Crises, differentiating shocks and fragmentation in the EU’s political order

EU3D Workshop

Department of Political Science
Comenius University, Bratislava
February, 6-7, 2020
Aims of the workshop:

Within EU3D, the purpose of WP2 is to identify and assess those forms of EU differentiation that are most closely associated with dominance with regard to EU-internal forms of differentiation, and trace their causes and historical roots. To that end, WP2 aims to, first, provide a diagnosis of the present post-crisis situation with regard to EU-internal forms of differentiation, singling out those forms that are most closely associated with dominance. Second, to assess to what extent those forms were brought about by the crises (as differentiating shocks). Third, to assess to what extent the most problematic features have pre-crisis roots and are embedded in the multilevel EU’s structural make-up.

Building on this, the workshop will present studies assessing the fragmentation hypothesis. The fragmentation hypothesis posits that the financial-turned-Euro-crisis, the refugee crisis, the geopolitical crisis related to Russian revisionism and instability in the EU neighborhood hit the EU as external differentiating shocks. A differentiating shock ‘hits’ or shakes a political system in such a manner that it singles out certain issues and concerns as the dominant ones, and exposes the political system’s dependence on these actors; it has distributive effects; and it is differentiating in terms of the distinctive patterns of conflict and opposition that it sparks. Certain forms of shocks are not only differentiating but can lead to fragmentation of systems of order and rule, with dominance effects. In assessing this hypothesis, we focus on the Eurozone crisis; refugee crises and the geopolitical crisis related to the EU’s internal cohesion and how the EU responded to these. Emphasis is on the types of institutional arrangements that were established, the legal-regulatory framework that was devised, and the specific policies that were put in place, including the extent to which they were implemented. We examine: (a) how much fragmentation the crises have produced; and (b) how and the extent to which that manifests itself in dominance. There is quite a lot of literature already on the various crises and their effects on the EU. EU3D is careful not to duplicate existing studies, but will on the one hand ‘reprogram’ the findings in the existing literature in line with EU3D’s analytical framework, and on the other hand supplement that with own empirical studies where there are obvious gaps. Building on the overall analytical framework of EU3D, the workshop will focus on establishing the current status of dominance in the EU system of economic governance, fiscal and monetary policy; justice and home affairs with emphasis on asylum seekers and border controls; and defense policy coordination including new PESCO structures and processes.
Draft program:

Day 1, Feb 6

(venue: Library Saloon, Marrol’s Boutique Hotel)

9.00 – 9.20 Arrival of participants and registration

9.20 – 9.30 Welcome and introduction (Jozef Bátorá)

9.30 – 12.00 Session 1
Discussant: Darina Malová

John Erik Fossum Conceptualizing differentiating shock
Dia Anagnostou Migration as an external differentiating shock and its impact on perceptions of power and legitimacy

12.00 – 13.30 Lunch (Houdini restaurant)

13.30 – 16.00 Session 2
Discussant: Branislav Dolný

Filippa Chatzistavrou The current status of dominance in the EU system of economic governance: drawing upon the Greek case
Rune Møller Stahl Ruling the interregnum: Politics and ideology in nonhegemonic times
Espen D.H. Olsen No rest for the wicked: Differentiating shock and the European Migration Crisis

Follow-up program (optional):
17.00 – 18.30 Book launch & debate: Bátorá, J. and Fossum, J.E. (eds.):
Towards a Segmented European Political Order (Routledge, 2020), Faculty of Arts, Comenius University, room G236

(panel participants: Bátorá, Fossum, Malová, Olsen, Riedel, Tranøy)

19.30 Joint dinner (optional), restaurant Zylinder (Hviezdoslavovo nám. 176)
Day 2, Feb 7

(venue: Library saloon, Marrol’s Boutique Hotel)

9.30 – 12.00  **Session 3**
Discussant: Zsolt Gál

*Ingrid Hjertaker & Bent Sofus Tranøy*  
Dominance through illicit hierarchy: The ECB and the crisis

*Rafał Riedel*  
Asymmetrical Shocks and Responses to the European Crisis: Differentiation, de-Europeanisation and Issue-Specific Euroscepticism

*Jozef Bátora*  
The Political Order of EU Defense: Institutional Logics, Organizational Field Formation and Segmentation

12.00 – 13.30  
Lunch, Bridging the East-West Divides in the EU: Policy talk by Tomáš Valašek (Carnegie Europe)
(Venue: Houdini restaurant)

13.30  
Departure of participants
Abstracts:

Dia Anagnostou  
Migration as an external differentiating shock and its impact on perceptions of power and legitimacy

The sharp rise of migration flows into Europe since 2015 has been a powerful external shock to the state of things in the European Union (EU). Substantive disagreements as to how the EU should manage the surge in migration, in the context of a largely anti-immigration public opinion in most states, have intensified the already significant divisions among member states governments. Drawing from an extensive literature on the subject, the proposed paper shall explore a) the depth of institutional and policy fragmentation that the migration crisis has caused (or rather has been causing) in the EU, and b) whether and the extent to which some member states, especially those of south and southeast Europe, perceive such fragmentation to reinforce a pattern of EU inter-state relations akin to dominance. The first part of the paper will depict briefly the conditions that led to the migration crisis; the second part will review the EU legal, institutional arrangements and policies to manage it, and how they differ from those in the pre-crisis period; and the third part of the paper shall seek to analyze whether and the extent to which these institutional, legal and policy shifts reflect and reinforce a kind of differentiation that leads to dominance (actual or perceived?). This paper will rely on existing studies and its main goal will be to connect the analytical frame of EU3D with data and knowledge already generated in existing studies. On the basis of this, it will determine whether primary empirical research is further necessary.
This paper conceptualizes the nature of the emerging political order of EU defense. Despite years of ongoing processes of European integration, defense industries and policies in the EU have been characterized by complex fragmentation. This involves duplication of R&D programs, armaments standards, procurement processes and a dense landscape of international organizations and regimes with overlapping responsibilities. Addressing this, a number of defense integration initiatives have been launched and a number of institutional structures have been set up by the EU in the course of the last two decades. While integration, coordination and streamlining of defense policies, procurement strategies and defense industrial production has been the overall aim of these initiatives and institutions, they have also been contributing to tensions, divisions and ambiguity in the collaboration between defense establishments of EU member states. There has been uncertainty when it comes to what levels of defense integration in the EU is appropriate; what policies and which participants are legitimate (e.g. to what extent are non-European defense partners such as the US to participate in EU defense initiatives); and indeed it has been unclear what coordination frameworks should be used and for what purpose (e.g. there has been collaboration with NATO on a number of dimensions in the EU’s defense policy but there has also been growing uncertainty as to what aspects of defense policy should be subject to the EU’s strategic autonomy. These inherent tensions and divisions have been aggravated by a series of differentiating shocks in the realm of security and defense in the course of the last decade (Russian annexation of Crimea; civil wars in Syria and Libya). These developments have impacted the EU as ‘differentiating shocks’ in the sense that the member states have not only not found effective joint approaches to these shocks but they have also been moving in different directions when it comes to their own approaches to tackling the security crises.

Against this backdrop, it would seem unlikely that EU member states would be moving forward in integrating their defense capabilities and resources. Yet, the PESCO initiatives introduced gradually since 2016, have been gaining ground and structuring collaboration patterns between EU member states in defense. The nature of these developments remains uncertain, though. This paper builds on organization theory oriented research into the formation of the EU’s political order in defense and conceptualizes the development by using three models: operation of multiple institutional logics; formation of multiple organizational fields; and emergence and stabilization of multiple segments. Each of these processes involves different patterns of interaction and different mechanisms of integration. The paper identifies these and discusses their implications for the development of the EU’s political order in the defense.
Filippa Chatzistavrou: The current status of dominance in the EU system of economic governance: drawing upon the Greek case

In this contribution we describe and analyze the main problematic forms of differentiation observed in Greece during the Euro-crisis and their deleterious (fragmentation-driven) effects on public responsibility and accountability, democracy and justice. The Greek example is a case of differentiation based on strong external dependence and vulnerability. The long-term differentiation features well-embedded in the pre-crisis EU have been exacerbated during the last decade through the EU-led development of specific institutional and regulatory governance structures.

Given the intensity of shocks that affected the country, extreme legal forms of government facilitating tight European surveillance have been initiated (breakdown of the political order). These forms of government well-embedded within the EU system of multi-tier economic and fiscal coordination are based on a specific normative nomenclature of policy-making. We present and discuss empirical findings concerning the EU-driven domestic governance regime: hyper-centralized State with drastically narrowed core powers on public finance and public administration, weakening or abolition of State control mechanisms (semi-failed State), arbitrary multiplication of ‘independent’ (non-majoritarian) regulatory and supervisory bodies (Authorities, Funds) integrated in a multi-level surveillance logic as a unified field of action. We show that from both a legal and political point of view this is a very problematic regulatory regime. It’s about an hybrid regulatory regime with structures embedded in a particularly close intertwining of public and private where some public actors are, at least partially, excluded - thus rendering difficult domestic judicial control, imposing partial de-parliamentarization of policy-making while blurring further the separation of powers -, while other actors are included (public agents with blurring institutional identities, private agents empowered with public power, i.e. private supervisory authorities, lobbies with vested interests on finance and corporate power, investment funds, consulting firms as well as informal and ‘independent’ advisory committees).

On the basis of the empirical findings we present the dominant cultural and discursive rationalities that underpin this (new-kind) governance regime. The disciplinary power of dominant discursive and normative patterns facilitates the further deployment and institutionalization of a specific legal culture as well as the framing and setting of the policy agenda where the prioritization of topics is first driven by soft law policy tools (MoUs’ commitments prior to hard legal obligations, good/best practices ‘identified’ by task forces and the Structural Reform Support Service, OECD policy instruments, troika/quartet’s evaluations etc.). The domestic political system’s dependence from extra-territorial policies aimed at creating specific economic and social policy acquis exacerbates social fragmentation and declining (breakdown of the social order). In that respect, we also outline the contours of new divides stemming from asymmetrical distributional and social conflicts (pro/anti-EU ‘colonial’ regulatory regime, pro/anti-benefit takers, pro/anti-welfare chauvinism, pro/anti-middle class sentiment etc.).

These institutional, normative and policy arrangements are associated with dominance because they engender various forms of new dependencies and biased decisions. They ‘legalize’ anti-constitutional differentiated solutions (solutions à la carte) based on the implementation of intergovernmental decisions and EU statutory regulation (a contested ‘European’ competence). The take-over of old representative forms of political input/output-oriented legitimacy by regulatory forms of procedural
legitimacy allows to fully nationalize the burden of political costs (the question of ownership of the ‘reform’ agenda), to neutralize veto players (traditional providers of policy stability) within domestic ‘politicized’ policy frameworks and to make functional logics prevail over public interest/rule of law.
A differentiating shock is a form of upset that is selective in orientation, unfolding and effect. A shock is a sudden upset or rupture that may or may not be intentional. A shock may be selective in its orientation but need not end up having significant differentiating effects. In such circumstances, the receiving system is able to buffer the impact and/or has sufficient slack to nullify any selective bias. A second option is that a shock may not be selective in its orientation but may unfold in a biased or selective manner. Whatever the origin and whatever the unfolding of a shock, what we are concerned with are those instances of shocks that have differentiating effects, and in particular those instances that cause fragmentation, and as such may undermine systems of order and rule. The paper will specify what is meant by shock. It will spell out how shock relates to differentiation: what forms of differentiation are in play and what are the specific mechanisms driving the process? Out of that repertoire, we will place specific focus on those instances that bear on fragmentation. We also need to spell out the relevant dimensions of fragmentation: what is being fragmented, how much do the various types bear on the system (represent systemic threats)? The final part will sum up by assessing implications for dominance.
Ingrid Hjertaker and Bent Sofus Tranøy

**Dominance through illicit hierarchy: The ECB and the crisis**

In this paper we will present an argument that identifies the phenomenon under investigation as a case of *functional differentiation*, where the political outcome can be classified as “illicit hierarchy” and where the process that brought this state of affairs about has strong elements of *path dependency*. Our investigation of the ECB’s actions during and after the crisis lends clear support to the “hegemony hypothesis” as identified in the EU-3D working paper.

The ECB was designed to become the most independent central bank in the world. Many central banks had been made independent at the time, and these reforms can be viewed as an expression of competence based functional differentiation. The unrealistic theoretical underpinnings of central bank independence (i.e “new macro” and efficient markets) and their (un)democratic implications and are inherently problematic in any governance context. Yet, these challenges were bound to be exacerbated when CBI was introduced in an EU context. The ECB would have its technocratic independence to conduct monetary policy on an EU-level, but have no democratic parliament in charge of fiscal policy, indeed no fiscal policy what so ever, to balance its power and impact. At the same time, financial regulation remained a national affair. While many were aware of these challenges at time of the ECB’s creation, the first decade saw stable financial markets and convergence along the indicators the ECBs epistemological framework invited it to follow, while disregarding indicators that would have drawn attention to growing imbalances and the accumulation of debt and risk (Tranøy and Schwartz 2020).

When the financial crisis hit in 2008, inherent problems with the ECBs mandate and lack of intellectual preparedness became apparent. The crisis made it clear that the ECB’s limited mandate, that did not allow for lender of last resort-operations (LOLR), was woefully inadequate, and through the crisis it would eventually be changed, in practice if not on paper. The way the ECB and the Stability and Growth pact were set up was also deeply biased. While the risk of fiscal irresponsibility was highlighted in an explicit ban on bailing out states, there was no policy script for handling serious financial market turmoil emanating from the financial sector itself. Neither the “no bailout rule”, nor the lack of any emergency planning for dealing with financial meltdown in the private sector proved particularly helpful when the crisis hit. The prism of path dependency helps us makes sense of a confused set of policy responses during the crisis years.

The ECB’s first reaction was one of denial, as it initially hesitated to engage in the types of policies other central banks were conducting at the time. After reluctantly embracing the role of lender of last resort, they came to the rescue selectively, focusing on saving markets rather than states, and when saving states, doing so through banks rather than directly and with differentiated conditions. Finally, and six years after other central banks, the ECB embarked on an enormous programme of QE, a policy that sits uneasily with the bank’s mandate.

The ECB also made what we previously have termed “unchecked transgressions” (Hjertaker and Tranøy 2020) into the realm of democratic politics. The ECB conditioned monetary support on member states making changes to their regulatory policy, fiscal policy, labour policy, and with the ECB in some cases expressing preferences for who was to be prime minister in a given country. In short, we can categorize the ECB’s responses as a combination of denial (insisting on not performing LOR-functions), mission creep and mission leap, where the two former represent empirical instances of path dependenten processes.
The monetary policy of the eurozone, as managed by the ECB, thus constitutes an illicit hierarchy. Starting out from its inadequate mandate but without any democratic process to deal with a state of emergency that the ECB arguably helped engineer with its initial dithering, it developed and pursued policies that favoured market actors over states and some states over others. Greece for example, who needed it most, was deemed as not qualified to participate in the QE programme. Thus, we have illicit hierarchy leading to dominance and about to harden into a longer lasting hegemony.

Coming out of the crisis the ECB is a far more powerful institution than it was ten years ago. It has the same independence that it entered the crisis with, yet it has in practice expanded its own mandate through a protracted process of mission creep. Also, as the ECB’s mission leap, its transgressions into member state fiscal policy have gone unchecked. Th bank may therefore have established a precedent that it may continue even in normal, non-crisis times. As the ECB has also made formal extensions with its role in the new institutions of the banking union and the European semester, it now has indirect formal channels to influence member state fiscal and regulatory policy.

An important reason for the process of power hardening into hegemony is that the ECB has its mandate written into a treaty, a treaty which demands unanimity for any change to its mandate to happen. This gives rise to a deep constitutional irony. The irony is that the legitimacy of this arrangement partly hinged on the narrowness of the ECBs mandate. Giving the bank one task and one tool – controlling inflation through short term interest rates – in principle makes it fairly straightforward to hold the bank accountable. It either delivers low inflation or it does not. The combination of a vastly enlarged operational range and an unchanged and de facto close to unchangeable narrow mandate instead forces the ECB to engage in a convoluted form of policy-making that obscures the nature of its activities, thereby rendering political scrutiny more difficult. Simultaneously, narrow mandates limit the scope of issues that can be contested about ECB decisions, so that all critical questions are restricted to procedural issues. (Dawson et al).

The current strength and position of the ECB would appear to leave both sides of the central bank independence debate unhappy. Those who believe central banks are technocratic institutions that should ensure price stability through strict inflation-targeting will likely see the expanded lender of last resort functions and QE as threats to not only the mandate of price stability, but also an invitation to “politicize” central banking and in so doing threaten its independence over time. Those who see central banking as inherently political, and the recent policy innovations as necessary but also more political in their distributional consequences than interest rate policy, will not be happy with the continued independence and lack of political accountability of the ECB.
This paper offers reinterpretation of the current economic and political crisis through the lens of Gramsci’s concept of “interregnum,” departing from the model of “punctured equilibrium” to analyze the specific political dynamics of nonhegemonic periods between the breakdown of one ideological order and the emergence of a new one. Although political science has a range of theories about periods of hegemony and paradigmatic stability, the periods between stable hegemonies remain distinctly undertheorized. A theoretical concept describing periods of interregnum is offered and applied to the changes in economic ideology and political alignments that followed the breakdown of the liberal order in the interwar period and the postwar Keynesian consensus of the 1970s. The concept is then applied to the current juncture, in which the hegemony of neoliberalism has been shaken by the 2008 financial crisis but no clear successor has emerged.
The migration crisis that hit Europe in 2014 was a shock to the EU political system as well as European and domestic policy debates. The sharp rise in asylum seekers over the course of a few months became the epi-center of a complex debate on European integration, supranational and domestic policy solutions, collective identity, border controls and migrant rights. This highlights the breadth of the migrant issue. It is not merely a question of “how many, how fast”, but at the core it relates to issues of politics, society, economics, and not the least the real lives of individual human beings. The solution to the migration crisis was not readymade and apparent, rather political actors and academics alike struggled to understand the breadth of the crisis, the reactions to it from states and citizens, and to delineate different courses of action.

In this paper, the focus is on making sense of the migration crisis from the vantage point of the concept of “differentiating shock”. This concept relates to how crises can have differentiating effects, first on the handling of the crisis itself, and second on the political system, the policy field in question, and individuals related to it. In the case of the migration crisis, the latter relates mainly to migrants themselves, but also to the citizens of receiving states. It is interesting to use the lens of differentiating shock on the migration crisis as it opens the scope of analysis beyond description of the specific policy measures taken by EU institutions. In what ways are the policy decisions and proposals of the migration crisis part of an impetus of differentiation, with a lack of harmonization and supranational steering of the member states? The migration crisis is an example of a collective action problem predicated in part by the existing asylum setup of the Union, based on the principles of the Dublin system. Empirically, the paper addresses whether and, if so, how the policy and politics of the migration crisis shows such signs of differentiation where common solutions are based not on a common ground, but rather on a selective repertoire taken from already existing biases linked to the issue of migration. In terms of policy, the policy package of the Common European Asylum System is put under scrutiny. In terms of politics, the paper studies Council conclusions on migration post-crisis. Finally, it discusses the EU-Turkey deal as an example of a combination of policy and politics.
Rafał Riedel  Asymmetrical Shocks and Responses to the European Crisis: Differentiation, de-Europeenisation and Issue-Specific Euroscepticism

The European crisis has had many faces and they have changed over time. Various parts of Europe were hit by various types of shocks and they reacted differently. This happened in different moments, at various speeds and with varying dynamic. Also the ground for absorbing the asymmetrical shocks differed substantially in various member states of the European Union. Despite of the ambitious cohesion policy objectives and unifying efforts across numerous policy areas, the pre-crisis conditions could not be less similar in the South and the North, the core and the peripheries, consolidated and post-transition democracies, etc. The sources of the crisis and its nature varied from sovereign / private debt problems, through (housing, banking sector, etc.) bubble bursting, up to migration and refugee crisis. Consequently we may also expect differing trajectories of the future developments as regards the post-crisis reactions and implications.

This analysis seeks to perceive the process of crisis as a dynamic phenomenon in which the asymmetrical shocks (of various kinds – economic, migration/asylum-related, illiberal tendencies and so on) generate political responses that contribute to the further differentiation and segmentation in Europe. As the illustrative example of Brexit shows, the differentiation and segmentation seemed to reach the scope and level in which it reveals some clear de-Europeenisation potential. From London to Budapest as well as from Rome to Warsaw, the third generation of Euroscepticism seeps into the political mainstream. In a mutually influencing vicious circle, the Europesceptic views not only result from the critical state of the union, but contribute to the further erosion of the European integration project. Questioning the specific EU policies as well as its fundamental values, the populist and Eurosceptic forces undermine the future of European integration. What’s more, they also stimulate de-Europeanization processes in various policy fields and various locations.
Contributions to the workshop will be published as an EU3D report (D2.1).

Additional abstracts should be sent to Jozef Bátora at batora3@uniba.sk, Ben Rosamond at br@ifs.ku.dk and John E. Fossum at j.e.fossum@arena.uio.no

For organizational matters, please contact Natália Timková at timkova45@uniba.sk

This event is organised in the framework of EU3D, a 4-year research project looking at the future of European integration, in particular differentiated integration. EU3D will specify the conditions under which differentiation is politically acceptable, institutionally sustainable, and democratically legitimate; and provide important knowledge on the conditions under which EU reforms may fail or succeed.

www.eu3d.uio.no

EU3D is funded by the European Union’s Horizon 2020 Research and Innovation Programme
Grant Agreement No. 822419

This workshop is also supported by EURECOR project (APVV-15-0732).