framing of domestic beliefs and expectations which alters the beliefs and expectations of member states. This mechanism is an indirect form of Europeanization. The European Union affects domestic policy-making by providing models and best practices which will frame the domestic debates (Lelieveldt & Princen, 2011, p.196-197) (Knill & Lehnkuhl, 2002).

Adjustment Pressure

Through the three mechanisms of Europeanization, the European Union performs adjustment pressure on its member states which have to comply with the rules of the European Union. Different degrees of adjustment pressure of Europeanization are distinguished. The degree of adjustment pressure depends on how restrictive the decisions of the European Union are when member states implement the rules of the decisions (Schmidt, 2002, p.897). In case of a set of highly specified rules, the potential adjustment mechanism is expected to entail coercion at a high level. Less highly specified rules will potentially involve coercion at a low level. By contrast, rules with only suggestions will involve mimesis. Lastly, when the European Union specifies only options and no rules to follow, the adjustment mechanism is expected to entail regulatory competition and no coercion.

The potential level of adjustment pressure can differ from the actual adjustment pressure. Member states may not experience highly specified rules as coercive when the rule fits with the policies and preferences of the member states. Contrarily, member states may experience a suggested rule as coercive when the decision does not fit with policies and preferences of the member states. The member state will feel pressure to comply with the decision (Schmidt, 2002, p. 898). These differences in experiences can be explained as a result of five mediating factors. These factors differentiate the response to the rules of the European Union.

Mediating Factors

The presence or absence of mediating factors explains why legislation of the European Union may be experienced differently between member states. Different state structures, political systems, domestic legacies and preferences determine whether adjustment pressures of Europeanization result in actual domestic change. As a result of the mediating factors, the domestic change may differ between member states (Ladrech, 2010, p.34).

In this study, the five mediating factors defined by Schmidt (2002) are used. Schmidt (2002) defined five mediating factors which explain the difference between the potential and actual adjustment pressure. Mediating factors differentiate the experience and the response of member states to the adjustment pressure of Europeanization (Schmidt, 2002, p. 898).

The first mediating factor is the economic vulnerability of a member state. This factor indicates the absence or presence of a crisis. Characteristics of an economic crisis are the decrease of competiveness on financial markets, the rise of unemployment and economic growth. Member states that are faced with an economic crisis tend to be more open to policy changes. Moreover, member states tend to be more open to policy changes when they experience competition pressures on markets.

This pressure depends on the size of their markets, the strength of their currency and the scope of their business (Schmidt, 2002, p.898).

The second mediating factor is the political and institutional capacity of member states to respond to external economic pressures. The political and institutional capacity is the ability of member states to negotiate or impose change. The ability depends on the institutional arrangement and political interactions. On one hand, the power in policymaking and executive processes of a single-actor system is concentrated. Therefore, a restricted group of actors within the government can impose decisions. They do not need to consult societal interests. On the other hand, the executive power in multi-actor systems cannot impose their decisions. They have to negotiate with societal and other policy groups (Schmidt, 2002, p. 898-899).

The following mediating factor is the fit with policy legacies. A fit takes place when new policies and decisions of the European Union are compatible with longstanding domestic policy-making institutions and policies. Small changes are not limited by political institutional capacity or a misfit with policy legacies. However, major changes require institutional capacity and a fit with policy legacies (Schmidt, 2002, p. 898). A policy misfit adds adjustment costs at the domestic level. As a result, member states want to upload their policies to the supranational level (Börzel & Risse, 2000, p.5).

This fourth mediating factor is the fit with policy preferences. A member state can either embrace new policy preferences or hold onto their old and traditional policy preferences (Schmidt, 2002, p. 899-900). The lack of compatibility is known as a misfit at domestic level with the European legislation (Bulmer, 2008, p.51).

A misfit can be distinguished when European and domestic processes, policies and institutions are not compatible (Börzel & Risse, 2000, p.5) (Featherstone & Radaelli, 2003, p.58). Member states may experience different degrees of adjustment pressure when they have to download the policies of the European Union (Börzel & Risse, 2000, p.5). When the misfit occurs, adjustment pressure develops at a domestic level (Bulmer, 2008, p.51). A (mis)fit with the policy legacies and preferences determines the degree of adjustment pressure. The lower the compatibility with the legislation of the European Union and domestic institutions, the higher the adjustment pressure will be (Ladrech, 2010, p.33) (Börzel & Risse, 2000, p.5) (Featherstone & Radaelli, 2003, p.61).

The last mediating factor is the discourse. This is defined by Schmidt as the "ability to change preferences by altering perceptions of economic vulnerabilities and policy legacies and thereby enhance political institutional capacity to impose or negotiate change" (Schmidt, 2002, p. 900). Discourse has an interactive component. The policy actors do not only propose new policies, they have to communicate their policies to the public. This component strengthens the political institutional capacity. In single-actor systems, the discourse contributes to the ability to gain public support for the imposed policy decisions. In multi-actor systems, the discourse contributes to the ability to reach an agreement for the decision (Schmidt, 2002, p. 900).

Table 1 shows the mediating factors in policy adjustment to Europeanization.

Table 1 Mediating Factors in Policy Adjustment

	Mediating factors in policy adjustment
Economic vulnerability	Presence or absence of economic crisis; decrease of competiveness of markets; strength of currency; scope of business; size of the markets; weak domestic banks
Political institutional capacity	Principal policy actors' ability to impose or negotiate change, depending upon political interactions and institutional arrangements
Policy legacies	Fit with long-standing policies and policy-making institutions
Policy preferences	Fit with the old preferences and/ or openness to new ones
Discourse	Ability to change preferences by altering perceptions of economic vulnerabilities and policy legacies and thereby enhance political institutional capacity to impose or negotiate change

The mediating factors help to explain the response of the member states to the Europeanization pressure. The question remains how much the member states have been Europeanized (Ladrech, 2010, p.37). As a result of these mediating factors, the response of member states to the adjustment pressures is differentiated among potential outcomes of domestic change (Schmidt, 2002, p. 901). Europeanization pressure can cause three degrees of the outcome of domestic change (Börzel & Risse, 2000, p.10):

1. Inertia which occurs when there is a lack of changes in the member state (Featherstone & Radaelli, 2003, p.37). As a result, a low degree of domestic change will take place (Featherstone & Radaelli, 2003, p.69-70).
2. Absorption which indicates change as adaption (Featherstone & Radaelli, 2003, p.37). Policies of the European Union are adapted in domestic policies and structures, yet without sustainable modification of existing policies, processes and institutions (Featherstone & Radaelli, 2003, p.69-70) (Börzel & Risse, 2000, p.10). Thus, the essential features of domestic policies, processes and institutions will not change (Featherstone & Radaelli, 2003, p.69-70). Absorption leads to a modest degree of domestic change (Featherstone & Radaelli, 2003, p.69-70) (Börzel & Risse, 2000, p.10).
3. Transformation. Member states replace their existing policies, processes and institutions with new ones or they alter already existing ones. In this way the essential domestic features of policies, processes and institutions are fundamentally changed. Transformation leads to a high degree of domestic change (Featherstone & Radaelli, 2003, p.69-70) (Börzel & Risse, 2000, p.10).

The rules of the Maastricht Treaty and the Economic and Monetary Union (EMU) are highly specified rules which result in high potential adjustment pressure. The adjustment mechanism will potentially involve a high degree of coercion (Schmidt, 2002, p.897), because member states have to comply with macro-economic targets related to their government debt, budget deficit and inflation rates. As a result of the highly specified rules and procedures of the European Union on domestic fiscal policies, the potential outcome of the adjustment pressure *transformation* is expected. However, member states may not experience the potential adjustment pressure as coercive (Schmidt, 2002, p.902).

The potential adjustment pressure can differ from the actual pressure. When member states have to implement a highly specified rule, the adjustment mechanism will be coerciveness. However, if the rule shows a fit with long-standing policy preferences and legacies, the outcome of the adjustment pressure can be absorption. In contrast, when highly specified rules of the European Union are coercive, the outcome of the adjustment pressure may be inertia instead of transformation. This is due to the fact that the rules of the European Union do not correspond with the policy preferences and legacies of a member state (Schmidt, 2002, p.901-902).

Therefore, the expected outcome of adjustment pressure is transformation. However, due to the mediating factors, the actual outcome of the adjustment pressure may differ (Schmidt, 2002, p.902). In the next section, I will further clarify this in the conceptual model used in this study.

§2.4 Conceptual Model

In this study, I examine the impact of the European Union on the decision-making process of domestic fiscal policies in the Netherlands, Estonia and Greece from 2008 to 2012. In the previous sections, I argue that the European Union has an impact on its member states through adjustment pressure. The dependent variable is the decision-making process of domestic fiscal policies. The independent variable, the adjustment pressure of the European Union has a causal effect on the decision-making process of the domestic fiscal policies. The outcome of the adjustment pressure is differentiated among three degrees.

The expected outcome of the adjustment pressure is transformation, because of the coerciveness of the highly specified rules of the European Union on domestic fiscal policies. These set of rules and procedures of the European Union are discussed in chapter 4. However, the coerciveness of the rules of the European Union on domestic fiscal policies is not necessarily transformed in the rules of its member states as a result of the mediating factors. The mediating factors are economic vulnerability, the political and institutional capacity, a fit with long-standing policy legacies and preferences and the discourse. The mediating factors have an influence on the causal relation between the independent and dependent variable. The five mediating variable help to explain the response of the member states to the adjustment pressure of the European Union. In this study, I will discuss the actual impact of the European Union through adjustment pressure on the decision-making process of domestic fiscal policies. Figure 1 shows the conceptual model, the relationship between the independent and dependent variable, which is used in this study.

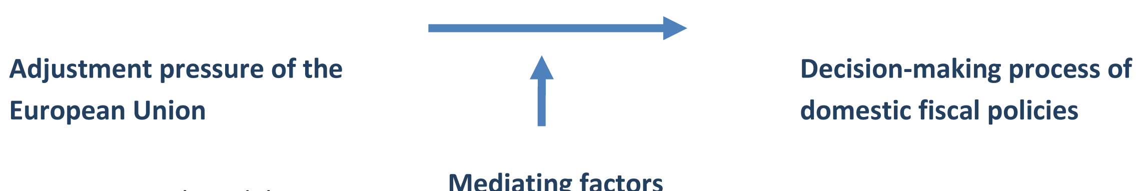

Figure 1. Conceptual Model

The conceptual model shows the influence of the mediating factors on the decision-making process of domestic fiscal policies. The outcome of the adjustment pressure is differentiated among three degrees; inertia, absorption and transformation. The following table indicates the relation between the mediating factors and the outcome of the adjustment pressure on the decision-making process of domestic fiscal policies. In short, the mediating factors help to explain the response of the member state to the adjustment pressure of the European Union.

The potential domestic outcome is determined by the presence or absence of the mediating factor. In the subsection "Mediating Factors" of this chapter it is discussed that with the presence of the mediating factors, states tend to be more open to policy changes. Member states tend to be more open to policy change when they are faced with the presence of economic vulnerability, when they have the political institutional capacity to negotiate or impose changes, when the policy changes fit with long-standing policy legacies and preferences and when they have the discourse. When states tend to be more open to policy changes, the outcome of the adjustment pressure will more likely be absorption or transformation. In contrast, when states tend *not* to be open to policy changes, the outcome of the adjustment pressure will more likely be inertia. Table 2 shows the relation between the mediating factors and the domestic outcome of the adjustment pressure. The mediating factors can be seen in the column on the left. The occurrence of the mediating factors can be seen for each of the domestic outcomes to the adjustment pressure. The presence or absence of the mediating factors determines the domestic outcome to the adjustment pressure which is differentiated by three domestic outcomes. Thus, if all mediating factors are absent, the domestic outcome to the adjustment pressure will be inertia. Moreover, if the mediating factors partially are present, the domestic outcome to the adjustment pressure will be absorption. At last, if all mediating factor are present, the domestic outcome to the adjustment pressure will be transformation. During the analysis I will discuss why which domestic outcome is dominant in case the table indicates more than one outcome to the adjustment pressure.

Table 2. Analysis Domestic Outcome of the Adjustment Pressure

Mediating factors	**Degree of presence**		
Economic vulnerability	Not economic vulnerable	Economic vulnerable	Economic vulnerable
Political institutional capacity	No capacity	Little capacity	Capacity
Policy legacies	Misfit	Misfit	Fit
Policy preferences	Misfit	Fit	Fit
Discourse	No discourse	Discourse	Discourse
Domestic Outcome of the Adjustment Pressure	Inertia	Absorption	Transformation

In the next section, I discuss the methodology. In the subsequent chapter, I discuss the rules and procedures of the European Union on domestic fiscal policies.

Chapter 3. Methodology

In this section, the approach of this study on how to examine the impact of the European Union on domestic decision making processes of fiscal policies is discussed. Furthermore, this section explains the choices that have been made regarding the research methods, data collection and analysis techniques.

Little research has been conducted on the influences of the European Union on domestic fiscal policies. Research has been conducted into decision-making processes of domestic governments in fourteen European member states and their domestic response to the fiscal crisis. This research has been conducted in the framework of the research project COCOPS (Coordinating for Cohesion in the Public Sector of the Future), in specific work package 7: coordination after the crisis (WP7: Coordination After the Crisis, COCOPS). The emphasis was primarily based on the domestic decision making process of governments in European states. The influence of the European Union was not addressed in these studies. Therefore, this study examines the impact of the European Union on domestic decision-making of fiscal policies.

In this study, the impact of the European Union on domestic decision-making of fiscal policies was examined during the time period 2008 till 2012. This period was chosen, because the global banking crisis broke out in 2008 which was followed by the economic crisis. In 2011, the European Semester came into force. As a result, the European Union can make recommendations for member states on specific policy areas. In 2012, the first annual cycle of the European Semester was implemented.

To examine the impact of the European Union on domestic fiscal policies, the conceptual model is used which is proposed in the previous chapter. Europeanization is the independent variable which has impact on the domestic policies, processes and institutions (Featherstone & Radaelli, 2003, p.60). This study is limited to the impact of the European Union on the domestic decision-making processes on fiscal policies and not on how the European Union influences the domestic processes and structures. Therefore, this study does not explore the aspect of the impact of the European Union on polity. The dependent variable is the domestic outcome of Europeanization pressure of the European Union. This variable is differentiated among three degrees of outcome. As shown in the conceptual model, the impact of the European Union on the domestic fiscal policies is a causal effect. In order to examine a causal effect, it is important to examine if the observed effect is due to the impact of the European Union or if the effect is due to alternative explanatory factors (Ladrech, 2010, p.40).

This causal effect results in a problem with the internal validity. A non-variances problem in the independent variable is determined. In this study the research strategy process tracing was used to determine whether and to what extent the European Union has impact on the domestic governance level. Process tracing was carried out in which the decision-making process of the domestic fiscal policies was discussed. The decision-making process includes the domestic actors such as the government, parliament, administration and the supranational actors as the European Commission and the Troika. To cope with the non-variance problem, process tracing of the precise sequences of the decision-making processes was examined, taking into account the timing and speed during the decision making. Moreover, other alternative explanatory factors will contribute to explain whether the European Union had an impact (Schmidt, 2002, 899). Process tracing takes alternative factors and explanations into account (Haverland, 2006, P.137).

In addition, the mediating factors of Schmidt were used in this study (2002). These five mediating factors help to explain the response of the member states (Schmidt, 2002, p.898). Moreover, these factors emphasizes on alternative explanations. Two of the mediating factors relate to a (mis)fit (Schmidt, 2002, p.899). The limitation of the factors of fits is that these factors do not isolate the European Union factor from the domestic status quo (Haverland, 2006, p.136).

In this study, the non-variance problem of the independent variable was recognized. The use of the research strategy process tracing and the mediating factors contributed to handle this problem.

To examine the impact of the European Union on domestic fiscal policies, three European states were analyzed. This study includes a multiple case study on the decision making process in the Netherlands, Estonia and Greece. I have chosen specifically these three member states, because with these states I have conducted three perspectives. These three states were chosen because of the different expected outcomes of the Europeanization pressure. As is described in the introduction, the expected outcome of the impact of the European Union on the fiscal policies of the Netherlands is of little impact. First, the Netherlands was one of the six primary member states of the European Union and is known as one of the most loyal member states. Moreover, budget discipline is one of the cornerstones of the Dutch society. The Netherlands 'uploaded' budget discipline and the fiscal rules itself to the level of the European Union. Therefore, it is likely that the Netherlands would transform the European budget rules, which they had proposed itself, to the domestic level. Second, the expected outcome of the impact of the European Union on the fiscal policies of Estonia is little impact. First, Estonia was not a member state of the Eurozone until 2011. Moreover, Estonia faced an economic crisis just before the global economic crisis broke out. It reacted with fiscal consolidation. At that time, the European Union had not yet expressed its view on budget discipline. Thus, Estonia had already introduced austerity measures on its own. Third, the expected outcome of the impact of the European Union on the fiscal policies of Greece is great impact. Greece, in contrary to the Netherlands, had no budget discipline on its own. Therefore, Greece would likely not implement austerity measures on its own, yet as a result of adjustment pressure of the European Union. Greece got financial support from the European Union and had to comply with the agreement with European Union and the IMF which consisted of cutbacks and reform measures. The Troika, consisting of the European Commission, the IMF and the European Central Bank, reviewed the implementation and progress of the measures (Financial Assistance to Greece, European Commission).

To examine the three cases, this study uses qualitative research methods such as interviews and content analysis of already existing documents and literature. Data are collected from interviews and existing documents. Official documents present the result of the decision-making process, but do not discuss the informal contact between both levels. Document analysis is content analysis. These documents were reports, treaties and pacts, policy documents and letters of the European Union and the governments of the member states, newspapers and (academic) journals. Policy documents and letters specifically contain documents of the Directorate General of Economic and Financial Affairs (DG ECFIN) of the European Commission. In addition, interviews provide information on the perspective of the respondents who are involved in the decision making process from either the view of the European Union or the domestic state. Complete confidentiality is agreed with all respondents. Therefore, I do not specify their names, function and organization in this study, nor do I give a list of respondents in an attachment.

The data of the Dutch case are conducted through multiple interviews, Dutch newspapers and journals and official documents. The interviews are conducted from respondents which were involved in the decision-making process of the Netherlands. Both the political and administrative perspective from the European and domestic level are taken into account. To gather data for the process tracing of the decision-making process, prior research, existing documents and Dutch newspapers and journals were used. The following leading Dutch newspapers and journals were chosen: NRC Handelsblad, Volkskrant, Financieel Dagblad, Telegraaf and the journal Elsevier. From the search results, I selected 67 relevant articles.

The Estonian case includes secondary analysis of documents and literature and a limited number of interviews from both the European and domestic level.

The case study on Greece is primarily based on literature and document analysis of newspapers and documents of the European Union. Data for the process tracing was gathered from newspapers. The analyzed newspapers are the Western English newspapers Financial Times and The Economist. From the search results, I selected 89 relevant articles.

In the case study on Greece, I attempt to give a purely descriptive empirical and non-normative overview of the decision making processes.

In this section, I have discussed the approach of this study and the choices I have made on how I will examine the impact of the European Union on domestic decision making processes of fiscal policies. In the following chapter, I will discuss the budgetary rules and procedures of the European Union on domestic fiscal policies.

Chapter 4. Rules and Procedures of Fiscal Policies

In this chapter I discuss the legislative framework which includes the budgetary rules and procedures of the European Union on domestic fiscal policies. This chapter consists of the following sections. First, the budgetary integration was defined in the Maastricht Treaty which defines the Economic and Monetary Union (EMU). The Economic and Monetary Union converged all separate European economies which led to the adaption of the single currency. These rules were further specified in the Stability and Growth Pact (SGP). These pacts are still in force and have been expanded with additional rules. In 2011, the European Semester came into force which defines the procedural outline of fiscal policies. The European Semester defines the annual cycle of budget rules. Furthermore, the rules of the SGP were strengthened by the two and six pact (Numerical Fiscal Rules in the EU Member States, European Commission).

§4.1 Maastricht Treaty and the Economic and Monetary Union

The first budgetary agreements on budget discipline were defined in the Maastricht Treaty - formally the Treaty on European Union (TEU). The treaty was signed on 7 February, 1992, and replaced the European Community (Wincott, 1996) (Treaty on European Union, 1992). The Maastricht Treaty defined the legal framework for economic policy coordination in the European area (Ambtenbrink, 2014, p.1). The treaty defined the establishment of the Economic and Monetary Union (EMU) as well (Economische en Monetaire Unie, Europa NU). The main goal of the EMU was to maintain price stability in the Eurozone. The Eurozone was composed of member states that use the single currency (Hebbink & van Velthoven, 2008, p.74). In addition, the EMU focused on two other main economic activities; to secure the functioning of the European market and to coordinate general economic policies (Verbeken, 2014) (Hebbink & van Velthoven, 2008, p.75). The European System of Central Banks (ESCB) had the responsibility of the monetary policy. The ESCB consisted of the European Central Bank (ECB) and the central banks of member states which use the single currency (ECB, ESCB en het Eurosysteem, Europese Centrale Bank).

The EMU defined three stages in which economies of member states were converged. First, the capital market was liberalized. Secondly, the forerunner of the European Central Bank, called the European Monetary Institute, was established (Verbeken, 2014). Moreover, the EMU strengthened cooperation between domestic banks and economic policies (Economische en Monetaire Unie, Europa NU). During the third phase the EMU was launched, a transition period before the introduction of the actual euro bills and coins (Economische en Monetaire Unie, Europa NU). The United Kingdom and Denmark agreed on an exception clause to join the third phase of the EMU. They do not use the single currency (Invoering van de euro: convergentiecriteria, Europese Unie).

To enter the third phase of the EMU, member states had to fulfil several criteria (Invoering van de euro: convergentiecriteria, Europese Unie). These criteria, called the conditions for joining the EMU, were drafted in order to establish sufficient convergence in economic development (Hebbink & van Velthoven, 2008, p.74). The convergence criteria of the EMU were:

- High degree of price stability (Invoering van de euro: convergentiecriteria, Europese Unie). The inflation rate may not exceed 1.5 percent of the three best performing member states in terms of price stability (Hebbink & van Velthoven, 2008, p.107).

- Durability of convergence. In the Maastricht Treaty is defined: "the durability of convergence achieved by the Member State with a derogation and of its participation in the exchange-rate mechanism being reflected in the long-term interest-rate levels" (Treaty on European Union, 1992: p.41). The nominal long term interest-rate may not exceed 2 percent of the three best performing member states in terms of price stability (Invoering van de euro: convergentiecriteria, Europese Unie).
- Sustainable financial position of the government. Two requirements were:
  - The budget deficit may not exceed three percent of GDP. The budget deficit is the ratio between the budget deficit and the GDP (Invoering van de euro: convergentiecriteria, Europese Unie) (Treaty on European Union, 1992).
  - The government debt may not exceed sixty percent of GDP. The government debt is the ratio between the gross government debt and the GDP (Invoering van de euro: convergentiecriteria, Europese Unie) (Treaty on European Union, 1992).
- Exchange rate stability of the member state. The fluctuation margins must remain within the provided margins by the exchange rate mechanism (ERM) of the European Monetary System (EMS) for at least two years. Moreover, the domestic rate must not devaluate against the euro (Hebbink & van Velthoven, 2008, p.105) (Invoering van de euro: convergentiecriteria, Europese Unie).

In conclusion, the ECB became responsible for the monetary policies. However, all other related policy areas as economic and fiscal policies predominantly remained the competence of member states following the domestic interests (Saurugger, 2014, p. 186). Therefore, the Stability and Growth Pact (SGP) is established to strengthen the economic governance framework of the EMU.

§4.2 Stability and Growth Pact

In 1997, with the Stability and Growth Pact, the budget rules were tightened. The rules of the pact ensured that member states pursue sustainable government finances and that member states coordinate budget policies (Stability and Growth Pact, European Commission). The pact defines if member states have a balanced budget or a budget surplus (Stabiliteits- en Groeipact, Europa NU).

To ensure member states comply with the conditions of the SGP, the preventative and corrective arm came into force. The preventative arm binds European member states to comply with budget targets and a medium-term objective (MTO) or with a adjustment direction of the MTO (Stability and Growth Pact, European Commission) (Hofmans, 2012). If a member state does not comply with the SGP, they will enter the corrective arm procedure. The European Commission and the European Council determine if a member state has an excessive deficit (Hofmans, 2012). The Excessive Deficit Procedure (EDP) contributes to the correction of deficits and/or debts of a member state by a step-by-step approach (Stability and Growth Pact, European Commission). The EDP ensures that member states will correct their excessive government debt and deficit positions according to the reference values of sixty percent and three percent of GDP as required in the Treaty (Report on Public finances in EMU, European Commission). Member states that do not comply with the agreements of the preventative and corrective arm, could face sanctions. Besides a warning, financial penalties can be given to a member state. These penalties consist of:

- A fine of 0.2 percent of GDP, when a member state fails to take effective action.
- A maximum fine of 0.5 percent of the GDP, when a member state repeatedly fails to take effective action.
- All member states can be suspended (except the United Kingdom) of obligations or payments of the structural and investment fund of the European Union (Stability and Growth Pact, European Commission) (Briefing Stability and Growth pact, European Parliament).

After the SGP came into force, both Germany and France exceeded the thresholds of the budgetary rules two years in a row. French President Jacques Chirac asked the European Commission for temporary softening of the pact. In addition, the German chancellor asked to emphasize the growth part of the pact (Deficits and defiance, The Economist, 2003). The proposal of Chirac was supported by Germany. Although Germany had insisted to include the budget deficit rule in the pact (France and Germany evade deficit fines, The Guardian, 2001). As a result, it became clear no sanctions would follow which raised questions within the European member states. The inertial attitudes of member states led to adjustments to the EMU at the level of the European Union. A mid-term review of budgetary policies was introduced. Moreover, softening of the rules took place; member states which exceeded the budgetary rules got more time to decrease their budget deficit (Saurugger, 2014, p.187).

Medium-Term Objective

Member states have to comply with a Medium-Term Objective (MTO). The MTO is a specific reference value per member state for the budgetary mid-term planning. Each member state has to meet the MTO or the adjustment direction to the MTO (The preventive arm, European Commission). The reference value of the MTO contributes to:

- A safety margin, hence member states do not exceed more than three percent of a budget deficit of GDP;
- Sustainable debt position in which the domestic economic and budgetary developments are taken into account;
- Space to manoeuvre within the budget in which public investments are taken into account (The preventive arm, European Commission).

In case member states deviate from the preventative arm, accordingly deviation from the adjustment path to the MTO, the European Commission gives a warning. Significant deviation occurs when:

- A deviation of the adjustment path to the MTO of a minimum of 0.5 percent in one year or of a minimum of 0.25 percent during two years;
- A deviation regarding the expenditure rule of a minimum of 0.5 percent in one year or a minimum of 0.25 percent during two years. When a member states complies with the MTO, the deviation will not be significant (Hofmans, 2012).

Within a month after the warning of the European Commission, the European Council (ECOFIN) publishes their recommendations. The Council has to adopt the recommendations by a qualified majority. The Council can recommend a deadline of maximum of five months in which member states have to take action. After this period, the European Council reviews the announced measures of the member states (Hofmans, 2012). They conclude whether member states took sufficient action or not. If a member state did not take sufficient action, the European Commission advices the Council within twenty days. The advice consists of financial action, in specific an interest deposit of 0.2 percent of GDP. If the Council does not reject the advice of the Commission within ten days, the Council adopts the proposal (Hofmans, 2012). Only other Eurozone member states have the right to vote (Stappen begrotingstoezicht EU, Algemene Rekenkamer). If the Council does not agree with the proposal of the Commission, the Commission may express their opinion to the Council within one month. The Council has to adopt the proposal with a reverse majority (Hofmans, 2012).

Corrective Arm

In the previous section, I have discussed the preventative arm of the SGP. In this section, I discuss the second arm of the SGP, the corrective arm. If member states do not comply with the requirements of the SGP, the corrective arm will come into force. This will take place when the thresholds of the budget deficit and government debt of the SGP are exceeded (Begrotingsdiscipline en macro-economisch toezicht, Algemene Rekenkamer).

Member states may deviate from the requirements of the SGP when:

1. A temporary deviation from the reference value occurs;
2. The value approaches the reference value (in practice 3.5 percent of GDP);
3. Exceptional circumstances or a major economic downturn. Member states have to indicate that the deficit does not exceed more than three percent after these circumstances (Hofmans, 2012).

The European Commission and the Council decide whether member states comply with the rules of the SGP. Member states have to submit their budget twice a year. In April, member states have to submit their stability programme which defines the budgetary planning for the next three years and if necessary the adjustment path to the MTO. Moreover, member states in the excessive deficit procedure have to define how they will comply with the recommendations of the Council (Hofmans, 2012).

Based on the stability programme, the European Commission expresses its opinion and advices the Council (Hofmans, 2012). In October, member states have to submit their next year budget to the European Commission and the Eurogroup, the Ministers of Finance of all Eurozone members (Hofmans, 2012). If the European Commission identifies deviation with the rules of the SGP, they will express their opinion at the end of October. The European Commission can propose adjustments (Hofmans, 2012).

Treaty of Lisbon 2007

The Treaty of Lisbon was established to ensure democratic governance of the European Union. The treaty is the result of a long reform process. The main goal was to create a new European constitution to achieve more democracy, transparency and efficiency. The constitution contained new voting procedures, a new president of the European Council and more power for the European parliament. In 2004, the constitution was signed by 25 governments of European member states. However, the

Netherlands and France decided to hold a referendum. Both states rejected the constitution. Therefore, the Lisbon Treaty was an amendment of the Maastricht Treaty which mainly consists of governance reforms (Totstandkoming Verdrag van Lissabon, Europa NU).

When the global financial crisis broke out, the Maastricht Treaty did not support exceptional crisis management. The preventative rules of the SGP could not deal with the magnitude of the crisis. The European Union lacked centralized and speedy action (Featherstone, 2011, p. 201). Therefore, the Treaty of Lisbon was amended with the presence of a permanent bail-out fund. On 9 May 2010, ECOFIN agreed on the establishment of the European Financial Stability Fund (EFSF) to provide financial assistance. The fund was a temporarily crisis resolution mechanism which was later replaced by the permanent European Stability Mechanism (ESM) (EFSF, European Financial Stability Mechanism) (Featherstone, 2011, p.207). The amendment was adopted via a short amendment procedure. As a result, the ESM was rapidly put into practice (Totstandkoming Verdrag van Lissabon, Europa NU).

§4.3 Strengthening of the Stability and Growth Pact

When the global financial crisis took place, the Maastricht Treaty did not provide for unprecedented crisis management. The preventative rules lacked the capacity for rapid and centralized action (Featherstone, 2011, p.201). The crisis exposed weaknesses of the economic governance of the European Union which threatened the stability of the Eurozone (Zahariadis, 2012, p.99) (Saurugger, 2014, p.188). During the crisis, the European Union took measures to improve the economic governance framework of the EMU. The European Semester came into force to introduce a fiscal and economic policy planning cycle (Ambtenbrink, 2014, p.16). Furthermore, the six and two pack reinforced the preventative and corrective arm of the Stability and Growth Pact (SGP), in specific the Excessive Deficit Procedure (A Guide to the New Fiscal Governance, European Commission). These rules which strengthened the SGP are the most recent rules on domestic fiscal policies within the framework of this study.

European Semester

On 4 November 2011, the European Semester came into force. The semester is the monitoring and coordinating cycle of the fiscal and economic policies of the member states which aims to strengthen the economic governance and, moreover, to ensure budget discipline (Saurugger, 2014, p.189) (Timeline, European Commission). The recommendations of the European Commission are integrated in the process (Timeline, European Commission). The European Semester was implemented after the banking and financial crisis to provide a framework to manage the anti-crisis and growth measures (Making It Happen: The European Semester, European Commission).

The European Semester is an annual cycle of the implementation of the fiscal rules. The European Commission analyses the reform policies of member states, gives recommendations and monitors the implementation of the recommendations within the member states. In addition, member states implement the commonly agreed upon rules (Making It Happen: The European Semester, European Commission).

The annual cycle is divided into three phases: the autumn, winter and spring economic forecast. During the autumn economic forecast, the European Commission publishes two reports in November each year; the Annual Growth Survey (AGS) and the Alert Mechanism Report (AMR). The AGS defines the EU priorities for the coming year. The priorities include the fiscal and economic policies and necessary reforms to ensure the stability and growth of member states. The AMR defines which member states need further analysis. After these reports are published, bilateral meeting with the member states take place (Making It Happen: The European Semester, European Commission).

During the winter economic forecast, the European Commission publishes a country report per member state. The country report defines the analysis of the economic situation and policies of the member state and assesses possible imbalances. After the publication, bilateral meetings with the member states take place in March and April. In April, member states publish two documents. First, the National Reform Programme which consists of reforms and measures towards sustainable growth, and second, the Stability or Convergence Programme which consist of a plan for sustainable public finances (Making It Happen: The European Semester, European Commission). Member states have to include their policy priorities which are defined by the European Commission (Ambtenbrink, 2014, p.19-20).

The spring economic forecast is the third phase of the European Semester (Making It Happen: The European Semester, European Commission). Before April 30, member states have to publish their medium-term budgetary framework (Ambtenbrink, 2014, p.20). During this phase, the European Commission publishes country-specific recommendations (CSR) for economic, budgetary and social policies. In July, the council adopts the final CSR's. In response to the CSR's, member states publish their draft budgetary plans and the Economic Partnership Programmes in October. At the end of the third phase, the cycle of the European Semester is repeated (Making It Happen: The European Semester, European Commission).

2 Pack and 6 Pack

As a result of the decrease of financial stability and economic growth during the global financial crisis, the Stability and Growth Pact was strengthened (Verordening nr. 472/2013, Europees Parlement en de Raad). The SGP was strengthened by a legislative package known as the Six Pack and Two Pack (Report on Public finances in EMU, European Commission). These packs consisted of one directive and seven regulations (Ambtenbrink, 2014, p.16). The reforms were aimed to strengthen and deepen the integrated budgetary surveillance. The surveillance was strengthened trough an intensified sanctions mechanism. Moreover, the reforms ensured the integration of recommendations of the European Union in domestic budgetary processes (Report on Public finances in EMU, European Commission).

On 13 December 2011, the six-pack came into force. The six-pack reinforces the procedure on excessive deficits of the preventative and corrective arm of the SGP. This pack consists of five regulations and one directive. In addition to fiscal surveillance, the six-pack focuses on the macro-economic supervision as well (Hofmans, 2012) (A Guide to the New Fiscal Governance, European Commission). The six-pack quantitatively defines the significant deviation from the MTO. Moreover the six-pack introduces the reverse qualified majority voting for most sanctions (A Guide to the New Fiscal Governance, European Commission).

Furthermore, the preventative arm of the SGP is strengthened by the two-pack which consist of two new regulations. These regulations strengthen the surveillance mechanisms in the Eurozone (A Guide to the New Fiscal Governance, European Commission). The surveillance is the economic and budgetary supervision of member states that experience difficulties regarding their financial stability (Begrotingsdiscipline en macro-economisch toezicht, Algemene Rekenkamer). Member states have to submit their (draft) budgetary plans to the European Commission and the Eurogroup (Verordening nr. 472/2013, Europees Parlement en de Raad). Every six months, member states inform the European Commission on how they will reduce the deficit and about the progress of the implementation of the measures (Hofmans, 2012). Furthermore, for states in the Excessive Deficit Procedure, the two-pack introduces a monitoring system to secure the correction of the excessive deficits (A Guide to the New Fiscal Governance, European Commission).

In sum, the legislative framework of the European Union which defines with rules and procedures is important to examine the impact of the rules of the European Union on domestic fiscal policies. The first budgetary rules were defined in the Maastricht Treaty which defines that the budget deficit of member state may not exceed 3 percent of GDP and their government debt may not exceed 60 percent of GDP. The Economic and Monetary Union converged the European economies which led to the adoption of the single currency. In 2011, the European Semester was introduced. The semester is the annual cycle of the implementation of the fiscal rules. As a result of the global financial crisis which broke out in 2008, the SGP lacked integrated budgetary surveillance. Therefore, the legislative framework of budgetary policies, in specific the SGP, was strengthened by the six and two pack.

Chapter 5. Empirical Results

This chapter discusses the empirical results of this study, specifically the decision-making processes of the case studies. This chapter discusses these results in the following order: the decision-making processes of domestic fiscal policies of the Netherlands, Estonia and Greece.

§5.1 The Netherlands

This section is structured as follows: first, a short introduction of the Netherlands is given. After this, the Netherlands and the economic crisis is discussed. In the last part, the decision-making process of domestic fiscal policies of the Netherlands is discussed.

§5.1.1 Introduction

The Netherlands is a West-European country that had a population of 16.8 million people in 2015 (Population Netherlands, OECD). After years of economic growth, the gross domestic product (GDP) decreased with -3.29 % in 2009 and -1.60 % in 2012 (Real GDP Forecast Netherlands, OECD). The government debt was 48.5 % of GDP in 2007 and grew to 77.9% of GDP in 2012 (General Government Debt Netherlands, OECD). In 2009, the Netherlands entered the excessive deficit procedure according to the Stability and Growth Pact, because the public deficit and government debt exceeded more than 3% of GDP and respectively 60% of GDP (2010/278/EU, Council of the European Union).

The Netherlands is a parliamentary democracy. When the global financial crisis started, the government, Balkenende IV, was formed by the Christian Democrats (CDA), the labour party (PvdA) and the Christian Union party (CU) (Kabinet Balkenende IV 2007-2010, Parlement & Politiek). In February 2010, the government fell apart due to a disagreement on the military mission in Uruzgan (Reconstructie Val Kabinet Balkenende IV, NU). The Netherlands formed a new minority government. The government, Rutte I, was formed by the liberals (VVD) and the Christian Democrats (CDA), with the support of the Party of Freedom (PVV) (Kabinet Rutte I 2010-2012, Parlement & Politiek).

§5.1.2 The Netherlands and the Crisis

The financial crisis had an impact on the budgetary position of the Netherlands. The budget surplus of 0.5 percent in 2008 turned into a budget deficit of 5.6 percent in 2009 (Stability Programme of the Netherlands April 2012 Update, Rijksoverheid, p.8). The Dutch financial and banking sector is relatively large. Domestic banks were affected by the financial crisis. In October 2008, the government took over the Dutch parts of the Fortis bank. The takeover cost 16.8 billion euro. Moreover, the government created funds to support and to give guarantees to the financial institutions (Kickert, 2012).

In March 2009, the government introduced an economic recovery plan. The expenditures were not affected. Furthermore, already planned cutbacks were postponed and investments were accelerated. Although the government did not chose to consolidate, a future cutback of 3.2 billion euro was part of the economic recovery plan (Kickert, 2012, p.440-442). This choice may have been positive for political reasons taking into account the upcoming elections, one can discuss whether this choice was the best response to external economic pressures. However, during that time, the expectation was that the Netherlands would quickly recover from the economic crisis, at least within one or two years (Interview 29-04-2015).

As a result of the support to financial institutions, the economic recovery plan and further economic downturn, the budget deficit increased. A budget crisis took place (Kickert, 2012).

After the fall of the government Balkenende IV, the decision on cutbacks was lifted over the general elections. The VVD won the elections with their main position on budget discipline. The new government, Rutte I, agreed to reduce the budget deficit. They wanted to reduce the budget deficit below three percent of GDP by 2012 (Stability Programme of the Netherlands April 2012 Update, Rijksoverheid, p.5). In the coalition agreement, the government Rutte I defined a total cutback of 18 billion euro by 2015 (Stability programme of the Netherlands April 2012 update, Rijksoverheid, p.8). Moreover, the government Rutte I aimed to have a balanced budget in 2015 (Coalition Agreement VVD-CDA, Rijksoverheid).

However, the economic conditions of the Netherlands worsened. In 2011, the forecasts of the CPB were positive. This positive view changed when the forecasts of 2012 were published. The 2012 stability programme of the Netherlands projected that the budgetary position would be worse than foreseen in the coalition agreement of the Dutch government and in the stability programme of 2011 (Stability Programme of the Netherlands April 2012 Update, Rijksoverheid, p.5). The Netherlands could not comply with the excessive deficit procedure which meant they would exceed three percent of GDP of their budget deficit in 2013. The forecasts of the CPB were published before the forecasts of the DG ECFIN of the European Commission due to the cycle of publications. Therefore, only the forecasts of the CPB got a lot of attention in the Dutch media. DG ECFIN of the European Commission knew in advance that the Netherlands would not comply with the rules concerning the budget deficit. The forecast of the Netherlands was too optimistic. The country desk of DG ECFIN was sceptical about the optimistic forecasts. The Ministry of Finance was aware of this view. However, they sincerely were optimistic. In the forecasts of 2012 it became clear that the Netherlands had entered the next phase of the recession (Interview, 29-04-2015). Thus, it took a while before the severity of the crisis became clear. An explanation can be sought in the time that it takes before changes were fully accepted by the political elite and to define the problem and possible solutions. This period can take two years. Moreover, the Netherlands is a consensus democracy (Interview, 11-06-2015).

As a result, the government Rutte I negotiated on additional consolidation measures in April 2012 (Stability Programme of the Netherlands April 2012 Update, Rijksoverheid, p.6). After a week, the negotiations came to a standstill. The PVV withdrew its support for the minority government. The government resigned on 21^{s} April, 2012. Shortly after, the negotiations were restarted. The minority government managed to pass the additional consolidation packages – the so called Spring Agreement – with the support of three small political parties (Country Forecast Netherlands May 2012, Economist, 2012).

The additional consolidation packages would improve the budget deficit with 1.2 % GDP by 2013. This was in accordance with the preventative arm of the Stability and Growth Pact (Stability Programme of the Netherlands April 2012 Update, Rijksoverheid, p.6). Additional measures were taken in the following fields: government finances, the pension sector, the labour market, the housing market, health care, wage freeze, green economy, business, treasury banking and some other measures (Stability Programme of the Netherlands April 2012 Update, Rijksoverheid, p.8-11).

In October 2012, the second additional consolidation measures were taken after general elections took place in 2012. As a result, the decision-making on the second additional consolidation measures was part of the coalition formation. The Netherlands formed the new government Rutte II consisting of the liberals (VVD) and the labour party (PvdA). Additional austerity measures were taken in the field of government administration, health care, social security, international cooperation and other measures. These measures should have lead to a structural budget improvement of 17 million euro (Coalition Agreement VVD – PvdA, 2012).

§5.1.3 Decision-Making Process in the Netherlands

In this section, I discuss the decision-making processes of the Netherlands from 2008 to 2012 of the Dutch government and the main consolidation measures that have been undertaken.

During the banking crisis in 2008, the manner of the decision-making process was urgent crisis management. The decisions on the economic recovery plan were made by a small group of key players to reduce the risk of information being leaked. The decision-making was strongly centralized. The far-reaching decisions were made quickly without much parliamentary input. The meetings were held during the weekend and at nights when the financial markets were closed. Although few people were involved, external advisors and specialists were heavily involved. The Ministry of Finance was incapable of buying banks and valuing toxic assets without the assistance of external advisors. The external advisors assisted the take-over of banks and determined the toxic assets (Kickert, 2012, p.440-443).

In March 2009, the economic recovery plan was introduced. The economic recovery plan was an adjustment to the coalition agreement of 2007. Prime-minister Balkenende had a coordinating role in the decision-making process. This process was politicized. The decision-making process involved deliberation within the coalition and consultation of the coalition party leaders. Moreover, employers' and employees' organizations were consulted. The officials of the Ministry of General Affairs and the Ministry of Finance provided assistance. Furthermore, a working group of top officials provided assistance as well about technical analysis of potential policy responses. Because the economic recovery plan was an adjustment to the coalition agreement, the Netherlands Bureau for Policy Analysis (CPB) took part in the decision-making process as well (Kickert, 2012, p.440-442). The CPB defines the economic conditions and assumptions to test the budget. All political parties and the Ministry of Finances accepted the figures of the CPB. Although, the CPB publishes independent forecasts, the country desk of the European Commission had contact with the CPB about the figures. Differences of views and assumptions can occur between the European Commission and the CPB (Interview, 29-04-2015).

The European Commission shared the view of the government to introduce the economic recovery plan to boost the economy (Interview, 11-06-2015). Because of exceptional circumstances, the European Commission had a flexible attitude towards the excessive deficit procedure and towards the 2009 and 2010 budget of the Netherlands (Interview, 11-06-2015) (Interview, 10-06-2015). The requirement of the SGP to reduce the budget deficit to below three percent within one year was expended to three years. The Netherlands had to comply with the rules of budget deficit by 2012 (Interview, 10-06-2015).

Shortly after, the Netherlands submitted the stability programme of 2009 to the European Commission. The Netherlands did comply with the rules of excessive deficit procedure. The content of the Stability Programme of the Netherlands is based on the domestic budget memorandum, the explanation of the budget released in September, and the spring memorandum. The projections are based on the forecast of the CPB which are not necessarily the same as the forecasts of the European Commission. The Stability Programme is sent to the Permanent Mission of the Netherlands in Brussels which will send the programme to several departments Directorate General Economic and Financial affairs (DG ECFIN) of the European Commission, in specific the country desk of the Netherlands, the horizontal unit which coordinates the Stability Programmes of all European states and subject related departments (Interview, 19-12-2014).

At the end of 2009, the European Commission published its recommendations on the Netherlands according to the excessive deficit procedure. Early 2010, the CPB published its forecasts. The forecasts of the CPB were found credible by DG ECFIN of the European Commission. The forecasts of the CPB were the start of the negotiations on additional austerity measures (Interview, 29-04-2015).

The decision on additional austerity measures and cutbacks was lifted over the general elections of June 2010. Balkenende set up 19 working groups which examined three scenarios of austerity packages. The three scenarios were relatively minor cutbacks, more severe cutbacks and drastic cutbacks of twenty percent. In April 2010, the working groups reported their findings. Although the reports were published just before the elections of June 2010, the reports hardly played any role during the general election campaign. During the election campaign, the forthcoming cutbacks were overshadowed by the debate of anti-Islam positions (Kickert, 2012, p.442-443).

After the elections in June 2010, the decision on consolidation measures was part of the negotiations on the coalition formation of the new government (Kickert, 2012, p.442-443). In November 2010, the government agreed on austerity measures (Interview, 19-12-2014). The main negotiations took place between the party leaders of the three largest parties. Furthermore, negotiations took place at a sub-table, consisting of financial specialists of the negotiating parties. The coalition agreement specified cutbacks on several policy areas. The decision-making process of the coalition agreement was politicized, because the process took place within the coalition negotiations. Budget discipline played a dominant role in the negotiations (Kickert, 2012, p.442-443). During the negotiations, the Ministry of Finance sometimes asked questions to the country desk of DG ECFIN of the European Commission. These questions were limited to technical subjects as parameters. The country desk did no calculations at the macro level (Interview, 29-04-2015).

With the introduction of the European Semester in 2011, the European Commission publishes recommendations on policy areas (Interview, 29-04-2015). According to a respondent:

The Netherlands had never toned down the recommendations of the European Commission, yet rather the other way around (Interview, 11-06-2015).

This was more or less the case until 2010. The Netherlands asked the European Commission for strict compliance of the rules of the SGP on the Dutch budget. The European Commission is used in the Dutch debate in favor of budget discipline. The Dutch Ministry of Finance uses the rules of the Stability and Growth Pact as support for budget discipline (Interview, 11-06-2015).

In 2011, the European Commission already wanted to recommend the reform on interests on home mortgage. However, the recommendation was not included in the final document which was sent to the Netherlands, because it was left out of a working document by accident. Earlier in 2003, the

European Commission had already recommended this reform. However, the Netherlands could not reach consensus. In 2011, Minister of Finance Jan Kees de Jager probably told the Dutch politicians that they had to reform the home mortgage on behalf of the European Commission although the recommendation was part of the 2012 report of the European Commission. A quick domestic shift of the Dutch preferences took place. The European Commission used this window of opportunity to enhance their recommendations. Later, the Netherlands used blame shifting to the European Union because it was favourable for the Dutch politics (Interview, 29-04-2015).

After that, the economic conditions of the Netherlands worsened. Therefore, the government took additional consolidation measures in 2012. In the Stability Programme of April 2012 the government defined that they were committed to comply with the recommendations of the excessive deficit procedure. The government sought parliamentary majority for an additional consolidation package (Stability Programme of the Netherlands April 2012 Update, Rijksoverheid, p.5).

In 2012, the European Semester was introduced. The European Commission could propose country-specific recommendations on domestic policy areas. After the Netherlands submitted their Stability Programme, the European Commission published the country-specific recommendations on the Netherlands. The preparation of the recommendations started with a working document and an in-depth report. The European Commission had contact with the Dutch administration on a weekly basis. Moreover, they organized missions to the Netherlands. This round of negotiations contained technical deliberation on forecasts and the effect of measures, after which DG ECFIN of the European Commission finished the country-specific recommendations on a Friday night. During the weekend, the content of the recommendations was discussed. On Monday morning the recommendations were submitted to the European Commission. Because the recommendations were immediately published, time pressure was high. In June, the recommendations were discussed in the European Council. In the meantime, the margins to negotiate were small, because the figures were already made public. Little political opposition was visible, only about specific measures such as the housing or labour market. In 2012, the opinion of the European Commission was harsh. Additional austerity measures were needed (Interview, 19-12-2014).

On 5 March 2012, the coalition parties VVD and CDA and their supportive partner PPV started the negotiations on the 2013 budget about an austerity package of 14.4 billion euro. The following politicians were involved during the negotiations: Prime Minister Mark Rutte and party leader Stef Blok of the VVD, Vice Prime Minister Maxime Verhagen and party leader Sybrand Buma of the CDA and party leader Geert Wilders and Member of Parliament Fleur Agema of the PVV (Kabinetscrisis 2012 de Catshuiscrisis, Parlement & Politiek). Vice Prime Minister Maxime Verhagen wanted to start the negotiations on reforms of the housing market. However, the party leader of the PPV, Geert Wilders, disagreed. He wanted to start the negotiations on international development (De Volkskrant, 2012a).

During the negotiations, the political parties felt pressure from the European Committee to agree on the consolidation measures before 1 May 2012, because of the deadline of the European Committee to submit the Stability Programme (De Volkskrant, 2012b) (Interview, 29-04-2015). Every member state has to submit the Stability Programme which defines that the member state shall commit to the rules on budget deficit and government debt (Interview, 29-04-2015). The deadline of the May 1^{t} is a legally binding deadline. The Netherland could have called for an exception clause to submit their Stability Programme of 2012. The Netherlands did not call for postponement and did not submit a programme with fewer details. The Netherlands did not want to extent the pact when it was not necessary although the measures and reforms in the Netherlands did hurt (Interview, 29-04-2015). However, the Netherlands wanted to maintain their reputation on strict budget discipline (Interview, 29-04-2015). According to a respondent:

The interpretation of the Minister of Finance, De Jager, on the rules of the Stability and Growth Pact was tighter than the interpretation of the DG ECFIN of the European Commission. The attitude of De Jager on fiscal consolidation was not imposed by the European Commission (Interview, 29-04-2015).

The political elite and the Ministry of Finance were aware of this fact. In the past, France had called for postponement which had led to a letter from the European Commission and a bad image. The Netherlands wanted to maintain their reputation on strict budget discipline although the European Commission gave space to manoeuvre. Therefore, the Netherlands did not request a postponement.

Another possibility was to submit a vaguer Stability Programme with fewer details (Interview, 29-04-2015). The Netherlands submitted the Stability Programme which met the requirements. The Netherlands did not call for postponement and did not submit a programme with fewer details. The Netherlands did not want to extend the pact when it was not necessary although the measures and reforms in the Netherlands did hurt (Interview, 29-04-2015). The Minister of Finance, De Jager, stood firm concerning this view. He had been harsh on other member states. According to a respondent, the Netherlands was seen as the Ayatollah of the SGP (Interview, 29-04-2015).

An agreement on the additional austerity measures and reforms was expected on the 23rd or 24th of April 2012 (Financieel Dagblad, 2012a). Yet on April 21, the PPV abandoned the negotiations. After seven weeks of negotiations on the austerity packages, the government Rutte I resigned (Country forecast Netherlands may 2012, 2012).

The decision-making process on the 2013 budget continued. During the negotiations, the following politicians were involved: the party leaders and the financial spokesman of the political parties VVD, CDA, the Democrats (D66), the Green Party (Groenlinks) and the Christian Union (CU). The resigned Minister of Finance, Jan Kees de Jager, played an important mediating role during the negotiations. The officials of the Ministry of Finance provided assistance. After two days of negotiating the ad hoc coalition came to an agreement – the so called Spring Agreement (Kabinetscrisis 2012 de Catshuiscrisis, Parlement & Politiek). This agreement contained reforms on the labour market and the housing market (Financieel Dagblad, 2012b).

The decision-making process of the Spring Agreement was quick and politicized (Interview, 29-04-2015). The preferences of the political parties were important within the negotiations. The VVD and D66 wanted to ensure the public government finances. In 2010, the VVD won the general elections with their position of budget discipline. Moreover, the VVD had submitted a motion of no confidence on Balkenende, the former Prime Minister. D66 was pro reforms. Their position was that cutbacks had to be taken eventually. The Green party and the Christian Democrats party did not necessarily want a budget deficit of 3 percent of GDP. However, they supported the Spring Agreement because of other reasons. The Green Party saw the agreements as an opportunity to take responsibility and co-govern. The Christian Democrats Party wanted the country to be governed (Interview, 10-06-2015).

The negotiations on the second additional consolidation package were part the formation of the new government. Cabinet informers negotiated with the party presidents of the VVD and the PvdA daily, who were accompanied by the party members Stef Blok and Jeroen Dijsselbloem. The priority of the negotiations focused on the preparation of the 2013 budget. On Monday 24 September 2012, the second meeting focused on the financial and economic situation. The Minister of Finance, president of the Dutch Bank, president of the CPB and the Secretary-General of the Ministry of Finance provided information. The negotiations were prepared by conducting interviews with experts and representatives of various organizations. The coalition agreement was calculated by the CPB (Eindverslag Informateurs, Parlement & Politiek).

§5.2. Estonia

This section is structured as follows: first, a short introduction of Estonia is given. After this, Estonia and the economic crisis is discussed. In the last part, the decision-making process of domestic fiscal policies of Estonia is discussed.

§5.2.1 Introduction Estonia

Estonia is a small Baltic country in Eastern Europe and has 1.3 million citizens (Population Estonia, OECD). Since its breakup with the Soviet Union, Estonia has been independent. In 2004, the Baltics achieved NATO and EU membership (Estonia at a Glance, Estonia EU), after which the economic position of Estonia strengthened. The gross domestic product grew rapidly until 2008, dropped in 2009, but has recovered since then (Gross domestic product Estonia, OECD). The government debt was 8.4 percent of GDP and grew to 12.6 percent of GDP in 2009 (General Government Debt Estonia, OECD). Estonia is a Eurozone member since 1 January 2011. The political system of Estonia is a parliamentary republic (Estonia, Europa EU).

§5.2.2 Estonia and the Crisis

The Baltic's experience with the global financial crisis is unique. The effects of the crisis were more severe than in other regions of Europe and with that the adjustment to the global financial crisis. Within the Baltic, the response to the crisis was similar (Purfield & Rosenberg, 2010).

Since the independence of the Baltic, the Baltic States have been early reformers. In comparison with other Central and Eastern European (CEE) countries, the Baltic States were hit harder by the fall of the Soviet Union. Structural reforms in the policy frameworks were implemented. Fiscal policies were conservative. The fixed exchange rate was introduced shortly after the Baltic independence. This stabilized the macroeconomic conditions (Purfield & Rosenberg, 2010, p.4-5). As a result, the Baltic entered a phase of growth. The Gross Domestic Product (GDP) of the Baltic grew rapidly and faster than other CEE countries and enjoyed high economic growth rates (Purfield & Rosenberg, 2010) (Savi & Randma-Riiv, forthcoming, p.5). The annual average economic growth was 8 percent of GDP during 2000 to 2007 (Raudla & Kattel, 2011, p. 163) (Savi & Randma-Riiv, forthcoming, p.5). This boom was driven by bank lending and the increase of domestic demand. The loans were funded by the Nordic countries, who wanted to gain market share in the growing markets of the Baltic. The position of the Nordic countries as parent-banks is an important factor in the response to the financial crisis (Purfield & Rosenberg, 2010, p.4).

Before the global financial crisis hit the global economy, the economic growth in the Baltic started to slow down. The economy of Estonia overheated after they had a boom phase (Purfield & Rosenberg, 2010, p.5). Estonia faced an economic crisis just before the global economic crisis began (Raudla & Kattel, 2011, p.174). Two Swedish banks, the main active banks in the region, recognized the vulnerabilities. These banks declared the credit growth from 40 – 60 percent to 20 – 25 percent per annum (Purfield & Rosenberg, 2010, p.5). They tightened the lending conditions (Raudla & Kattel, 2011, p.170). However, the economies of the Baltic overheated (Purfield & Rosenberg, 2010, p.5). The inflation rose rapidly to 10.6 percent in 2008 and the growth of GDP turned negative with -3.7 percent of GDP in 2008 and -14.3 percent of GDP in 2009 (Purfield & Rosenberg, 2010, p.5) (Savi & Randma-Riiv, forthcoming, p.5). The employment level, wages and consumption fell from their levels as well (Purfield & Rosenberg, 2010, p.16).

Estonia did not face a banking crisis, because the Estonian banking sector was dominated by Nordic banks (Savi & Randma-Riiv, forthcoming, p.6). Estonia did not own any domestic banks, but relied on the support of the Nordic parent-banks. During the banking crisis, concerns about the parent banks and the Baltic bank Parex Bank grew. The Parex Bank had a market share of 20 percent in Latvia. Latvia got a balance of payment support from the EU, IMF and Nordic countries. This package was approved in late 2008. After the agreement of the balance of payment support of Latvia, a turn in Estonia and Lithuania was seen; they were facing a run on the deposits as well. Estonia negotiated with the Swedish banks to insure against the risks of deposit runs. Therefore, a financial collapse was avoided (Purfield & Rosenberg, 2010, p.7-8).

Within a year, the deposits had returned to the level of before the crisis due to higher interest rates and the improvement of the confidence in the region (Purfield & Rosenberg, 2010). Since 2010, the growth of GDP has recovered (Savi & Randma-Riiv, forthcoming, p.5).

To deal with the economic crisis, the government, consisting of the conservative Pro Patria and Res Publica Union, the rightist Reform Party and the leftist Social Democrats responded with fiscal tightening and authority measures. In February and June 2009, the budget of 2009 had been amended with two negative supplementary budgets with total measures of 7.5 percent of GDP. Furthermore, in the autumn of 2009, additional one-off measures of 1.5 percent of GDP were passed (Raudla & Kattel, 2011, p.170-171).

In conclusion, the Baltic states were hit hard by the economic crisis. The crisis started before the global financial crisis. Budgetary discipline was high. Both a banking crisis and devaluation were avoided and the fiscal consolidation packages were implemented without a lot of social resistance. However, a downside was that the Baltic recovered slowly and had high unemployment rates. The fiscal consolidation had sufficient structural effects to keep the fiscal deficit below the three percent standard defined in the Maastricht Treaty (Purfield & Rosenberg, 2010, p.18).

§5.2.1 Decision-Making Process in Estonia

This section describes the decision-making process during the economic crisis in Estonia. It contains the decision making processes of the government of Estonia and the main consolidation measures that were undertaken and their considerations in reaction to the crisis.

The decision-making process is characterized by non-inclusion of the opposition of the government, urgency and the silent approval by civil servants (Savi & Randma-Riiv, forthcoming, p.1). The government had to cope with several challenges: increased public finances before the boom, increased private sector debt, weaknesses of the banking sector and unemployment (Purfield & Rosenberg, 2010, p.10). To cope with these challenges, the government had to maintain macroeconomic stability and to keep stable currency rates. The government had broad political and public support (Purfield & Rosenberg, 2010, p.12). The majority of the population supported fiscal discipline, even during the major crisis (Raudla, 2013, p.47). The contrary choice could have been devaluation of the currency. However, devaluation would only reach small gains in competitiveness. The exchange rate had been stable for almost twenty years and the economy was flexible (Purfield & Rosenberg, 2010, p.12). An important factor was that the government could finance the deficit with its domestic fiscal reserves acquired during the boom phase. Therefore, the government was able to avoid higher interest costs than the other Baltic States (Purfield & Rosenberg, 2010, p.22).

The dominant political actors had several considerations in response to the economic crisis. First, a balanced budget is seen as a cornerstone of the Estonian politics (Raudla & Kattel, 2011, p.178). The balanced budget is part of Estonia's philosophy (Interview, 29-04-2015). After the independence, the currency board system was introduced (Raudla & Kattel, 2011, p.178). This system could only work with a balanced budget. This fundamental principle is integrated in the budget policy of Estonia (Interview, 2015). The balanced budget norm became a quasi-constitutional norm. To challenge this norm by politicians would lead to significant political costs. All governments, irrespective of their ideological background, considered a balanced budget as important. To ensure a balanced budget, expenditure cutbacks and austerity measures had to be taken (Raudla & Kattel, 2011, p.178).

Secondly, the institutional developments of state agencies were characterized by the neo-liberal ideas and policies. Since the first free elections in 1992, the Estonian governments leaned towards neo-liberal economic policies. These policies implied little possibilities to build political and bureaucratic capacities of macro-management of economy policies. The state was passive in managing the Estonian economy. They chose a currency board system with fixed exchange rates, because officials lacked the capacity to introduce a more active exchange rate and monetary policy. Consequently, politicians and civil officials lacked experience with alternative economic policies. No procedures or analytic competences for policy makers existed. As a result steering the Estonian economy out of the crisis was uncommon (Raudla & Kattel, 2011, p.179).

In addition to these considerations, the political actors had a long term consideration as well. The politicians wanted to gain trust in the Estonian economy from the financial markets and to maintain the position of their currency. Estonia was uncertain of the conditions of the loans from financial market intact (Interview, 2015) Estonia had to keep their domestic market intact. As a result of the boom phase, Estonia had a budget surplus. With this cash reserve, Estonia would not have to loan money from the financial markets for a while. But eventually, they would have to (Interview, 2015) (Raudla & Kattel, 2011, p.176). Loans had to be paid back together with interest which would lead to the increase of taxes. This would have a negative effect on the economic competitiveness and the attraction of foreign investors (Raudla & Kattel, 2011, p.176). Estonia was uncertain of the conditions of the loans from the financial markets:

The fear of less favourable lending conditions from financial markets because a decreased position of the Estonian economy was stronger than the pressure to get into the Eurozone (Interview, 2015).

Furthermore, Estonia had not declared a specific date on which they wanted to join the Eurozone. They were working in the direction, but were careful with declaring a date. The European Commission will not push or prevent states to join the Eurozone. The approach of the European Commission is practical (Interview, 2015). The European Commission believed that the target date was a domestic objective; it was up to the states themselves. They did not put pressure on Estonia concerning the target date. Originally, the target date was 2008. Afterwards the Baltic states did not declare a specific date. They were all working in the same direction, but they were careful with clearing a date (Interview, 2015).

However, room for manoeuvring for Estonia was limited. Because Estonia wanted to join the Eurozone, a fixed exchange rate between the Euro and the Estonian currency was into force (Interview, 2015). The currency rate with the euro was controlled. A budget deficit would lead to the devaluation of the monetary currency (Interview, 2015).

As a result of the economic crisis in the Baltic, the European Commission had considerations about whether the Baltics were able to join the Eurozone. The main reason for these considerations was the balance-of-payment programme of Hungary and Latvia (Interview, 2015). The European Commission had assistant programmes for European states which are not members of the Eurozone. The European Committee was contiguously planning and discussing the measures if other Baltics would call for an assistants programme (Interview, 2015). Estonia wanted to avoid the same fate as Latvia, the financial support from the European Union and the International Monetary Fund. Estonian argued that with the financial support, the European Union would control the domestic policies of Estonia (Interview, 2015). The European Union would intervene and make decisions for Estonia. Estonian politicians saw the support for Latvia as governing over domestic policies (Raudla & Kattel, 2011, p.177-178).

The following section discusses the part of the cabinet and ministries within the decision-making process of the fiscal policies of Estonia.

Cabinet

Before the global financial crisis the Estonian government began with fiscal tightening. The Estonian government chose to consolidate to cope with the overheated economy. The decision for fiscal consolidation was partly explained by the priority to join the Eurozone (Savi & Randma-Riiv, forthcoming, p.6). The ideological preferences of the coalition parties explain fiscal consolidation as well. The government consisted of right-leaning parties. The ideological preference influenced the decision to adopt consolidation measures instead of adopting stimulating packages (Raudla & Kattel, 2011, p. 182). The 2008 budget took the Estonian economic slowdown into account. The Cabinet acknowledged the need for a negative supplementary budget. The decision-making took place through top down decisions of the Cabinet (Savi & Randma-Riiv, forthcoming, p.9). The Cabinet had limited possibilities to borrow money with the currency board system. Opposition parties called for the use of the Stabilization Reserve Fund which was the fund where budget surpluses had been transferred during the boom phase. The governing parties argued that they could need the fund when the economy worsened. Moreover, the government wanted to maintain the reserve, because then it would be easier to borrow money under more favourable terms (Raudla & Kattel, 2011, p.174).

The 2009 budget reduced the expenditures of operational and programme budgets. Cutbacks were mainly taken at the level of the central government. The operational cuts consisted of equal cuts of 7 percent on all the policy areas (Savi & Randma-Riiv, forthcoming, p.6). The equal cuts on all policy areas were supported by the coalition partners (Savi & Randma-Riiv, forthcoming, p.9).

However, these cutbacks were not sufficient. Therefore, the Estonian government introduced additional operational cuts in 2009 (Savi & Randma-Riiv, forthcoming, p.6). On 20 February 2009, the government presented the first negative supplementary budget. The supplementary budget was adopted with great speed. The supplementary budget was adopted on the same day that the government presented it to Parliament (Raudla & Kattel, 2011, p.170). This led to a conflict in Riigikogu – the parliament of Estonia. As a result of the by-pass, the adoption of the 2009 budget bill was a vote of confidence as well. (Savi & Randma-Riiv, forthcoming, p.9-10). The institutional rules limited the parliamentary budget power, whereas the coalition was able to bypass the parliament (Raudla, 2013, p.47).

The expenditure levels during the boom could not be maintained (Purfield & Rosenberg, 2010, p.18). From 2010, non-operational cuts were introduced (Savi & Randma-Riiv, forthcoming, p.6). Altogether, the operational cuts contributed to strengthening the budgetary position of Estonia in 2009 and 2010 (Savi & Randma-Riiv, forthcoming, p.6). Next to the operational cuts, the Estonian government introduced programme cuts as well. These cuts had an impact on the social security of the Estonian people. Pensions were cut. Construction investments, environmental investments and transfers to local governments came to a halt and defence expenditures declined sharply (Savi & Randma-Riiv, forthcoming, p.7).

After the top-down decision of the Cabinet on equal cutbacks, the Cabinet recognized that they could not reach quick consensus during further decision making on consolidation packages. Therefore, the Cabinet decided to establish an informal workgroup. The workgroup consisted of two representatives of all three coalition parties – one of the Cabinet and one of the parliament. The working group was important to achieve quick consensus by breaking ministerial boundaries. In addition to the working group, an expert committee was established. This committee presented their views during a Cabinet session in 2009.

In March 2009, the economic outlook worsened and the government prepared for the third austerity package. The negotiations on these packages took longer than the first two packages (Raudla & Kattel, 2011, p.170). During the third negative supplementary budget the tension between the coalition partners reached its peak (Raudla, 2013, p.46). The coalition government was ideologically divided over the potential austerity measures (Raudla & Kattel, 2011, p.171). The cabinet of Estonia consisted of the following political parties: Estonian Reform Party, the conservative Union of Pro Patria and Res Publica and the Social Democratic Party (Raudla, 2013, p.46). The coalition government could not reach consensus which led to the break-up of the government. In May 2009, the social democrat party left or was kicked-out of the government (Raudla, 2013, p.46) (Savi & Randma-Riiv, forthcoming, p.10) (Raudla &Kattel, 2011, p.171). Afterwards, the two other parties continued as a minority government. They introduced the third negative supplementary budget bill. The minority government was able to push consolidation packages through parliament (Raudla, 2013, p.46). By fragmentation of legislature, the minority government was able to gain support for the cutbacks (Raudla, 2013, p.46). The government had a minority in parliament, but pushed the legislation through with the help of the Green Party in exchange for the increase of environmental fees and taxes (Raudla & Kattel, 2011, p.171). After a significantly longer bargaining process the negative budget bill was adopted in parliament (Savi & Randma-Riiv, forthcoming, p.10).

In contrast to the former packages which consisted of expenditure cuts, these packages concentrated on both expenditure cuts and tax increases. Expenditure cuts were the reduction of unemployment insurance and further cuts of 8 percent of the operational expenses. The tax increases consisted of the raise of the VAT rate from 18% to 20%, the raise of the unemployment insurance contribution from 0.9% to 4.2%, the raise of pollution fees by 20% and the excise of fuel by 12% (Raudla

& Kattel, 2011, p.171). In the autumn of 2009, the cabinet adopted one-off measures which were not formalized in a supplementary budget. For example the government sold dividends from state-owned companies and shares of the Telecom Company (Raudla & Kattel, 2011, p.172).

In short, in addition to the expenditure measures the Estonian government introduced revenue measures. These consisted mostly of increasing taxes, but also of selling land and real estate (Savi & Randma-Riiv, 2015, p.7). Altogether the Estonian government adopted consolidation packages of 9 percent of GDP in 2009 (Raudla & Kattel, 2011, p. 164).

Ministries

The Ministry of Finance and the line-ministries played a role in the preparation of the negative supplementary budgets and in the implementation of the austerity measures within the administration. The Ministry of Finance was the mediator between the line ministries and the Cabinet. Civil servants had a decisive role in setting the fiscal cuts. Their power increased because of four reasons. First, the Ministry of Finance provided the Cabinet and the working groups with information and forecasts. Second, the Ministry of Finance set out the cutbacks processes in line-ministries. Moreover, the Cabinet appointed representatives of the Ministry of Finance to management boards of state-owned foundations and enterprises whose board did not yet have a representative from the Ministry of Finance. Fourth, loans to local governments needed permission from the Ministry of Finance (Savi & Randma-Riiv, forthcoming, p.10-11).

The decision-making within the ministries took place at the centralized level of line ministers (Savi & Randma-Riiv, forthcoming, p.11). The cutbacks in operational measures directly concerned the budget of line ministries and their agencies (Savi & Cepilovs, 2016, p.11). Top official had the tough task of implementing the budget cuts under enormous time constraints. The ministries had the power to decide how to implement the budget cuts in operational measures of 7 percent in April 2008, 8 percent in January 2009 and 7 percent in June 2009 (Savi & Cepilovs, 2016, p.11). The top officials took all principal decisions concerning the budget cuts. The participation of employees differed between the line ministries. The civil servants had no systematic resistance to the budget cuts during the austerity period (Savi & Randma-Riiv, forthcoming, p.11).

The Ministry of Finance had to deliver information to the Cabinet. The line ministries submitted the information to the Ministry of Finance. As a result the line ministries further centralized and the top officials decided upon the information which would be sent to the Ministry of Finance. Budgetary units within the line ministries became more powerful (Savi & Randma-Riiv, forthcoming, p.11).

In conclusion, the government undertook radical budget cuts on the expenditure and revenues side by the introduction of several negative supplementary budgets. The urgency to act led to the centralization of the decision making in the government. The Ministry of Finance and the budgetary units of line ministries gained more power by providing information to the Cabinet and working groups (Savi & Randma-Riiv, forthcoming, p.15).

§5.3 Greece

This section is structured as follows: first, a short introduction of Greece is given. After which, the economic crisis in Greece is discussed. In the last part, the decision-making process of domestic fiscal policies of Greece is discussed.

§5.3.1 Introduction

Greece is a Mediterranean state located at the south-east of Europe which has a population of almost 11 million persons in 2015 (Greece, European Union) (Population, Eurostat). According to the OECD statistics, the government debt of Greece was 117.38 percentage points of GDP in 2008 and grew to 164.4 percentage points of GDP in 2012 (General Government Debt Greece, OECD). In 2007, the government debt-to-GDP ratio of Greece was the highest in the Eurozone (Athanassiou, 2009, p. 364-366). The economic outlook of Greece worsened. In 2011, the general government deficit of Greece was 10.2 % of GDP. After a little decrease in 2012 the general government deficit increased to 12.3 % of GDP in 2013. In 2014, the deficit was reduced to 3.5 % of GDP (General Government Deficit/Surplus, Eurostat). Greece has been a parliamentary republic since 1974. On 1 January 1981 Greece achieved the EU membership (Greece, European Union).

Political Context

The Greek system had a strong government with a highly politicized administration with formalism and legalism. Furthermore, the system is characterized by patronage, clientelism and corruption. Political parties used government resources to gain electoral support of their clients in exchange for jobs, pensions, insurances etcetera (Kickert, overheidshervormingen Griekenland, p.14). The Greek government and mainly the prime-minister have a strong position with a weak parliament which is included in the constitution and is strengthened by strong party discipline (Kickert, Overheidshervormingen Griekenland, p.12). The Greek party system is characterized by two dominant political parties which alternated power and by some smaller parties on the left (Gemenis & Nezi, 2014, p. 15). The two-party system was polarized with little cooperation between the two major parties (Featherstone, 2008, p.75). PASOK, Panhellenic Socialist Movement, is a social democratic party founded in 1974. The other dominant party is New Democracy (ND), a conservative Christen democratic party (Gemenis & Nezi, 2014, p. 15). To the left of PASOK, the Communist Party of Greece (KKE) adopted a more radical view (Gemenis & Nezi, 2014, p. 15).

Mid ’90, the ideologies of the two political parties had blurred, both sought liberalizing reforms and were pro-European (Featherstone, 2008, p.76). As a result of the blurred ideological boundaries between the two dominant parties, new opportunities were created for the founding of new political parties (Gemenis & Nezi, 2014, p.16). To prevent these opportunities, PASOK and ND created a cartel party system (Gemenis & Nezi, 2014, p.16). Governments could not expect support or legitimisation from the other party (Featherstone, 2008, p. 77). By securing the access to office, the parties of the cartel relied on media regulation, state funding and manipulation of the electoral system. Changes to the electoral system were made by both PASOK and ND to suit their needs (Gemenis & Nezi, 2014, p.16). For example, PASOK changed the system to a proportional representation, to prevent ND from the formation of a new government (Gemenis & Nezi, 2014, p.30).

During the first decade of the twenty-first century, two new parties were introduced: the radical left party SYRIZA and the radical right party LAOS. In 2010, the two dominant parties PASOK and ND weakened (Gemenis & Nezi, 2014, p.16).

As a result of the cartelized party system, voting patterns were based on two parties with weak ideological cohesion. Yet, the parties had strong discipline. The parties captured power by attracting candidates based on the size of their political clientele, not based on their ideology. As a result of the tradition of strong discipline, bills were rarely rejected in the parliament. Members of Parliament (MPs) were supposed to vote in favour of the position of the party. If a MP of PASOK or ND disagreed with the position of their party, they had to leave the party and cross the floor to the other party or to start their own party (Gemenis & Nezi, 2015, p.19).

§5.3.2 Greece and the Crisis

During the period 2000-2007, the Greek economy strengthened (Athanassiou, 2009, p. 364-366). The entrance to the Eurozone and the adoption of the common currency brought stability (Mitsakis, 2014). The Greek economic was one of the rapidly growing economies in the Eurozone and unemployment decreased. However, the increase of domestic demand and an expansionary fiscal policy lead to the increase of the government deficit. Because Greece joined the Eurozone in 2001, the availability of external financing was not a concern (Athanassiou, 2009, p. 364-366).

However, after this period it was found out that the statistics of the government were inaccurate. State forecasts were lower than expected (Featherstone, 2011, p. 198-199). The PASOK party was elected on 4 October, 2009. The government of George Papandreou wanted to introduce a three billion euro stimulus package for the economy (Gemenis & Nezi, 2015, p.14). On 20 October 2009, the new minister of Finance, George Papakonstantinou, announced the level of government deficit for 2009 was a threefold of the previously reported level by the former Minister of Finance. Instead of 3.6 percentage points of GDP reported by Karamanlis, the level of government deficit was 12.8 percentage points of GDP. Without a doubt, the actual level of the government deficit was higher (Featherstone, 2011, p. 198-199). Greece reported wrong data on its actual public deficit and debt to the European Union (Featherstone, 2011, p.199). The credibility of the Greek data was under pressure and became an issue for the European Union (Featherstone, 2011, p. 198-199). The European Commission reprimanded Greece of falsifying financial data (Zahariadis, 2012, p.105). This resulted in more uncertainty about Greece on the financial markets (Zahariadis, 2012, p.105).

Moreover, concerns were raised on the capacity of the Greek government to deliver and their legitimacy and political strength was questioned (Featherstone, 2011, p.195). Because of these uncertainties about Greece, the interest rates of public loans of Greece increased. It became harder for Greece to finance their public budget deficit (Featherstone, 2011, p.199). Financial markets indicated Greece as a danger of default. The Greek status was downgraded by all major credit rating agencies (Featherstone, 2011, p.199). After Eurostat increased the forecast of the Greek budget deficit on April 23, Greece’s bonds rose (Zahariadis, 2012, p.107). Eventually the major credit rating agencies gave the Greek bonds the junk status on April 27, 2010 (Featherstone, 2011, p.199). Therefore, the government of Papandreou had to come up with a short-term solution (Gemenis & Nezi, 2015, p.19). Papandreou turned to the European Union for support. Papandreou dropped the option of a default and counted on the support of the European Union with a bail-out package (Zahariadis, 2012). Article 125 of the Maastricht Treaty prohibits bail-outs of member states (Zahariadis, 2012) (Treaty on European Union, 1992).

Since May 2010, Greece got financial support from the International Monetary Fund and European member states to cope with increasing government debt and deficit. The bilateral bail-out package, called the Memorandum of Understanding, included a loan of 100 billion euro over three years. It contained 80 billion euro of bilateral loans of European Member states and a 30 million euro loan from IMF (Zahariadis, 2012, p.107) (Financial Assistance to Greece, European Commission). Next to the loan tranches, the IMF, the European member states and Greece agreed on cutbacks and reforms measures. Furthermore, missions consisting of staff teams of the IMF, European Commission and the European Central Bank, the so-called Troika, would review the implementation and progress of the reforms and cutbacks in Greece. They had to approve the loan tranches of the bailout programme (Financial Assistance to Greece, European Commission).

§5.3.3 Decision-Making Process of Greece

This section discusses the decision-making process of the Greek fiscal policies. This process is characterized by the Memoranda of Understanding and the midterm fiscal plan. The Memoranda of Understanding are signed between the European Union, International Monetary Fund and Greece in which specific reforms and austerity measures are concluded. In specific, the decision-making process of the Troika and the Greek government and the parliament is described after which three reform measures are discussed.

Troika and Greek Government

This subsection discusses the decision-making process between the Troika and the Greek government. The new Minister of Finance, George Papakonstantinou, announced the increase of the level of the government deficit. The PASOK government used blame shifting to previous governments to minimize the political cost. The question arose whether the Greek crisis was a domestic or European problem. Both European officials and the Greek Prime Minister, George Papandreou, emphasized the domestic responsibility of the crisis (Zahariadis, 2012, p.105). However, financial markets were unconvinced that Greek could sort itself out. The Greek Prime Minister Papandreou went to the European Union for assistance. The commissioner of Monetary Affairs Jaoquin Almunia saw the risk of contagion. Therefore, he requested a centralized response (Zahariadis, 2012, p.106). Nevertheless, the Economic and Financial Affairs Council (ECOFIN), composed of the ministers of Finance and Economics of the European Union member states, was opposed to a rescue plan (Featherstone, 2011, p.202) (Zahariadis, 2012, p.106).

The governments of the Eurozone and the European Central Bank (ECB) showed slowness in their reaction to the unfolding Greek crisis (Featherstone, 2011, p.202). Eventually they reacted due to the fear of contagion. The Greek default would affect its creditors, mainly the banks of Germany, French and Great-Britain (Zahariadis, 2012, p.107-108). On 25 March 2010, they had agreed on a bilateral loan of three years from member states of the Eurozone and the IMF. Several leaders of the Eurozone and Papandreou wanted support from only European member states. However, Germany, who feared ending up paying the bill, requested IMF participation. Moreover, the inclusion of the IMF was political by diffusing responsibility. Several government of the European member states were opposed to a centralized response, because they feared domestic opposition. Each government still had veto power to provide support (Zahariadis, 2012, p.106-107).

After the major credit rating agencies gave the Greek bonds state the junk status on 27 April 2010, Papandreou informed the European Union and the IMF that he wanted to activate the rescue package as a result of the unfavourable lending conditions under the junk status (Featherstone, 2011, p.199) (Zahariadis, 2012, p.107). After the agreement on the Memorandum of Understanding in May 2012, the first tranche of 20 billion euro was immediately released. At the same time, the first three-day monitory mission of the Troika took place (Financial Times, 2010a) (Financial Times, 2010b). This mission assessment was expected to support the government which was preparing to present pension reforms to the Greek parliament. The Greek government had reached agreement with the European Commission on the revision of pensions (Financial Times, 2010b). Greek Ministers had a few hours to read the Memorandum of Understanding or they did not read it at all, before the package was approved (Zahariadis, 2012, p.107). This rush created problems with coordination and compliance of the measures. Greek ministers were asked to agree to and implement measures which they had not read. However, loans from financial markets were too expensive, therefore the only option was to agree to rescue package.

Furthermore, opposition parties disassociated themselves from the packages and the crisis which led to chaos. Syriza and KKE called for strikes, because they argued that workers had nothing to do with the crisis. ND exploited the discontent of the voters, because they thought that discontent voters would move to the right (Zahariadis, 2012, p.108). After the agreement of the first Memorandum of Understanding, the Greek government was faced with strong resistance when it imposed reforms. Unions pledged strikes and protested against the increase of the retirement ages and the decrease of the average pension from 90 percentage of the last salary to 70 percent of the last salary (Financial Times, 2010b). The Seamen's Union (PNO) had blocked ports as a protest to the liberalization of the use of cruise ships (Featherstone, 2011, p.206). The government faced resistance against cutting jobs in the public sector by opening up closed-shop professions as well (Financial Times, 2010c).

The second tranche of 9 billion euro in mid-September, consisting of 6.5 billion euro of the European Union and 2.5 billion euro from the IMF, was confirmed by the European Commission on 19th of August (Financial Times, 2010d) (The Economist, 2010a). This tranche was agreed upon after a two week monitory 30-member monitory mission of the Troika in Greece based (Financial Times, 2010c) (Financial Times, 2010a). The government was faced with great resistance from the Greek unions. By July 2010, the public sector unions had called for six strikes (Featherstone, 2011, p.206).

The first sign of a different view between the Troika and Greece is seen in the legislation on tax amnesty which allows the government to collect of 2.7 billion euro of unpaid taxes. The bill went against the advice of the Troika officials who warned the government that one-off measures do not solve the problems. The governing party PASOK had criticized the bill as well because they pledged to avoid (Financial Times, 2010f). The PASOK government party pledged to avoid long-standing practices by Greek government who agreed with across-the-board taxes amnesties every four years when the PASOK party came to power (Financial Times, 2010f).

Midterm Fiscal Plan

The Troika visited Greece on an interim visit in September and a formal evaluation in late October to evaluate the progress of the reforms. After which the third tranche would be released in December 2012 (Financial Times, 2010d) (Financial Times, 2010g). In June 2011, after four weeks of negotiating, Greece and the Troika concluded talks on the new loan tranche. Emergency measures had to be taken to ensure the 2012 budget. This included the mid-term structural reform plan and privatizations (Financial Times, 2011a). The Troika and Greece were negotiating about an additional loan which would be added to the last two years of the Memorandum of Understanding (Financial Times, 2011b). The leaders of the European member states gathered a secret meeting in Luxembourg which was kept small. However, the meeting leaked out. Troika officials wanted that Greece would implement the privatization programme of 50 billion Euros (Financial Times, 2011c).

With the midterm fiscal plan, the Greek government amended the terms of the Memorandum of Understanding to ease the compliance of the measures. During an extra meeting of the European Council on 21 July 2011, leaders of European member states agreed to the midterm fiscal strategy. Two additional terms were included. First, Greek got new loans of 109 billion euro. Second, private debt holders would take a haircut of 20 percentage points by creating new debts or by extending the maturities of the debts. Moreover, the ECB continued the liquidity support by buying governments bonds and providing guarantees to Greek banks (Zahariadis, 2012, p.109).

The Troika formed a Task Force of experts who provided technical support with the reforms. The monitoring increased, but Greece still was responsible to deliver and implement the reform measures (Zahariadis, 2012, p.109). According to the Euro Summit, the Greek government requested the strengthening of the monitoring mechanisms of the implementation of the package. During the Euro Summit was stated that the ownership of the programme was still Greek and Greek authorities were responsible for the implementation. The European Commission would establish the Task Force. Together with the Troika and working closely with the Greek government, they would advise and offer assistance on the implementation of the measures. This new role was included in the revised Memorandum of Understanding (Euro Summit Statement, European Council).

Early October, Greece had to deliver their statistics to Eurostat. However, the frequency of the strikes increased. In addition, the disagreement within and among PASOK and the opposition parties rose, because they blamed each other for the crisis. The implementation of reforms led to conflicts with the unions which members were mainly PASOK voters (Featherstone, 2011, p.110). As a result of the strikes, the Greek official could not enter the government building in Athens (Financial Times, 2011d). The Troika completed a ten day monitoring mission in October (Financial Times, 2011e).

The fear of contagion to other European government rose, because of rising bond yields. After three months of negotiations the Troika and Greece agreed on a new programme (The Economist, 2011a). To put an end to this, an amendment on the 21th July package was made during the summit on 26 and 27 October 2011. Greece got an extra loan of 130 million euro (Zahariadis, 2012, p11).

Second Bail-Out

After the adjustment to the Memorandum of Understanding, the PASOK member called for the resignation of Papandreou. A compromise was found, the PASOK Members of Parliament voted in favour on labour reforms after which Papandreou resigned. A technocratic government which was headed by Papademos was assigned for a period of six month. General elections were planned in April 2012 (Zahariadis, 2012, p.112).

The packages agreed upon in July and October 2011 were not implemented, but replaced by the second bail-out package in February 2012 and signed in March 2012. The terms of October 2011 were slightly moderated. Within this package, the control of implementation was more centralized and the measures were more specific (Zahariadis, 2012, p.112).

After the Troika and Greece agreed on the midterm fiscal plan in October 2011, the Troika officials reviewed the progress of the fiscal and structural reforms in December 2011 (Financial Times, 2011g). At the end of January, they prepared a review of the midterm fiscal programme. The review depended on the outcome of talks with private creditors (Financial Times, 2012a). However, before the Troika would agree on the review of the programme, they demanded further reduction of the salaries and cuts in government jobs (Financial Times, 2012b). After Greece misses a deadline of the Troika, the negotiations were at an impasse (Financial Times, 2012c).

On 21 February 2012, the Ministers of Finances of the Eurozone states met in Brussels and the adjustment to the midterm fiscal programme was approved, they agreed on the second Memoranda of Understanding (Financial Times, 2012d).

Greek Parliament

This section describes the decision-making process and in specific the legislative voting of the Greek parliament with regard to the bail-out programs, the consolidation measures and cutbacks. The decision-making processes in the Greek parliament are described by four voting's: the vote on the Memorandum of Understanding in May 2010, the vote on the Midterm Fiscal Plan in June 2011, the vote on the Papademos Coalition Government in November 2011 and the vote on the second Memorandum in February 2012.

First Bail-Out Package

The voting on the first bail-out package took place in May 2010. It was seen as a 'take it or leave it' act. Although Members of Parliament had no chance of debating or changing the content of the bill and they did not know how the proposals could be implemented, their only option was to vote in favour of the bill. The bail-out package was necessary to ensure the short-term financial situation and to stay in the Eurozone. Therefore, 156 MPs of PASOK voted in favour of the bill. Three Members of Parliament of PASOK obtained from voting, they were immediately dismissed from parliamentary caucus. The Members of Parliament of ND voted against the bill, with the exception of one MP who was expelled from the party afterwards. However, the MPs with a more liberal background did not have the same attitude to these issues. Dora Bakoyannis voted in favour of the bill due to a personal feud. She was the opponent of Samaris, the leader of ND, during the bid for the party leadership in November 2009. Samaris may have used this voting to consolidate his leadership of the party by expelling Bakoyannis (Gemenis & Nezi, 2015, p.20).

Antonis Samaris felt strongly about national issues and saw the bail-out package as a national humiliation. Also, the ND was ideologically far from social democratic and liberal reforms. Therefore, ND was expected to oppose the bill. In addition, Samaris considered staying in the opposition would be good for the opinion polls after the defeat of October 2009 election (Gemenis & Nezi, 2015, p.20-22).

The smaller parties KKE and SYRIZA voted oppose the bill. Both were opponents of the idea of a bail-out package as well as the reforms proposed in the bail-out package. Furthermore, LAOS voted in favour of the bail-out package because of office-seeking aspirations (Gemenis & Nezi, 2015, p.22).

Midterm Fiscal Plan

The midterm fiscal plan followed the Memorandum of Understanding in June 2011. In the meantime, the pro-European MP of SYRIZA Ananeotiki left the party and formed Democratic Left (Gemenis & Nezi, 2015, p.22-23). In addition, Bakoyannis formed a new political party named Democratic Alliance (DISY) together with four other MP and one EP. This reduced the number of MPs of ND to 86 MPs.

Prior to the voting on the midterm fiscal plan, the regional election scheduled for November 2010 was the next test for the PASOK government (Gemenis & Nezi, 2015, p.22). The elections took place for the positions of mayors and thirteen regional governors. Highly visible positions, yet with little impact on policy making (Gemenis & Nezi, 2015, p.23). PASOK feared that the opposition parties would focus on the Memorandum of Understanding instead of regional issues which would lead to considerable losses for the government party and parties in favour of the Memorandum. Although, the Greek Constitution forbids parties to participate in regional elections, the seemingly independent candidate lists were openly supported by the political parties (Gemenis & Nezi, 2015, p.23). Alexis Dimaras, a Member of Parliament of PASOK who had been expelled in May, would contest the Attica region which includes the centre of Athens. At the same time, ND faced some opposition within the party as the governor candidate of Crete was supported by Bokayannis (Gemenis & Nezi, 2015, p.23). LAOS experienced difficulties in supporting the Memorandum of Understanding during the campaign, because it suffered substantial losses (Gemenis, 2012, p.112).

Therefore, the vote on the Memorandum of Understanding challenged the unity of PASOK and the popularity of the government as well as visual burst in opposition parties (Gemenis & Nezi, 2015, p.23). It was clear that the support of the government decreased, when the midterm fiscal plan was put to vote in June 2011. PASOK MP, Georgios Lianis, disagreed with the proposed plan and left the party. The parliamentary caucus of PASOK reduced to 155 members, because an additional MP had resigned the party a few months earlier. Eventually, another MP of PASOK voted against the bill.

Samaras instructed his MPs to vote against the bill which led to the resignation of MP of ND because she intended to vote in favour of the bill. Democratic Alliance abstained from voting. All small left parties voted against the bill, because supporting the bill would be the end of the small party. Finally, the midterm fiscal plan bill was adopted with a small majority (Gemenis, 2012). The vote was passed by 154 to 144 votes (Financial Times, 2011g).

Papademos Coalition Government November 2011

On October 20th, another austerity package was put to vote which had the same voting pattern as the vote on the mid-term fiscal plan. Furthermore, PASOK had suffered in the opinion polls as well as the parties who supported the bills. It was clear that the opposition parties would not support any bills of the government. Papandreou had the idea to bring the bail-out plan of Greece to a referendum. He thought that few would take responsibility for the states default and therefore would support the bail-out plan. However, foreign leaders argued that the referendum would endanger all the effort so far. In addition, law experts could not agree on whether Greece could put the ongoing package to a referendum or the referendum should be about the exit of Greece of the Eurozone. Moreover the proposal of Papandreou brought cracks within the party which led to the resignation of another MP. Therefore, Papandreou cancelled the referendum and put a parliamentary vote of confidence to vote. This passed with 153 votes in favour (Gemenis & Nezi, 2015, p.24-25).

Papandreou acknowledged that the support of the government had reached its boundary. He intended to form a new oversized coalition government. The Greek president Papoulias invited the opposition parties to the coalition negotiations. Samaris supported the cabinet with Lucas Papademos as the leader, who was the former vice-president of the European Central Bank. Another condition of ND was the duration of the government. This could not exceed more than six months after which elections would be held. Karatzaferis supported the cabinet as well, on the condition that the cabinet should include several extra-parliamentary technocrats. The Democratic Alliance supported the cabinet although they had none formal or informal power in the government (Gemenis & Nezi, 2015, p.25).
The vote on the investiture of the new government passed with 225 votes in favour. This included votes of ND, PASOK, LAOS and Democratic Alliance. Many dissenters of ND and PASOK voted in favour as well. Two MPs of PASOK opposed against the party line. Therefore, both MPs were expelled from the party (Gemenis & Nezi, 2015, p.25-26).

Second Bail-Out Package

During the half year period of the cabinet of Papademos, Papademos reached an agreement with the parties of the cabinet. However, the Troika did not trust the new cabinet of Samaras to be fully committed to the agreements. Therefore, the Troika requested a second memorandum to be put to vote in the Greek parliament in February 2012. This memorandum includes several budget cuts and tax increases. The bill was passed with 199 votes in favour. The voting on the memorandum was a new test of the parties' discipline. Both ND and PASOK imposed their MPs to vote in favour. However, 21 MPs of ND and 22 MPs of PASOK voted opposed the bill. All 43 MPs were immediately dismissed from their party for the opposite reason for which Samaras expelled Bakoyannis two years before. The expelled MPs joined other (splinter) parties as SYRIZA, Independent Greeks, Social Agreement, Panhellenic Citizens Chariot. LAOS imposed their MPs to abstain from attending the voting. However, two MPs went to the parliament and voted in favour and resigned from the party (Gemenis & Nezi, 2015, p.26).

Measures

To comply with the agreements in the Memoranda of Understanding, Greece had to implement reform measures and cutbacks. This subsection discusses the implementation of several reform measures, in specific administrative reforms, labour market reforms and the opening up of closed-shop professions.

Administrative Reforms

The level of activity of administrative reforms increased after the first memorandum of understanding. However, the content and range of the reforms revealed differences between the Greek and Troika's agenda and blockages. Reforms had high adaptation costs (Featherstone, 2015, p.308).

In the pre-crisis period up to 2009, the number of administrative reforms is low and stable. After the election of the government of Papandreou and the adoption of the Memorandum of Understanding, the number of administrative reforms highly increased. By 2012, the number of administrative reforms increased with a fivefold. The actions mostly concerned reforms in the operational mode, rather than the effectiveness of financial management or performance (Featherstone, 2015, p.301-302). The pressure to change the existing path which was compatible with clientelism was limited without the crisis. Pressure emerged with the conditions of the Memoranda of Understanding which specified reforms including administrative reforms. In both Memoranda, 282 of the total of 706 reforms were administrative measures which concludes almost 40 percent of the total number of reforms (Featherstone, 2015, p.301-302). The level of activity of administrative reforms increased after the first bail-out. A contrast of the priority of the Greek government and the Troika was distinguished by Featherstone (2015, p.304) in terms of the content and focus of the reforms. The Troika stressed the need for audit and performance reforms, however, this was a low priority for the Greek government.

Yet, the reforms of the Greek government had a stronger focus on matters of financial management than before, because the Troika stressed this priority (Featherstone, 2015, p.301-302).

The most important reforms of the Greek administration required by the memoranda were:

1. Increase the operational efficiency and improve the quality of data;
2. Strengthening the autonomy of the administration from corruption and political manipulation;
3. Shedding of administrative posts, developing HR strategy and introduce performance management;
4. Open up the administration to external and technical support, advice and review (Featherstone, 2015, p.305).

The priority in Athens was to increase the effectiveness and efficiency of budget management. Tax revenues had to be improved. In the beginning, the improvement and reforms were limited. A General Secretariat for Public Revenue Administration was established to manage taxation (Featherstone, 2015, p.305). To assure improvement of the effectiveness of budget management, it had to be protected to corruption by officials and political interference. Procedures to decrease corruption were strengthened. For example, cash payments in tax offices became prohibited. Tax officials reacted offensive towards these efficiency savings, because they feared their jobs and probably their informal perks as well (Featherstone, 2015, p.305). The hardest part of the reform agenda was to change personnel policies and practices in the administration. The Troika noticed that a human resource strategy did not exist which regularly covers the selection criteria, hiring processes, training, disciplinary procedures, evaluation and the role of a senior manager. Furthermore, Greek was required to start the assessment of personnel performance and competences in the administration. This is hard to change in a Napoleonic state model which is characterized as formal and legalistic. Besides, Greece had to reduce the level of staffing of the administration. This issue led to a lot of confrontation in Athens. (Featherstone, 2015, p.306).

Downsizing of the Administration

The first Memorandum of Understanding set targets to reduce the Greek administration. Greece had to shed 150,000 posts between 2011 and 2015. In 2011, Minister Dimitries Repast created the mobility scheme. This scheme had to reduce the staff by the introduction of an age criterion and by the possibility of early retirement of staff which led to the loss of experience and skills (Featherstone, 2015, p.307).

In June 2011, as part of the targets of the midterm fiscal plan, a labour reserve system was introduced. The Greek policymakers introduced the labour reserve policy as they were forced to comply with the external creditors. Two stories with different details are argued by Featherstone and Zahariadis. Both stories are included in this subsection. First, Featherstone (2015) argued that the reserve list was composed for one year at 75 percentage points of the salary of the public officials and if none new post was found during that year they would be fired. By November 2012, 2,000 public officials were transferred to this list. After political delays, the government would reach the target of 25,000 posts by the end of 2013. The Troika had set a target of 15,000 mandatory exits of public officials by the end of 2014 (Featherstone, 2015, p.307). By contrast, Zahariadis (2014) argued that 30,000 public officials would be transferred to the reserve list by January 2012. These officials had to hand in 60 percentage points of their salary for one or two years. Although not specified, they would be fired after this period. Dimitris Reppas, the Minister of Administrative Reform, stated that there was no time to choose the public officials who would be transferred to the reserve list due to time pressure from the Troika. Therefore, the government implemented the measure horizontally. Many agencies refused to comply. Only one in three agencies had hand in the list of their eligible public officials by December, 11th 2011. Moreover, only 767 (8,2 percent) of the 9,384 public officials was actually transferred to the reserve list. On 16 December 2011, the Minister of Administrative reform admitted that the reform measure had failed and did not continue the implementation of the reserve list policy (Zahariadis, 2014, p.8).

Moreover, concerns were raised on the structure and operation of the administration of the government. In 2011, the OECD reported systematic failures and weaknesses of the Greek administration. The Troika already supported the Greek government with external technical assistance. In 2012, the Troika advised the Greek government to set up a transformation steering group to supervise the administrative reforms which would be chaired by the prime-minister. Furthermore, the inter-ministerial coordination had to be strengthened and implemented within the horizontal structures of each ministry. In April 2013, a new bill was put to legislation to streamline the number of ministries and one secretariat general which would lead to the shedding of posts as well (Featherstone, 2015, p.300). According to Featherstone (2014, p.30) the European Union was never involved in the restructuring of domestic administrations.

Opening Up Closed Shop Professions

Greece had to open up the so called closed shop professions with anti-competitive state regulation. The government faces strong union combativeness (Featherstone, 2011, p.206). The liberalization of the closed-shop profession of truckers was implemented, while the liberalization of other sectors as lawyers and pharmacists was postponed. However, trucking would be realized after 2013, when the terms of the Memorandum were no longer bounded. By that time, the measure could be dropped (Zahariadis, 2012, p.108-109).

Moreover, a bill proposed to open up closed-shop profession which included 340 professions that were protected. Taxi licenses were liberalized with this bill. The Confederation of Transport Unions and the taxi drivers were in favour of the bill. However, taxi owners were opposed. In Athens, none new taxi licenses had been granted since the early 70’s. Taxi owners were afraid that new licenses would bring down the transfer fees. The strikes of taxi owners raise political conflict. Political parties accused each other of provoking the strikes. The leader of the taxi owners association, Thymios Lymberopoulos, was a member of the political committee of ND. Furthermore, MPs and party members of ND publicly supported the strikes and some of them joined the union events. PASOK and ND blamed each other for the increasing strikes and blockages (Exadaktylos & Zahariadis, 2014, p.173-174). Eventually, the reform to give new taxi licenses would be implemented. Yet, this was implemented with a population criterion. The number of taxis in the Greek population was already higher than in other European states, therefore no new taxi licenses would be given (Zahariadis, 2012, p.108-109).

Chapter 6. Analysis

In this chapter, the analysis of this study is discussed. I will discuss the mediating factors to the adjustment pressure of the European Union and the outcome of the adjustment pressure of all three cases. This chapter is structured in de following order: the Dutch case, the Estonian case and at last the Greek case.

§6.1 The Netherlands

In this chapter, I discuss the impact of the European Union on the decision-making process in the Netherlands and their response to the adjustment pressure of the European Union. As described in the theoretical framework, the adjustment pressure is high because of the highly specified rules in the legislative framework of the European Union on domestic budgetary and fiscal policies.

§6.1.1 Mediating Factors to the Adjustment Pressure in the Netherlands

Five factors differentiate how member states experience the rules and their response, in particular economic vulnerability, political and institutional capacity, a fit in policy legacies and preferences and the discourse.

First, the Netherlands faced an economic crisis when the global financial crisis occurred. The financial crisis had impact on the budget deficit and the government debt. In 2012, the economic conditions of the Netherlands further worsened (Stability Programme of the Netherlands April 2012 Update, Rijksoverheid, p.8). When the banking crisis occurred, the Dutch domestic banks showed weaknesses. The government had to take-over domestic banks and made capital injections in banks and financial institutions as AEGON, ING and SNS (Aanpak Kredietcrisis Nederland, Rijksoverheid). As a result, the Netherlands was economic vulnerable.

The second mediation factor is the Dutch political and institutional capacity to respond to external economic pressures. In March 2009, Balkenende had introduced the economic recovery plan. In addition, the European Commission shared the view to introduce an economic recovery plan and investments to boost the economy (Interview, 29-04-2015). Only, it took a while before the severity of the crisis became clear. The response to the external economic pressures was slow. This reduced the political and institutional capacity to respond to external economic pressures. However, when the severity of the crisis became clear, the Dutch government firmly responded with austerity measures and reforms in order to get a balanced budget according to the rules of the excessive deficit procedure. Both during the negotiations on the coalition agreement in 2010 and the additional cutbacks as defined in the Spring agreement in 2012, the minority cabinet was able to impose and negotiate austerity measures and reforms.

Moreover, the minority cabinet had the political and institutional capacity to negotiate and implement the (additional) austerity and reform measures. Therefore, the Netherlands had the capacity to implement the austerity measures and reforms. During the cabinet term of Rutte II, preferences changed and a fit with the policy preferences is seen. In addition to the political preferences which were strongly anti-Europe, the political elite were disappointed that other European member states exceeded the budgetary rules (Interview, 11-06-2015). The Dutch government had the political capacity to negotiate change in parliament. Although austerity measures and reforms were blocked by the PPV, the minority cabinet had the ability to negotiate additional austerity measures with opposition parties. As a result, the Netherlands had the political and institutional capacity to respond to external economic pressures.

Furthermore, a fit with old preferences and long-standing policies is seen. The Netherlands had a cultural and historical background of budget discipline. The preferences of a balanced budget are widely supported by the Dutch electorate (Interview, 11-06-2015). These preferences fit with the fiscal rules of the European Union. This fit is explained by the fact that the Netherlands introduced the rules of the European Union itself. The legislative framework included in the two pack and six pack was a Dutch proposal. In September 2011, the letter which underlies the ideas was sent to the Dutch parliament. The letter was discussed during a plenary session in parliament. Because of the situation in the Southern European countries, the politicians were interested in the proposals (Interview, 10-06-2015).

When the Netherlands could not comply to these rules anymore, the Dutch politicians realized that these rules applied to the Netherlands as well. Although some policy preferences about the level of the budget deficit varied, the political elite knew that the Netherlands had to show the financial markets and the other European states that they could comply with the budget rules. Because the single currency was under pressure (Interview, 11-06-2015) (Interview, 10-06-2015). As a result of the fit with policy preferences, the minority government could negotiate (additional) austerity measures and reforms. In addition, the intrinsic motivation and positions of political parties were additional explanatory factors during the decision making process of the Spring Agreement by the ad hoc coalition which made it possible for the government to negotiate an additional fiscal consolidation package. This underlies the shared value of budget discipline which is supported by the electorate.

In contrary, reforms on a specific policy area as the housing market did not fit with the preferences of Dutch politicians and policy-makers. In 2011, the European Commission already wanted to recommend the reform on interests on home mortgage. However, the recommendation was not included in the final document send to the Netherlands. Because it was left out of a working document by accident. The recommendation was part of the 2012 report of the European Commission. At the same time, a rapid shift of preferences took place in the Netherlands. This momentum was used by the European Commission at the right moment (Interview, 29-04-2015). The timing was important. As a result, the rules of the European Union fit with the old preferences and long-standing policies of the Netherlands.

Lastly, the Dutch government had the political discourse. During the cabinet term of Rutte II, the policy preferences changed. Therefore, a fit with the policy preferences is distinguished. Prime-Minister Rutte and the Minister of Finance De Jager had an agreement on the budget deficit which could not exceed 3 percent of GDP. The agreement was the starting point during the negotiations on austerity measures and reforms. However, the minority had to seek support of other political parties by altering preferences.

Another perception in the political discourse was the vulnerability of the Eurozone. The single currency was under pressure. Financial markets were unsure if European states would keep their promises on the budget agreements. They did not expect a 3 percent budget deficit in specific. Yet they wanted to see that states could keep their promises on sustainable public government finances. In addition, several European states with a triple A status prevailed turmoil. In the Netherlands, the PPV with party leader Wilders supported the minority cabinet. In addition, the PPV was anti-Europe. Finland was anti-EU as well and in France the political party Front-National gained more support. Financial markets had doubts about the stability of the European states. The Netherlands had to show the financial markets and other European states that they could keep up with the agreements on budget discipline. The Dutch political elite were aware of this fact (Interview, 10-06-2015). Therefore, this position was important during the negotiations on the austerity measures and reforms in 2012.

Furthermore, the three percent norm of the Maastricht Treaty was used in the discourse to alter the perceptions. Although many officials and politicians shared the view that these rules do not necessarily work in the current context, these rules are used to ensure that all European member states work towards sustainable government finances (Interview, 10-06-2015).

Moreover, during the negotiations on the Spring Agreement, De Jager altered the perceptions of other politicians. The interpretation of the Minister of Finance, De Jager, on the rules of the Stability and Growth pact were tighter than the interpretation of the DG ECFIN of the European Commission Economic which is shown in the letter of the Minister of Finance to the Dutch parliament (Interview, 29-04-2015). De Jager increased pressure to gain support in parliament for a stability programme with detailed austerity measures and reforms. He had the political discourse to impose the need to hand in the Stability programme before the end of April. Therefore, the minority government could negotiate the Spring Agreement with smaller political parties although they had just resigned. As a result, the Netherlands had the discourse to change preferences.

§6.1.2 Outcome of the Adjustment Pressure

In the previous section, the mediating factors of Europeanization pressure on the Netherlands are discussed. The five mediating factors have different potential domestic outcomes of the adjustment pressure. The mediating factors help to explain the response of the Netherlands to the adjustment pressure of the European Union. The potential domestic outcome is determined by the presence or absence of the mediating factor. The result of the mediating factors as discussed in the previous section can be found in table 3. The Netherlands was economic vulnerable, had the political and institutional capacity, had a fit with their long-standing policy legacies and preferences with the rules of the European Union and the Netherlands had the discourse. The outcome of the mediating factors of the Netherlands is highlighted in green in table 3. The mediating factors indicate the domestic outcome of the adjustment pressure.

Table 3. Outcome of the Adjustment Pressure - The Netherlands

Mediating factors	**Degree of presence**		
Economic vulnerability	Not economic vulnerable	**Economic vulnerable**	**Economic vulnerable**
Political institutional capacity	No capacity	Little capacity	**Capacity**
Policy legacies	Misfit	Misfit	**Fit**
Policy preferences	Misfit	**Fit**	**Fit**
Discourse	No discourse	**Discourse**	**Discourse**
Domestic Outcome of the Adjustment Pressure	Inertia	Absorption	**Transformation**

The outcome of Europeanization pressure on the Netherlands is predominantly transformation. Transformation occurs when the Netherlands replaces their existing policies with new policies. Although the Netherlands transformed the rules of the European Union on domestic fiscal policies, the outcome of the decision-making process on fiscal policies of the Netherlands can be explained by additional explanatory factors as well instead of only from the adjustment pressure of the European Union. This section discusses the impact of the European Union on the decision-making process of the Dutch fiscal policies and additional explanatory factors with explain the outcome of the decision-making process as well.

Although the Netherlands transformed the rules of the European Union into their budgets, the choice to consolidate had domestic origins.

First, because of the cultural and historical background of budget discipline of the Netherlands. The preferences of a budget balanced are widely supported by the Dutch electorate (Interview, 11-06-2015). Thus, the preference of a balanced budget fit with the rules of the European Union. However, the Netherlands introduced the rules of the European Union itself. The legislative framework included in the two pack and six pack was a Dutch proposal (Interview, 10-06-2015). Therefore, the Netherlands had great ownership of the rules (Interview, 11-06-2015). The Netherlands could not impose these rules to other member states, only if they would prove that they could comply to the rules itself. The choice to comply with a maximum of a budget deficit of 3 percent of GDP was not imposed by the European Union. However, the government changed this alteration by pronouncing to the parliament and the public that the Netherlands had to comply with the rules. The government convinced the parliament to maintain budget discipline. The real perception of the political elite was that the Netherlands had to comply with their own rules which they implemented itself in the European Union (Interview, 11-06-2015).

Second, the Netherlands carried out the fiscal policies to ensure the stability of the Eurozone due to the vulnerability of the Eurozone and the pressure of financial markets. Financial markets had doubts about the stability of the European states. The Netherlands had to show the financial markets and other European states that they could keep up with the agreements on budget discipline and they would keep their promises on sustainable public government finances (Interview, 11-06-2015) (Interview, 10-06-2015).

Moreover, the European Commission gave space to manoeuvre to the Netherlands. The European Commission had a flexible attitude towards the excessive deficit procedure and with that towards the 2009 and 2010 budget of the Netherlands (Interview, 11-06-2015) (Interview, 10-06-2015). The European Commission could have given the Netherlands space to manoeuvre as well when the Netherlands had to submit their Stability programme of 2012. However, the Netherlands never used this space to manoeuvre. The interpretation of the Netherlands on the rules of the SGP was tighter than the interpretation of the European Commission which is shown in the letter of the Minister of Finance to the Dutch parliament (Interview, 29-04-2015).

Yet, the European Union had influence. The influence of the European Commission on the domestic budget was only expressed at technical level. The scope was defined in advance. The Netherlands could determine at domestic level on which specific policy areas cutbacks were made within the framework of the European Union. The European Commission could only submit adjustments afterwards. Even after the introduction of the European Semester, the Netherlands had never toned down the recommendations of the European Commission, yet rather the other way around (Interview, 11-06-2015).

What is more, the establishment of the figures was an exchange of vision based on arguments. Forecasts were determined based on arguments as well. The Netherlands was an open discussion partner of the European Commission. Direct influence did not take place. However, influence took place trough interaction. The influencing works both ways. The decision is not a negotiation, but influencing by beliefs based on arguments (Interview, 29-04-2015).

Differences of views and assumptions can occur between the European Commission and the CPB. The outcome of the figures and the underlying assumptions are not negotiated. No consensus will be reached between different views. Yet, the CPB and the country desk of DG ECFIN deliberate about these assumptions and figures. Both the CPB and the country desk publish their own figures about the Netherlands. Mostly the hard data is similar, but the methodology can differ. Within the European Union, the assumptions are coordinated. Therefore, the position and assumption can differ between the country desk and the CPB (Interview, 29-04-2015). During the formation of the Dutch cabinet, the Dutch Ministry of Finance sometimes asked questions to the country desk which were about very technical subjects as parameters. The country desk did none calculations at macro level (Interview, 29-04-2015).

§6.2 Estonia

In this chapter, I discuss the impact of the European Union on the decision-making process in Estonia and their response to the adjustment pressure of the European Union. As described in the theoretical framework, the adjustment pressure is high because of the highly specified rules in the legislative framework of the European Union on domestic budgetary and fiscal policies.

§6.2.1 Mediating Factors to Decision-Making Process in Estonia

Five factors differentiate how member states experience the rules and their response, in particular economic vulnerability, political and institutional capacity, a fit in policy legacies and preferences and the discourse.

Estonia was faced with the presence of an economic crisis before the global financial crisis took place. The economy of Estonia overheated after they had a boom phase (Purfield & Rosenberg, 2010, p.5). However, Estonia did not face a domestic banking crisis (Savi & Randma-Riiv, forthcoming, p.6). In reaction to the economic vulnerability, Estonia chose to fiscal consolidate. Estonia wanted to gain trust in the Estonian economy of the international rating agencies by maintaining their currency and through that stabilizing the economy. Fiscal consolidation would send a positive signal to the markets (Raudla & Kattel, 2011, p.174). Therefore, Estonia was economic vulnerable.

The second mediating factor is the political and institutional capacity of Estonia to respond to external economic pressures. The Estonian government had the political capacity to impose and negotiate change in parliament. During the negotiations on the second negative supplementary budget, the leftist Social Democrats left the government as a result of disagreements on the austerity package. The other two parties formed a minority government. They imposed change with the support of the Green Party. In the public discourse the Pro Patria and Res Publica Union and the Reform Party favoured fiscal consolidation and the rules of the Maastricht Treaty. The opposition parties were ambiguous. However, the opposition parties did not propose alternative fiscal policy programmes (Raudla & Kattel, 2011, p.176).

Moreover, the neo-liberal economic policies after the independence of Estonia in 1992 led to a passive currency board system. Estonia did not have the institutional capacity to react with alternative economic policies than to consolidate and maintain a balance budget (Raudla & Kattel, 2011, p.179). Thus the government had the political capacity to negotiate the negative supplementary budgets and austerity measures. However, the negotiations took place with low institutional capacity as a result of the lack of experience with alternative economic policies. As a result, Estonia had little political and institutional capacity.

The following two mediating factor are the fit with long-lasting policies and preferences. Policy adjustment would be easier to occur when there is a fit with the long-standing policies and institutions and a fit with old preferences. The reaction of Estonia in response to the economic crisis can be seen in the light of previous crises. The choice of the Estonian government to consolidate was similar to the situation when Estonia faced a crisis in 1993-1994 and 1999. During these crisis's, the government of Estonia decided to cut expenditures to reduce the budget deficit. These policy choices had paid-off as Estonia faced economic growth after the two previous crises. Therefore, the response and policy choice of the political actors can be seen as path dependent. They reacted in the same way as they reacted during the previous crisis (Raudla & Kattel, 2011, p.177).

In addition, fiscal consolidation fits with the long-standing preference of a balanced budget which is a cornerstone of the Estonian politics (Raudla & Kattel, 2011, p.178). The Estonian government held onto their traditional policy preferences as well. They have reacted the same way as they reacted during the previous crises. These preferences show a fit with the fiscal rules in the Maastricht Treaty. As a result, the rules of the European Union fit with the old preferences and long-standing policies of Estonia.

Lastly, the political discourse was dominated by three lines of reasoning of the perceptions of the leading political actors. The government had the political discourse to impose and negotiate changes. The first argument of the government was 'we cannot spend money if we do not have the money'. As a result, a budget deficit and taking loans was excluded. The argument was based on the common sense. The budget discipline was supported by the opposition parties as well as social parties.

In addition, the second line of reasoning in the political discourse was that expenditure cuts had to be made in order to get out of the economic crisis. Estonia wanted to gain back trust in the Estonian economy from the international rating agencies by maintaining their currency and through that stabilizing the economy. Fiscal consolidation would send a positive signal to the markets. Politicians argued that expenditure cuts were necessary to get Estonia out of the crisis. With fiscal discipline Estonia wanted to distinguish itself from other CEE-states. Trust would attract foreign investors to invest in the economy of Estonia (Raudla & Kattel, 2011, p.174).

Furthermore, dominant political actors took a long-term view as well. Loans had to be paid back together with interest which would lead to the increase of taxes. This would have a negative effect on the economic competitiveness and the attraction of foreign investors (Raudla & Kattel, 2011, p.176).

The previous lines of reasoning in the political discourse were connected with the goal of the government to join the Eurozone. In 2008, Estonia could not join the Eurozone, because of high inflation (Raudla & Kattel, 2011, p.175). The next converge report of the European Union would be published in 2010. If Estonia met the fiscal requirements, they would join the Eurozone (Interview, 2015). The budget deficit rules of the Maastricht Treaty became the main point in political discussions. The President of the Bank of Estonia argued that the economic growth depended on joining the Eurozone. When joining the Eurozone, speculation on devaluation of the currency would come to an end. Furthermore, Estonia would distinguish itself from other CEE-states. Both would lead to more confidence in the economy (Raudla & Kattel, 2011, p.175).

Moreover, politicians argued that they did not want the same fate as Latvia. Estonia had to deal with the crisis on its own through expenditure cuts. Otherwise the European Union would make the decisions for Estonia. Latvia which applied for the balance-of-payment programme experienced great intervening of the European Union and the IMF. Politicians saw this as the EU and the IMF were governing over Latvia (Raudla, 2011, p.177-178). When faced with the bail-out, the balance-of-payment programme, the communication between the European Commission and Estonia would have been quantitatively more intense. There is nothing in between. However, Estonia has never been in such a program. Estonia was trying to avoid the program (Interview, 2015). Furthermore, politicians argued that the EU and IMF would approve the austerity measures (Raudla & Kattel, 2011, p.175).

The opinion on economic governance of the politicians was widely shared in the public discourse. Government finances had to be in balance. For example, if the government would publish policies which would lead to a (small) deficit, the media would say that they were idiots to do so (Interview, 2015). As a result, Estonia had the discourse to change preferences.

The next section discusses the outcome of the adjustment pressure of the European Union on Estonia.

§6.2.2 Outcome of the Adjustment Pressure

In the previous subsection, the mediating factors of Europeanization pressure on Estonia are discussed. The five mediating factors have different potential domestic outcomes of the adjustment pressure. The mediating factors help to explain the response of Estonia to the adjustment pressure of the European Union. The potential domestic outcome is determined by the presence or absence of the mediating factor. The result of the mediating factors as discussed in the previous section can be found in table 4. Estonia was economic vulnerable, had little political and institutional capacity, had a fit with their long-standing policy legacies and preferences with the rules of the European Union and the Netherlands had the discourse. The outcome of the mediating factors of Estonia is highlighted in green in table 4. The mediating factors indicate the domestic outcome of the adjustment pressure.

Table 4. Outcome of the Adjustment Pressure – Estonia

Mediating factors	**Degree of presence**		
Economic vulnerability	Not economic vulnerable	**Economic vulnerable**	**Economic vulnerable**
Political institutional capacity	No capacity	**Little capacity**	**Capacity**
Policy legacies	Misfit	Misfit	**Fit**
Policy preferences	Misfit	**Fit**	**Fit**
Discourse	No discourse	**Discourse**	**Discourse**
Domestic Outcome of the Adjustment Pressure	Inertia	Absorption	**Transformation**

The outcome of Europeanization pressure on Estonia is predominantly transformation. Transformation occurs when Estonia replaced their existing policies with new policies. Although Estonia transformed the rules of the European Union on domestic fiscal policies, the outcome of the decision-making process on fiscal policies of the Estonia can be explained by additional explanatory factors as well instead of only from the adjustment pressure of the European Union.

Estonia faced an economic crisis before the global financial crisis occurred. Estonia chose to consolidate in the reaction to the economic crisis according to the rules of the European Union, in specific the budget rules of the Maastricht Treaty. In the case of a different thresholds specified in the Maastricht Treaty, the government would have adjusted the budget accordingly. In this way, Estonia could still achieve their target to join the Eurozone (Interview, 2015). Thus, the rules of the Maastricht Treaty are transformed in the Estonian fiscal policy.

However, the choice of Estonia to consolidate had domestic origins. First, because of the cultural and historical background of budget discipline of Estonia. Since its independence, Estonia strongly strove for strict budget discipline (Interview, 2015). Budget discipline fits with the long-standing policies and preferences. The choice to consolidate is path dependent as well, as a result of the reactions to former crisis in the '90 (Interview, 2015). Moreover, budget discipline was a cornerstone of the Estonian democracy. This fundamental principle is integrated in the budget policy of Estonia (Interview, 2015) (Raudla & Kattel, 2011, p.178). Fiscal consolidation fits with the policy preferences as well. These fits are strengthened by the low institutional capacity to introduce alternative economic policies. Furthermore, the Estonian government had the political capacity to impose and negotiate changes in parliament. All political parties agreed to consolidate. Opposition parties had criticized the austerity measures, yet they had never proposed alternatives (Interview, 2015). Along with the ideological preferences, the government had the political and public discourse to agree on supplementary negative budget bills and consolidation packages. All governments, even the minority government, were able to push the bills through parliament with public support and the approval of civil servants as well (Raudla, 2013, p.46) (Save & Randma-Riiv, forthcoming, p.1).

However, space to manoeuvre was small as a result of the fixed exchange rates with the euro, Estonia wanted to stay within the bands of the fixed exchange rate as this is one of the conditions to be able to join the Eurozone (Interview, 2015).

Although Estonia wanted to join the Eurozone, this desire is a supporting explanatory factor (Interview, 2015). Estonia did not have a specific date to join the Eurozone. Moreover, the European Commission did not push or prevent states to join the Eurozone (Interview, 2015).

An additional explanatory factor is that Estonia did not want the same fate as Latvia. Latvia got support of the European Union through the balanced-of-payment programme. Estonia wanted to avoid the control of its domestic fiscal policies by the European Union and the IMF. Estonia was trying to avoid the program. The European Union had influence trough the framework, in specific the threat and fear of the assistants program (Interview, 2015).

Estonia has a deeply integrated strive for fiscal discipline. In the public and political discourse, fiscal consolidation was supported by both the coalition and opposition parties. This was further supported by the view of the European Union. The influence of the European Union took place through the framework and the threat of the payment-of-assistants program. Estonia was trying to avoid this program (Interview, 2015). Estonia chose to implement the budget rules of the Maastricht Treaty itself. In case of different thresholds specified in the Maastricht Treaty, the government would have adjusted the budget accordingly (Interview, 2015). The reference of the rule of 3 percent budget deficit was used when the government calculated the size of the austerity measures. The three percent budget deficit rule became the main point in de fiscal policy discourse. If the threshold of the rules of the Maastricht Treaty would have been different, the government would have adjusted the budget accordingly (Raudla, 2011, p.177). However, taken into account, the fear of less favourable lending conditions from financial markets because a decreased position of the Estonian economy was stronger than the pressure to get into the Eurozone. Estonia did not set a specific date to join the Eurozone (Interview, 2015).

In conclusion, the Estonian government held onto their traditional policy preferences and reacted the same way as they reacted during the previous crises. These preferences were supported by the European Union. The European Union had influence through the framework, in specific the threat and fear of the assistant programme. Estonia chose to transform the budget rules of the European Union in the Estonian fiscal policy.

§6.3 Greece

In this chapter, I discuss the impact of the European Union on the decision-making process in Greece and their response to the adjustment pressure of the European Union. As described in the theoretical framework, the adjustment pressure is high because of the highly specified rules in the legislative framework of the European Union on domestic budgetary and fiscal policies.

§6.3.1 Mediating Factors to the Decision-Making Process in Greece

This section discusses why Greece chose for fiscal consolidation and their response to the potential adjustment pressure of the European Union. According to the theory of Europeanization, the adjustment pressure is high as a result of the highly specified rules in the legislative framework of the European Union on domestic budgetary and fiscal policies. Five mediating factors differentiate how member states experience the rules and their response, in particular economic vulnerability, political and institutional capacity, a fit in policy legacies and preferences and the discourse.

First, Greece faced an economic crisis (Featherstone, 2011, p.195-199). In the autumn of 2009, the first financial setbacks were seen. The government finances were not sustainable. Moreover, financial markets and the European Union had uncertainties about the credibility of Greek data. As a result of the loss of credibility, the Greek bonds got the junk status by the major credit rating agencies Featherstone, 2011, p.195-199). The financial markets questioned the Greek legitimacy and political strength. Greece could not handle the economic pressures itself anymore. In March 2010, Papandreou, prime minister of the PASOK government, turned to the European Union and the IMF for support. Greece did not have the capacity to respond to the external economic pressures on its own and asked support to respond properly to the economic pressures (Featherstone, 2011, p.199). As a result, Greece was economic vulnerable.

Second, Greece had the political capacity to impose bills in parliament, as a result of the majority in parliament of a majority government. However, they did not have the capacity to negotiate change with societal groups and to implement reform measures due to the lack of institutional capacity.

Greece lacked institutional capacity to negotiate or impose change. The government was faced with veto points from social partners towards its formal power. Cultural norms as clientelism, statism and corruption did structure interests of social partners in a manner contrary to the reform measures imposed by the government and agreed upon with the Troika (Featherstone, 2011, p.198). The government was strong, yet the administration lacked implementation strength (Featherstone, 2011, 195-196). The Greek administration had problems with the coordination and lacks high qualified officials (Featherstone, 2005, p.739). Ministries were operational independent. Coordination problems within the administration led to coordination costs. (Featherstone, 2011, 195-196). Clientelistic traditions led to the lack of institutional capacity to implement policy reforms (Featherstone, 2005, p.738).

Yet, The government had the political capacity to impose changes in parliament. Because of the single actor system, the PASOK government had a majority in parliament. Members of Parliament were expected to vote in favour of the bill. MPs who obtained from voting were dismissed from the party (Gemenis & Nezi, 2015, p.20). Reform measures were unilateral which is seen in the voting pattern of the Greek parliament. In addition, these measures were vulnerable to social unrest. However, to impose change in parliament did not mean that the PASOK government had the political capacity to impose or negotiate institutional changes and implement the reform measures and cutbacks. Cooperation between political parties did not take place, therefore the government lacks legitimacy by other parties (Featherstone, 2005, p.747).

Moreover, social unrest occurred. Greece did not have the capacity to negotiate change with societal groups. The Greek government faced strong resistance from societal groups when it imposed reform measures (Financial Times, 2011c). Unions initiated strikes and blockages of road and government buildings (Zahariadis, 2012, p.108-109). As a result, Greece had no political and institutional capacity.

The following two mediating factor are the fit with long-lasting policies and preferences. The reform measures agreed upon between the Greek government and the Troika had a misfit with long-standing Greek policy legacies and preferences. Although, the Memorandum of Understanding established a huge domestic reform momentum, reforms did not fit with the Greek long-standing practices (Featherstone, 2011, p.194-195). The government lacked the legitimacy and domestic political strength to establish reforms. Measures to downsize the administration were not implemented or not executed by the government officials. The public officials who had to implement the reform measures held onto their old preferences as well (Featherstone, 2015, p.307).

Moreover, the employment laws were rigid which complicated the reform measures to liberalize the labour market (Featherstone, 2011, p197). The main unions wanted to accumulate their privileges (Featherstone, 2005, p.740). They were opposed to many reform measures which is reflected by the strikes and blockages of roads and government buildings. Thus, the unions wanted to maintain the long-standing policies. They held on to their old policy preferences. The constituency of the government to implement liberal markets reforms was limited (Featherstone, 2011, p.197).

Furthermore, members of Parliament did not personally chose to hold onto old preferences. They had to vote in favour of their party's opinion on the bill, otherwise they would be dismissed or expelled from the party. This resulted in the splintering of political parties after the votes on both Memoranda of Understanding. (Gemenis & Nezi, 2015). As a result, the rules of the European Union did not fit with the old preferences and long-standing policies of Greece.

Fifth, the Greek government did not have the discourse to change preferences. The opposition from societal groups and de lack of implementation strength of the Greek administration counteracted the ability of the government to impose or negotiate change. When the first Memorandum of Understanding was defined, the PASOK government had no other option then to accept the loans from the Troika. Loans from financial markets were too expensive and the European member states were afraid of contagion (Zahariadis, 2012, p.107-108). PASOK Minister of Finance, Giorgos Papakonstantiou, used the Greek position in the political discourse. He argued to the domestic audience that there was no alternative then to accept the loan package from the Troika en its condition. At the same time he told the European member states that without the loan package for Greece the whole Eurozone system would be in danger of collapsing. In both respects, the stakes were high (Featherstone, 2011, p.204-205). Papandreou informed the European Union and the IMF that he wanted to activate the rescue package because he could not borrow money under the conditions of the junk status (Featherstone, 2011, p.199) (Zahariadis, 2012, p.107). Decisions were made under time pressure, Greek Ministers had a few hours to read the Memorandum of Understanding or they did not read it at all, before the package was approved (Zahariadis, 2012, p.107). The voting in parliament is seen as a 'take it or leave it' act. In addition to the Greek Ministers, the Members of Parliament had no opportunity to read the content of the package and negotiate the bill. The only option was to vote in favour of the bill (Gemenis & Nezi, 2015, p.20).

However, the Greek government faced strong resistance from opposition parties and unions. Opposition parties disassociated themselves from the packages and the crisis which led to chaos. Syriza and KKE called for strikes themselves and ND exploited the discontent of the voters (Zahariadis, 2012, p.108). Furthermore, the frequency of the strikes increased and the disagreement within and among the governing party, PASOK, and opposition parties rose because they blamed each other for the crisis. The implementation of reforms led to conflicts with the unions which members were mainly PASOK voters (Featherstone, 2011, p.110). As a result, Greece did not have the discourse to change preferences.

§6.3.2 Outcome of the Adjustment Pressure

In the previous section, the mediating factors of Europeanization pressure on Greece are discussed. The five mediating factors have different potential domestic outcomes of the adjustment pressure. The mediating factors help to explain the response of Greece to the adjustment pressure of the European Union. The potential domestic outcome is determined by the presence or absence of the mediating factor. The result of the mediating factors as discussed in the previous section can be found in table 5. Greece was economic vulnerable, had not the political and institutional capacity, had a misfit with their long-standing policy legacies and preferences with the rules of the European Union and the Netherlands had not the discourse to alter preferences. The outcome of the mediating factors of Greece are highlighted in green in table 5. The mediating factors indicate the domestic outcome of the adjustment pressure.

Table 5. Outcome of the Adjustment Pressure - Greece

Mediating factors	**Degree of presence**		
Economic vulnerability	Not economic vulnerable	**Economic vulnerable**	**Economic vulnerable**
Political institutional capacity	**No capacity**	Little capacity	Capacity
Policy legacies	**Misfit**	Misfit	Fit
Policy preferences	**Misfit**	Fit	Fit
Discourse	**No discourse**	Discourse	Discourse
Domestic Outcome of the Adjustment Pressure	**Inertia**	Absorption	Transformation

The domestic outcome is predominantly inertia. Although Greece was economic vulnerable, Greece could not implement or implement reform measures with great delay due to the lack of institutional capacity, the misfit with long-standing policies and traditions and the lack of political discourse.

As a result of the economic vulnerability, the government stood open to policy changes. In March 2010, the prime-minister Papandreou, went to the European Union and the IMF for support (Featherstone, 2011, p.199). Eventually the EU and the IMF reacted due to the fear of contagion and all parties agreed on the bilateral loan (Zahariadis, 2012, p.106-108). According to Zahariadis (2012) it was doubtful that the Greek government had influence on the package because of the pressing economic condition. Greece had to comply with the imposed reform and cutback measures from the creditors.

Although Greece agreed with the package, they could hardly comply with the imposed reforms measures. First, Greek parties failed to cooperate and could not find consensus. They did not have the political capacity to negotiate change. Voting patterns were based on the two party cartels with strong discipline. Consensus seeking only took place during the negotiations of the formation of a coalition government, merely after the pressure of the European Union on the political parties in order to establish an emergency funding package (Gemenis & Nezi, 2015, p.19).

Moreover, Greece lacked the institutional capacity to negotiate change. The Greek government is strong and faced hardly any veto points. However, the government was institutionally weak, the administration was low skilled and had little coordination. The culture of clientelism and corruption led to the exchange of favours and state resources were used to prevail interests. Thus, the government is strong, yet lacked implementation power (Featherstone, 2008, p.307). As a consequence of these paradoxes the reform capacity of Greek system is low. Therefore the Greek domestic political system is referred to 'une société bloquée' in which reforms hardly are implemented (Featherstone, 2011, 197).

Consequently, Greece struggled to implement the austerity measures defined in the Memoranda of Understanding. Greece had to comply with the implementation of domestic reforms measures to ensure a new loan tranches by the Troika. A respondent with a Greek perception (Interview, 2015) argues that Greece had little ownership regarding the reform process. Greece had no positive incentives for reforms. The reforms lacked legitimacy and social support. The respondent has a defensive view on this matter. Moreover, the Troika aimed at quick results. However, the respondent argues that reforms cost money and take time to yield results (Interview, 2015).

Despite of the difficulties Greece faced to implement the reform measures, the level of reforms increased after the first Memorandum of Understanding. Towards the second Memorandum of Understanding, priority contrast between the Troika en Greece are distinguished regarding to the focus and content of the reform measures. The Troika strongly condemns audit and performance measures, however these measures were a low priority of the Greek government. The Troika stressed the need to financial management reform measures as well. The Greek government showed more focus on this issue than before (Featherstone, 2015, p.304).

Featherstone (2008) argued that the European Union produced only moderate domestic policy reforms. The European Union provided a resource which had to be activated at the Greek level by domestic actors with their own interest and within the institutional setting (Featherstone, 2008, p.290). The European Union lacked the coercive power to imply domestic change. Domestic actors had veto points which together with the lack of coercive power of the European Union led to the defection from commitments to the European Union by the Greek government (Featherstone, 2008, p.294).

During the reform process, The Troika systematically neglected or underestimated the social and political context and democratic legitimacy of Greece (Interview, 2015).

In sum, the outcome of the Europeanization pressure in Greece was inertia due to the lack of political and institutional capacity to negotiate change and the misfit with policy legacies and preferences. However, reforms did take place after both Memoranda of Understanding. The European Union had great impact through the agreements even though the misfit with Greek policies and preferences led to inertia of the reforms.

§6.4 Highlights of Analysis

In the previous sections, the impact of the European Union on each member state was discussed. This section discusses the key issues of the outcomes to the adjustment pressures of all three cases. The similarities and differences are explained by the mediating factors. The case studies show different outcomes of the adjustment pressure of the European Union. The outcome of the Netherlands and Estonia is transformation. By contrast, the outcome of Greece is inertia.

When comparing all three cases, it is important to stress the difference between Greece and the other two cases. Greece got financial assistance from the European states and the International Monetary Fund. The adjustment pressure on Greece is more extensive than on the Netherlands and Estonia.

A similarity between the cases is the economic vulnerability all three member states were faced with after the global financial crisis broke out. Yet, in different degrees. Furthermore, the presence of the Eurozone was at stake. The Netherlands feared the stability of the Eurozone. They wanted to show the financial markets that they could keep their promises on sustainable public government finances (Interview, 10-06-2015). Estonia had faced a domestic economic crisis just before the global financial crisis broke out. The economy of Estonia overheated after they had a boom phase (Purfield & Rosenberg, 2010, p.5). In addition, Greece was very vulnerable and faced the fear of a bail-out. The European Union feared contagion. As a result of the economic vulnerability, Greece had to accept the terms of the assistance programme even though these terms did not correspond with the preferences of the Greece.

Both the Netherlands and Estonia did not experience the potential adjustment pressure as coercive. This experience is supported by the mediating factors. As a result of the cultural and historical background of the Netherlands and Estonia, the European fiscal policies showed a fit with their domestic preferences and long-lasting practices and policies. Both states have a cultural background of budget discipline. Therefore, the European fiscal policies were compatible with the domestic policies and preferences. In addition, both the Netherlands and Estonia had the institutional capacity and the public and political discourse to negotiate (supplementary) negative budget bills and austerity measures.

Furthermore, the framework and the rules of the Maastricht Treaty were for both the Netherlands and Estonia relevant for their domestic fiscal policy choices. Estonia had the public and political discourse which supported the decision to consolidate. They knew that this decision was supported by the European Union. Estonia was trying to avoid the balance-of-payment programme like Latvia and wanted to join the Eurozone. Therefore, they chose to transform the fiscal policies of the European Union into their domestic fiscal policies.

Secondly, the Netherlands feared the stability of the Eurozone. Therefore, they chose to keep their budget deficit within the agreements to show the financial markets and other Eurozone member that they could keep their promises. Thus, the Netherlands carried out the fiscal policies to ensure the stability of the Eurozone due to the vulnerability of the Eurozone and the pressure of financial markets.

Both the Netherlands and Estonia had the space to manoeuvre from the European Union. They decided themselves to implement strict fiscal policies according to fiscal policies of the European Union. By contrast, Greece felt the adjustment pressure of the European Union as coercive. Greece had to comply with the agreements in the Memoranda of Understanding with the European Union and the

International Monetary Fund to ensure new loan tranches from the Troika. However, Greece lacked ownership of the reform measures (Interview, 2015). The Greek government had the capacity to impose austerity measures in parliament due to the single actor system, however they lacked the institutional capacity to implement these measures and negotiate change with social partners who had veto points (Featherstone, 2011, p.198).

Furthermore, the Greek government lacked the legitimacy and domestic political strength to establish reforms. The Memorandum of Understanding established a huge domestic reform momentum (Featherstone, 2011, p.194-195). However, the reforms did not fit with the Greek long-standing practices. The government lacked the legitimacy and domestic political strength to establish reforms. Unions and social groups held onto their long-standing policy preferences. The constituency of the government to implement liberal markets reforms was limited (Featherstone, 2011, p.197).

Chapter 7. Conclusions and Recommendations

Prior research has been conducted regarding the decision-making processes of domestic fiscal policies of member states of the European Union in the framework of the research project COCOPS (Coordinating for Cohesion in the Public Sector of the Future) (WP7: coordination after the crisis, COCOPS). However, these studies were limited to the decision-making processes of domestic governments. Little attention had been paid to the influence of the European Union on the decision-making. In this study, I have examined the impact of the European Union on decision-making processes on domestic fiscal policies.

Before I answer the research question of this study, I have addressed several sub questions. First, which rules and procedures of the European Union on domestic fiscal policies apply to the European member states? The rules and procedures of the European Union on domestic fiscal policies were highly specified rules. These rules were first defined in the Maastricht Treaty. With the Maastricht Treaty, the Economic and European Union was established. After that, the budget rules were tightened with the Stability and Growth Pact. The SGP ensured member states to pursue sustainable government finances and to coordinate budget policies of member states. Yet, these rules lacked unprecedented crisis management when the global financial crisis broke out in 2008. Therefore, the European Semester was introduced which defines a fiscal and economic policy planning cycle for member states. Moreover, the SGP was strengthened with the six and two pack. This legislative packages aimed to strengthen and deepen the integrated budgetary surveillance.

Second, what is the expected outcome of the impact of the European Union on domestic fiscal policies from the theoretical perspective Europeanization? To examine the impact of the European Union on domestic fiscal policies, the theoretical approach Europeanization was used in this study. As a result of the mechanisms of Europeanization, member states have to comply with binding rules and legislation of the European Union on domestic fiscal policies. Through this legislative framework, the European Union performs adjustment pressure on its member states. Because the rules on domestic fiscal policies were highly specific, the potential outcome of the adjustment pressure was transformation. However, due to five mediating factors, the actual outcome of the adjustment pressure of the European Union can differ per member state. These mediating factors differentiate the response of a member state to the rules of the European Union.

To examine the actual outcome to the adjustment pressure, I have discussed how the decision-making process of domestic fiscal policies took place in the Netherlands, Estonia and Greece in 2010 and 2012. The decision-making process on the fiscal policies of the Netherlands were highly politicized, because the negotiations on austerity measures were part of the coalition negotiations of the formation of two new governments. In 2012, after the coalition party PVV abandoned the negotiations, a ad hoc coalition formed with opposition parties came to a agreement on a additional austerity measures. The decision-making process of Estonia was characterized by top down decisions of the government, the non-inclusion of the opposition of the government, the silent approval by civil servants and limited parliamentary budget power. Even a minority government could reach consensus to push consolidation packages through parliament. In contrary, the decision-making process of Greece was characterized by strong resistance of the opposition parties and unions. First, the European Union reacted slowly to the unfolding Greek crisis. The European Union imposed reforms within the Memoranda of Understanding. As a result of the strong resistance, the implementation of the reform measures was delayed.

What was the impact of the European Union on these decision-making processes of domestic fiscal policies of the Netherlands, Estonia and Greece in 2010 and 2012? The outcome of the adjustment pressure of the European Union on the Netherlands and Estonia was transformation. Both the Netherlands and Estonia chose to transform the fiscal policies of the European Union itself. They did not feel the adjustment pressure as coercive, as a result of the fit with long-standing policy legacies and preferences and the presence of a discourse to negotiate policy changes. Both member states had a long history of budget discipline and responded in the same way as they had responded to prior crisis.

Greece felt the adjustment pressure as coercive. Europeanization pressure increased when the Memoranda of Understanding were introduced. Greece had to fulfil the loan conditionality's. However, Greece had no ownership on the reform measures, as a result many reform measures were delayed. Moreover, due to the misfit with policy legacies and preferences and the lack of institutional capacity and the discourse to negotiate and impose change, their response to the adjustment pressure of the European Union was inertia.

In conclusion, what was the impact of the European Union on the decision-making processes of domestic fiscal policies?

It was a domestic decision of a member state whether it introduced consolidate measures in response to economic vulnerabilities. This decision was explained by long-standing domestic policy preferences and the history of the domestic decision making-process. The decisions to consolidate were supported by the preferences of the European Union. Therefore, the Europeanization pressure was not experienced as coercive. Although, member states chose to consolidate itself, the decision to what extent member states had implemented consolidation measures was according to the rules of the European Union. Member states chose to transform the rules according to the fiscal framework of the European Union. Therefore, the European Union had influence through the fiscal framework, in specific the threat and fear of the assistance program on member states which did not chose to consolidate themselves. As a result of this threat, Europeanization pressure increased and felt coercive. Due to the lack of ownership and a misfit with long-standing policy preferences, the outcome of the Europeanization pressure was inertia. Consequently, the implementation of the fiscal rules of the European Union delayed.

In addition to the fiscal framework of the European Union, the European Union had impact on its member states in technical specialist respects. The influence of the European Commission on domestic budgets was expressed at technical level. The establishment of figures was influenced by beliefs and was an exchange of vision based on arguments. Member states were an open discussion partner of the European Commission. Differences of view and assumptions were not negotiated, but deliberated. Influence took place through interaction which worked both ways.

The impact of the European Union on the decision-making process of domestic fiscal policies was the influence of the European Union through the existence of the fiscal framework and in technical specialist respects.

After I have given the conclusion of this study, I propose the following recommendations:

- Institutionalise a coordination department within the administration of each member state to coordinate contact about (the technical aspects of) fiscal policies between the country desk of the European Commission and the member states.

- To reinforce Eurostat by centralising the macro economic forecasts and calculations at the level of the European Union to ensure one view on the assumptions and forecasts of the member states of the European Union.
- To keep in mind when states did not comply with the fiscal rules of the European Union, a fine was never given. The fear of a bad image was stronger than the fear of a fine. The European Commission may use this fear of a bad image on member states to increase the adjustment pressure.
- When drafting the country specific recommendations by the European Commission, I emphasize to look for a fit between the domestic preferences and long-standing policies and the rules of the European Union to transform the rules of the European Union into domestic fiscal policies.
- Draw the attention to the entering of new member states to the Eurozone. These states temporarily have to comply with the rules, however once they have entered the Eurozone, the European Union gives more space to manoeuvre on the member states budget.

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