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# Under what conditions? How the narrative of EMU fiscal stability is reshaping Cohesion policy's EU solidarity

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## ABSTRACT

This research investigates the policy narratives that were deployed by the Commission to justify the reform of Cohesion policy in relation to the long-standing process of EMU reform. Our aim is to find out how narratives about EU solidarity allowed the creation of both redistributive patterns among the Member States, and Cohesion policy's macroeconomic conditionality. We identified two narratives: one of EU solidarity, based on the 'harmonious development' of the territories, and one of EMU stability, consisting in cross-national solidarity in exchange for structural reforms. We argue that, in the context of EMU reform, the narrative of stability found a favourable interest constellation, becoming the ideational driver of the Cohesion policy reform. In order to prove this argument, we conducted an ideational process tracing on the 1988 and 1994 Cohesion policy reforms, as well as a frame analysis on a corpus of 74 speeches from relevant EU Commission policy actors.

## KEYWORDS

EU solidarity; stability; conditionality; policy narratives; Cohesion policy; EMU

## Introduction

Solidarity is a political good that plays a crucial role in EU polity maintenance (Ferrera, Mirò, and Ronchi 2021). By nurturing the attachment of the citizens to the EU institutions, solidarity can buttress the EU construction, stabilising it during hard times (Ferrera and Burelli 2019). The Sovereign Debt Crisis has shown a rift in how the Member States and the EU institutions conceive EU solidarity: on the one hand, EU 'negative' solidarity did not exceed the existing intergovernmental mandates in assisting member states in need; on the other hand, EU 'positive' solidarity prioritised the crisis' social impact and it was willing to go beyond the existing contract. In this context, the EU has used conditionality to appease an intergovernmental arena hostile to EU solidarity: the creditor states obtained reassurance against the risk of moral hazard on behalf of the debtor states; vice versa, the debtor states obtained the necessary financial resources to fend off the crisis. Thus, a stable relationship was created between the two (Trein 2020).

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This notion of conditional solidarity can be also extended to the existing policies of EU solidarity, the EU Cohesion Policy being the most relevant. Since the 2014 reform, Cohesion policy is subjected to macro-economic conditionality (MEC) as well. With MEC, Cohesion policy's assistance has become conditional on the granting of fiscal compliance with the Stability and Growth Pact (SGP), which is part of the Economic and Monetary Union (EMU): without fiscal compliance, a Member State can have its funds suspended (Viță 2019).

While the notion of conditional solidarity is arguably crucial in understanding how Cohesion policy evolved, current research is still missing a deeper understanding of the ideational drivers that are contributing to create stricter ties between Cohesion policy and the EU economic policy coordination. This paper intends to contribute to understand how the transforming narrative of EU solidarity, in its interplay with interest constellations, contributed to shape the Cohesion policy reform.

In doing so, the privileged perspective will be that of policy narratives. We will investigate how the wider narrative on EU solidarity informed a specific Cohesion policy narrative, which developed around the concept of 'harmonious development' at the inception of the European Economic Community (EEC). This narrative changed in concomitance with the creation of EMU: the narrative of the 'structural policy', which developed since the early 70s, intertwined with the German stability culture narrative to provide precise answers to concerns about the EMU fiscal robustness. We will also investigate how this narrative proved to be resilient during the Sovereign Debt Crisis, notwithstanding a strong opposition from part of the Member States, and how it contributed in shaping the 2013 Cohesion policy reform through incremental ideational change.

The paper will be structured as follows. In the first section, we will discuss narratives of EU solidarity and EMU Stability. In section two, we will outline the analytical framework and the paper's methodology. In the third, fourth, and fifth section, we will investigate how the narratives about cohesion evolved, and how they were deployed during the 1994 and 2013 Cohesion policy, highlighting both the discontinuities with the public discourse about the 1988 Cohesion policy reform and the continuity between the two reforms under direct investigation.

## **Narratives of EU solidarity and EMU stability**

In recent years, a growing literature has discussed the concept of solidarity concerning the policies, as well as the politics, of the EU (Ferrera 2017; Genschel and Jachtenfuchs 2021). Some studies highlighted how solidaristic policies at the supranational level contributes to the maintenance of the EU as a polity (Ferrera and Burelli 2019), although in different contexts solidarity may increase the level of interstate conflict (Trein 2020). This conundrum is explained by considering the different type of conflict involved in the 'an et quantum' of solidarity. If it is a 'destructive conflict', the intergovernmental conflict will permanently increase, leading to potential negative fallouts on the polity itself (Ferrera, Mirò, and Ronchi 2021). Less studied is the 'quod' of solidarity: how should it be exerted?

An answer comes from normative political theory. Solidarity has been defined as a 'set of feelings that support group cohesion and a set of transfers from the most advantaged to the most disadvantaged member of a group' (Burelli 2018, 45). This definition refers to

both policy and identity: mass surveys underlined how the commitment to solidarity is, 'more often than not', particularist. 'How' solidarity should be exerted is dependent on the shared identity created by the group (Lahusen and Grasso 2018: 7). In the case of the EU, Dyson (2014, cf. Schelkle 2017) discusses two ideal types: the one of 'community of fate' (Schicksalsgemeinschaft) and the one of 'community of stability' (Stabilitätsgemeinschaft). The narrative of EU solidarity has an affinity with the first type of community; the narrative of EMU stability is akin to the second type. The narrative of EU Solidarity emerged with the very creation of the European Community in the 50s, when 'a de facto solidarity' was invited to strengthen the relation among the Member States in the nascent European polity. The narrative of EMU stability emerged in Germany during the early nineties when the idea of 'Stability Culture' circulated among the general public 'as part of a reaction (...) to the replacement of the Deutschmark by the Euro' and its 'potentially undisciplined confederates'. This narrative considers price stability crucial for supporting the market economy and preserving social peace (Howarth and Romerskirchen 2013: 753, Dyson 2012).

Both communities and both narratives support solidarity; according to Miller (2017: 63–64), however, in the 'community of fate' there are only expectations of return of favours 'in kind'. The type of conditionality that is involved in the 'community of stability' is not in kind. Andor describes it as 'exogenous conditionality': it functions by '[widening] the scope of objectives, thus diluting the original mandate' of a policy, by making the 'set of transfers' conditional to external political objectives. It is different from 'endogenous conditionality' which ensures 'that the instrument delivers on its mandate' (Andor 2018, 24 see also Viță 2019). For clarity's sake, we will refer to the first type only as 'conditional solidarity'. In this article, conditionality signifies a precise type of stable political exchange: fiscal transfers in return for fiscal compliance.

There is more than one way to exert solidarity, one which is 'conditional' and ties with the stability narrative, and one which is 'unconditional' and it is affine to the narrative of EU solidarity. The questions are: has the concept of solidarity in the EU transformed over the years, by becoming conditional? And what influence did this change had on EU institutions?

## Analytical framework and methodology

In answering these research questions, we will look both at policy ideas, in the form of narratives and public discourse, and at interests. We aim to track how certain ideas evolved and, with the agreement of favourable interests, contributed to create new institutions. Once these ideas became embedded in the existing institutions, they proved resistant even when mounting dissensus created momentum for a change.

To clarify the relation between ideas and interests, we will borrow from neo-Weberian literature. According to Sadri (1994, 53), the relation between ideas and interest is defined by what he calls 'reverse determination': ideas can emerge autonomously from interest constellations and they assert themselves when they are 'potentially conducive to the needs of the civic strata', thus winning followers. The contrary could also be true: constellations of interests justify the emergence of ideas (Ibid.: 39). For disentangling this conundrum, we will verify that the ideas in question emerged before the interest constellation that enabled them to be embodied into institutions and that they were

available to relevant policy actors that carried these ideas throughout the whole policy process – that is, before and after the interest constellation emerged (Jacobs 2015). Once the new ideas shape institutions, they can become resistant to future changes (Carstensen 2011, 157).

We will conceptualise ideas as policy narratives because they provide evidence on how ideas transform through long periods, showing their autonomous development from interests. Narratives are composed of at least three elements. The story setting identifies the context, as well as the theoretical explanations and/or value judgements on a specific policy issue. The middle of the story outlines a logic of intervention, by specifying the actors and the policy instruments involved in the solution of the problem. Finally, the end of the story specifies what the intervention is going to achieve. Policy narratives allow reducing the complexity of ‘intractable’ policy problems by 1) focusing on a limited number of elements, 2) providing causal explanations for the issue they are tackling, and 3) stabilising the relationship among policy actors (Roe 1994).

A policy narrative, however, is either over-determined or under-determined: over time, it may be defied by new facts. New facts are not sufficient to dismiss a narrative: policy-makers usually abandon a policy narrative when a compelling counter-narrative emerges. By increasing uncertainty, challenging facts may instead harshen the grip of the existing narrative. The narrative is thus adjusted to the new policy context, mainly by changing the theory of intervention (Ibid.: 22).

In fine-tuning the narrative, the actors have to face at least two types of constraints. The first is inherent to the narrative itself: narrative variation is not random (Jones and Radaelli 2015, 6). By carefully crafting new narratives, actors often pierce together old and new concepts, producing incremental ideational change (Carstensen 2011). The second type of constraint pertains to the performative dimension of the narrative. According to Schmidt (2008), the communicative discourse is the process through which the policy actors convey their ideas to the public. This process is intersubjective: actors and institutions are partly bounded to the narratives that they had conveyed to their public (Carstensen 2011, 605). Without a change in the general orientation through the adoption of a compelling counter-narrative, non-incremental ideational and policy change would be – arguably – perceived as opportunistic.

We will use as support for our analysis Cohesion policy, which is the EU policy that defines how the Structural Funds are spent to create social, economic and territorial cohesion, as well as the conditionalities accompanying them. The Structural Funds, in turn, are the largest ‘ordinary’ set of transfers at disposal of the EU and they accompanied the EEC/EU throughout all of its history. As such, they can be used as a good proxy for identifying how the underlying concept of solidarity has changed through the years. Another useful concept is that of Regional policy: a subset of Cohesion policy that intervenes on the territorial dimension of the EU.

The empirical investigation will focus on two distinct reforms: the 1994 creation of the Cohesion Fund and the 2013 Cohesion policy reform. The time frames will be 1990–1994 and 2010–2013. The two reform episodes under consideration are concomitant with the Treaty of Maastricht negotiations and the Sovereign Debt Crisis. Because of these two events, EMU became distinctively salient when compared with other Cohesion policy reforms. The change in the context is a necessary condition to ‘activate’ a particular policy narrative about Cohesion policy: hence, the problem pressure provided by the EMU

reform will define our scope condition. The EMU context, by itself, is not enough: we will need to look into the public discourse that developed within Germany, a Member State whose general interests and public ideas were crucial to determining the Maastricht negotiations' outcome, as well as the euro crisis debate (Baun 1995; Matthijs and McNamara 2015). To show how policy narratives were deployed during the negotiations among relevant policymakers, we will use the ideational process-tracing method (Jacobs 2015).

The last part of the empirical explanation concerns the 'communicative discourse' of the Commission: did the public speeches of relevant actors from the Commission contain frames that were central to narratives of EU solidarity? Coherently with the time frame outlined before, we will analyse the public speeches during 1990–94 (36 speeches) and 2010–2013 (32). To reinforce the evidence, we will also analyse the 1985–1988 period, coincident with the 1988 Cohesion policy reform: if our theory is correct, we should observe a measurable change in the way the Commission framed Cohesion policy since the problem pressure exerted by the EMU reform was not yet present. These speeches were delivered to the general public or relevant stakeholders by the President of the Commission and the Commissioners that were managing the Structural Fund. We selected only the speeches that had a substantial part dedicated to the economic and social policy of the EU and explicit references to the EU regional policy. We then divided each speech into quasi-sentences and coded it according to a codebook that we created ad hoc based on the definitions provided in the second section. We then aggregated the frequencies into two exclusive macro-categories, 'solidarity' and 'stability', and measured the prevalence of one over the other for each actor surveyed. These measures should provide a representation of the frames that the Commission communicated to the public in both its Cohesion and general policy discourse; how the framing of Cohesion policy changed in concomitance with the EMU creation, and how this framing persisted during the Sovereign Debt Crisis, thus showing, in quantitative terms, a component of the mechanism that was productive of paradigmatic change in the early nineties and incremental change in the 2010s.

## **Two different narratives of EU solidarity in the early years of the community**

At the inception of the EEC, the wider narrative of European solidarity informed the creation of a policy narrative in favour of a regional policy that could create harmonious development between the EEC territories, thus fostering inter-territorial solidarity. The 'harmonious development narrative' can be first found in the 1956 Ohlin Report which admonished that the creation of a European common market could have had potential offsetting territorial consequences. In 1957, the Treaty of Rome enshrined the principle of 'harmonious development' in its preamble, stating the goal of 'reducing the differences existing between the various regions' and 'mitigating the backwardness of the less favoured'(Manzella and Mendez 2009). During the sixties, the Commission developed this narrative by tying it to the emerging European polity. According to Commission President Hallstein, Community regional policy would create 'the feeling of solidarity among the parts of the forming union', allowing them to 'achieve a true European Community' (Hallstein 1963, 2).

The 1969 Hague EC summit agreed on the creation of a currency union (Dyson and Featherstone 1999). In planning the construction of EMU, the 1970 Werner Report spelt out a rationale that shaped a second policy narrative about cohesion, this time fostering structural convergence among the Member States' economies (the 'structural policy' narrative) and, thus, cross-national solidarity. The Report stated that the 'general disequilibrium in the Member Countries [was having] direct repercussions' on the Community. The Experts considered EMU the only viable option to eliminate 'competitive distortions', thus avoiding 'structural or regional disequilibrium' (Werner 1970, 9). To this end, the Community would establish 'normative and compatible economic budgets each year'. However, EMU could have been 'dangerously threatened' by existing 'differences of structure' between the Member States. This created the need for structural reforms and for 'cooperation (...) in the matter of structural and regional policies', including 'an increase in financial intervention effected at Community level' (Werner 1970, 25).

While the two narratives were similar for their acceptance of the principle of EU solidarity, they differed in one crucial regard. The 'harmonious development' narrative puts the burden of reducing inter-territorial differences on the Community and the Member States, whose decision to create a common market could worsen the economic status of its periphery while improving the situation of the core territories. Hence, the Community and the Member States are held together responsible for intervening to counterpoise the adverse effects that trade integration could have had on the peripheral areas. Conversely, the 'structural policy' narrative is not as unidirectional in exercising solidarity. On the one hand, the willingness of the beneficiaries to engage in structural reforms and their actual implementation is necessary for EMU to succeed. On the other hand, cross-national solidarity is necessary to offset, to some extent, the economic distortions that are created by EMU-related structural adjustments. In this way, the narrative changes slightly but significantly in two regards. First, unconditional solidarity is not its core idea; mutual obligations – solidarity from the wealthier states and fiscal responsibility from the less affluent states – are. Second, with the 'structural policy' narrative, the focus shifts from the imbalances between the various territories (generally NUTS 2 regions) within the customs union to the disequilibria between the Member States taking part in the currency union; this shift partly justifies the direct involvement of national governments in the governance of the funds, since they also are responsible for the national structural policy. At this time, however, no mention is made about conditionality as the instrument to ensure the respect of the mutual obligations.

When the economic instability of the mid-seventies halted the EMU project, the 'structural policy' narrative lost its momentum. On the other hand, at the end of the seventies, the 'harmonious development' narrative remarkably expanded, by incorporating new regional development theories. In 1977, the Commission-sponsored Cambridge Project showed that the inter-territorial economic divergence was widening. In 1981, a new study introduced the Commission to the concept of 'indigenous potential' and identified the local factors that prevented some of the regions to develop autonomously (Wettmann and Ciciotti 1981). The 'harmonious development' narrative, now with a different logic of intervention but still retaining its ideational core, found an eager ally in Commission President Delors, who deployed this narrative in advocating the creation of Cohesion policy.



### The Zenit of the 'Harmonious development' narrative

The project which defined the first Delors Commission (1986–1989) was the Single Market. To present this milestone, Delors crafted a narrative which revolved around two elements: 'l'Europe de la nécessité' and 'l'Europe de l'ideal' (Bauböck 2017, 101). 'Necessary Europe' revolved around the necessity of freeing the market competition for drawing Europe out of the 'eurosclerosis', the pattern of economic stagnation started in the mid-seventies. In doing so, the 'ideal Europe', the European Social Model, needed to be preserved by taming the 'disruptive' market forces with supranational policies (Faludi 2007). Accordingly, Delors characterised Cohesion policy as a 'politique d'accompagnement' to deal with the economic gap between the regions, by '[equalising] initial endowments before the market could take its course' (Bailey and De Propriis 2002, 409).

The 'stability' frame was feeble in the communicative discourse that accompanied the 1988 Cohesion policy reform. As Figure 1 shows, the speeches by the Commission actors mostly framed the general reform and the creation of Cohesion policy in terms of solidarity, while the stability frame is less present. It is worth to notice that the Commissioner for Regional Policy Schmidhuber already considered 'a dynamic macro-economic process', where 'investments and private consumption [develop] in a dynamic equilibrium', with the goal of 'self-sustaining, long-lasting and inflation-free growth process', necessary to realise the Single Market's full potential in terms of economic growth (Schmidhuber 1987, 24).

The Commission's general message, however, fitted the 'harmonious development' narrative. Accordingly, the 1988 Cohesion policy instrumentation was coherent with the goal of fostering endogenous development of the regions. Most importantly, from an institutional standpoint, 1988 Cohesion policy was devoid of any MEC.

### The EMU project and the resurfacing of the 'structural policy' narrative

As the Single Market catalysed the efforts of the Community during the first Delors Commission, so did the EMU project during the two successive Delors mandates. The first concrete proposal on the relaunch of the EMU project came in January 1988 with the Balladur Memorandum (Dyson and Featherstone 1999, 164). There were, however, two intertwined obstacles. The German government, which was tepid towards the prospect of a common currency, had to face, already in 1988, the 'strong opposition of the Bundesbank' (Baun 1995, 608); the Bundesbank, in turn, was key to the German public.

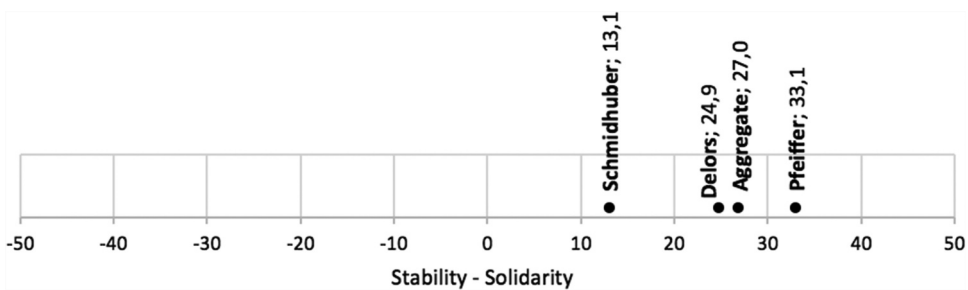


Figure 1. Commission's speeches frame analysis (1986–1988).



As Delors famously remarked in 1992: 'Not all Germans believe in God, but they all believe in the Bundesbank' – and its civic religion, the 'Stability Culture' (cited in Howarth and Rommerskirchen 2013: 752).

The second obstacle was the structural divergence of the future currency area. In 1987, the Padoa-Schioppa Report argued that the economic composition of the Community had become more heterogeneous due to the accession of Greece, Spain, and Portugal, thus calling for a more vigorous 'cohesion' effort. In 1989, in revisiting the Werner plan, the Delors Report argued that the future Cohesion policy needed to become 'an essential element in the policy mix necessary to achieve economic and monetary union' (Delors 1989, 71). The Community Regional Policy would need a sizeable budget: 'empirical cases' suggested the need for 'a much extended version of the Community's Structural Funds', since 'all relevant economic and monetary unions share [a sense of national solidarity]' (Delors 1989, 89). In perspective, this value judgment would have put the German government in a difficult position vis-à-vis the Bundesbank and the German public. The Report seemed to anticipate these objections: regional transfers were not a mere compensation but needed to 'be complemented by macroeconomic policies directed towards financial stability in the medium term' (Ibid.: 79). The Report did not specify how the relation between regional policy and macroeconomic stability would turn out to be: while it contemplated 'effective action to ensure compliance', the nature of such action 'would have to be explored' (Ibid.: 23).

The fall of the Berlin Wall, in 1989, changed the political context in a way that was favourable to EMU. This event, on the one hand, revived 'the long-moribund hopes for German unification'; on the other hand, 'the problem of containing German power' resurfaced: many European leaders espoused a 'deepening' of EC institutions to prevent a 'nationalistic' Germany. In this new constellation, the German government had strong incentives to embed the German reunification into the wider European integration project. After some hesitancy, by March 1990, the Franco-German cooperation started to function again. The common currency was now objectively possible (Baun 1995, 609; Fabbrini 2015). What was still unclear was how to appease the German domestic actors vis-à-vis the prospect of an expanded Cohesion budget.

With EMU becoming a concrete prospect, the Commission proposed an expansion of the budget. Between 1988 and 1993, with the 'paquet Delors I', the Commission already doubled the Structural Funds, showing, in Delors' words, 'solidarity between the regions' within the Single Market; analogously, within the EMU framework, the 'Cohesion Fund [was] intended to show solidarity between states' (Delors 1992, 9). Within the intergovernmental sphere, this proposal was met favourably by Spain, Greece, Portugal, and Ireland, granting that the issue of 'economic and social cohesion' had adequate representation during the 1991 Intergovernmental Conference (IGC) on EMU (Dyson and Featherstone 1999, 733).

This time, however, there were obstacles to a conspicuous budgetary increase. Since the early seventies, high-profile German politicians jested about Germany being the 'paymaster of the Community'; between 1988 and 1993, the financial contribution of Germany increased from 10.5 billion of Deutsche Mark to 22 billion, giving some weight to the joke. The German institutions and the German public were becoming openly hostile to budgetary increases at the Community level: after the reunification, eastern Germany needed substantial transfers from western Germany (Lindner 2006, 136). Moreover, the

reunification itself was changing how Germany perceived its position in Europe: from a divided state in search of international recognition, Germany was now becoming a 'normal' sovereign state 'with its own national interests to pursue' (Fabbrini 2015, 77).

During the Maastricht negotiations, Germany's chief-negotiator Köhler argued that, if EMU led to vast resource redistribution, there would be 'serious domestic problems of gaining acceptance for EMU in Germany'. Köhler also feared that the Cohesion Fund would 'send out the wrong signals about the importance of domestic discipline for convergence' (Dyson and Featherstone 1999, 440). While recognising its '[substantive] importance', Köhler argued that economic and social cohesion had to be subordinated to the 'ordo-liberal principles of economic policy' and not undermine 'the discipline of convergence' (Ibid.: 430). In the same venue, De Boissieu, responsible for France IGC negotiation, supported the measure of '[suspending] commitments from the Structural Funds' as a means of sanctioning excessive deficits (Ibid.: 240), a position that the IGC met with favour (Ibid.: 674).

The Commission, instead, had left the question of enforcing fiscal discipline open in its preparatory papers. Delors and the EMU Working Group were against the idea of using the Structural Funds' suspension as a sanction. They feared that such a measure would '[jeopardise] other EC objectives, like economic and social cohesion', and they preferred inducements (Ibid.: 756).

The frame analysis (Figure 2) shows that the rift between Germany and the Commission was also present within the Commission. Arguments in favour of solidarity were prevalent in both Delors' and Millan's (Commissioner for Regional Policy) public speeches during the 1990–1994 period, as Figure 2 recaptures.

The Commissioner for the Budget, who was also managing the Cohesion Fund, Schmidhuber, held a different position. As Figure 2 shows, Schmidhuber framed the reform in terms of stability. On the one hand, Schmidhuber directly countered Delors' proposal for the EU budget: 'the Commission has warned President Jacques Delors (...) that he has overburdened the Union with regional redistribution projects'. The financial equalisation envisaged by Schmidhuber was 'primarily (...) through competition and (...) mobility of capital'. On the other hand, Schmidhuber openly supported the use of political sanctions for the Member States that would resort to 'excessive deficit spending' and he dismissed the criticism that turning the EU budget into 'a lever' would be 'discriminating against those countries who receive assistance from the EU funds' (Schmidhuber 1991, 8–9).

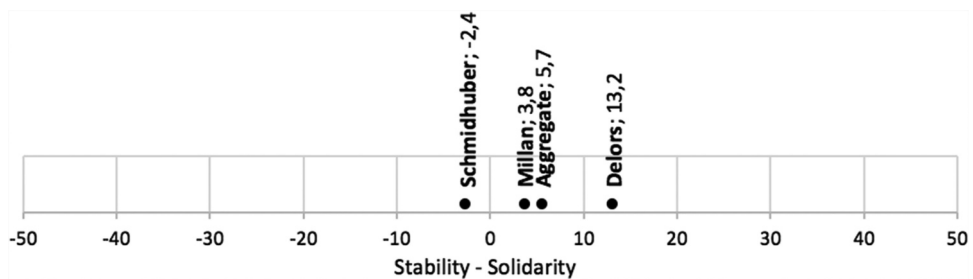


Figure 2. Commission's speeches frame analysis (1990–1994).

The Maastricht compromise took stock of the positions that emerged during the IGC. On the one hand, the Commission managed to avoid the suspension of the Structural Funds as a means to enforce the convergence programme. At the same time, MEC was accepted in principle, but it was only applied to the Cohesion Fund. The Cohesion Fund, in turn, assisted in finding a compromise between Spain, the Fund's main supporter during the IGC, and Germany. The Fund itself was a political victory for Spain, which received additional financial transfers from the Community. The design of the Cohesion Fund, on the other hand, lined with the preferences of Germany: the Fund could only finance investment projects, and it could be suspended to sanction excessive deficits. In this way, during the 1991 Bundestag debate on the Maastricht agreement, the Federal Minister of Finance Waigel was able to answer to those criticising the 'Verteilungsgemeinschaft' implied by the Cohesion Fund that 'there [was] . . . no convergence fund [nor] . . . abstract fiscal equalisation'. A report by the German Council of Economic Experts emphasised that the Cohesion Fund's MEC could prevent national governments' potential moral hazard (German Council of Economic Experts 1993, 250).

The debate had transformative effects on the 'structural policy' narrative, now incorporating elements of the German 'Stability Culture'. We highlighted three important elements. First, an unpredictable event, the fall of the Berlin Wall, changed the German interest constellation, dividing the German Government and the Bundesbank on the currency union, while uniting Germany and France in the pursuit of both the German unification and the creation of the common currency. Second, before 1989, the Commission prospected ties between the regional policy and the macroeconomic stability of the future currency area, but no concrete instrument was envisioned. The necessity to convince the German public, as well as the Bundesbank, pushed the German and French negotiators to endorse the idea of using the suspension of the Structural Funds as a sanction in the event of excessive deficits. Third, the Commission was divided: on the one hand, Delors was against adding MEC to Cohesion Policy: this would have changed its philosophy. On the other hand, Schmidhuber, who managed the Cohesion Fund, was in favour of linking Structural funds to macroeconomic stability, even before the fall of the Berlin Wall and the January 1988 Balladur Memorandum, as the Schmidhuber's speeches in concomitance with the 1988 Cohesion policy reform – particularly the one in December 1987 – seems to demonstrate. Such ideas seemed to have encountered a favourable, and yet unpredictable, constellation of interest, conducive to both the creation of the EMU and the embedding of the idea of 'conditional solidarity' into the Cohesion fund.

### **Tougher conditionality for tougher times**

The 2013 reform of Cohesion policy took place in a different environment from the 1991 Maastricht European Council Agreement which established the Cohesion Fund. The Sovereign Debt Crisis dominated the 2013 context, putting EMU at stake; the 1991 activism contrasts with the 2013 defensive attitude by the EU institutions. Nevertheless, the two reforms had a similar output: the 1994 reform created MEC, the 2013 reform expanded it to encompass all the European Structural and Investment Funds (ESIF).

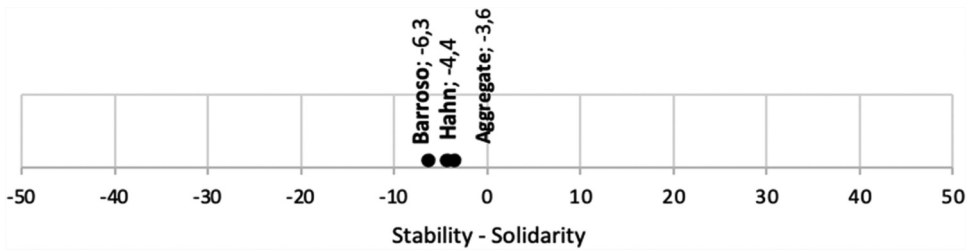
In the preparatory phases of the 2013 reform, the 'place-based' narrative introduced by the Barca Report influenced the debate. This narrative, which represented a return to the

'harmonious development' narrative which inspired the creation of Cohesion policy in 1988, provided DG Regio with a logic of intervention that strongly influenced the reform process (Mendez 2013). However, a second narrative started to affect the reform as soon as the Sovereign Debt Crisis reached its peak in 2010. During this period, the 'saints and sinners' narrative concerning the role that GIIPS countries and their 'fiscal sins' had in causing the crisis gained clout on the general public. As the place-based narrative harkened back to the 'harmonious development' narrative, the 'saints and sinners' narrative revived the 'Stability culture' narrative that circulated in the early nineties (Matthijs and McNamara 2015). This time, however, it was not just Germany: during and after the creation of the Maastricht 'monetary constitution', the concept of 'stable money and sound finance' was appropriated by a cross-national coalition of actors and became embedded in the European institutions (Dyson 2012).

Coincidentally, GIIPS 'sinner' countries were the Member States who initially received the Cohesion Fund assistance, plus Italy. Cohesion Fund's MEC had been proven inconsequential in 1996 when the EU Council failed to ratify the decision to suspend the Fund's commitments to Spain and Greece, both of them subject to the excessive deficit procedure. When the Crisis peaked in 2010, however, the Commission proposed to extend MEC's scope. In May 2010, the Commission rejuvenated the idea that Cohesion policy's conditionality was necessary for buttressing the structural stability of EMU, by '[redirecting] funds to improve the quality of public finances'. At the same time, 'recurrent breaches of the [Stability and Growth] Pact [would be] subjected to (...) more rigorous use of the Cohesion Fund Regulation' (COM (2010) 250 final: 5). In June 2010, the European Central Bank (ECB) published a note titled 'Reinforcing economic governance in the Euro area'. Among the other sanctions, the ECB proposed the 'suspension of transfers from EU Cohesion and Structural Funds' in case of breaches of the Stability and Growth Pact (SGP). In October 2010, the Task Force led by the European Council President Van Rompuy wrote that, in the context of the MFF, 'the enforcement measures will be extended to all Member States, by making a range of EU expenditures conditional upon compliance with the SGP' (Van Rompuy et al. 2010, 1).

Budget-wise, the Commission first expounded its vision for the 2014–2020 Multiannual Financial Framework (MFF) in 2011, reaffirming the connection between the EU budget and EMU: 'In the wake of the economic and financial crisis', the EU has taken 'significant steps to improve coordination of economic governance' through the European Semester, and '[the MFF 2014–2020] has been designed to support this process'. In defining 'how much' the budget should support the EU economic governance, the Commission was balancing between two contrasting visions (COM (2011) 500 final). On the one hand, the European Parliament (EP) was proposing 'at least a 5% increase of resources'. Among its 'political priorities', the EP listed that of '[providing] the Eurozone and the EU with the fiscal stability required in order to overcome the debt crisis', since 'the European currency [was] created without real economic convergence between the states' (EP 2011: 99). On the other hand, the European Council considered 'essential' that 'the [MFF 2014–2020 reflects] the consolidation efforts being made by Member States to bring deficit and debt onto a more sustainable path'. In the end, the Commission considered an estimate of 1, 11% of EU GNI adequate.

By October 2011, the EP and the European Council received both the ESIF draft regulation and the budget proposal. Attached to such a moderate budget, MEC sparked



**Figure 3.** Commission's speeches frame analysis (2010–2013).

controversy, creating two political divides: the first one among the EU institutions, the second among the Member States within the Council.

For what concerns the first divide, the extension of MEC to the whole ESIF pitted the Commission against the EP and the advisory bodies. For what concerns the Commission, the stability framing was prevalent in the speeches of both EC President Barroso and by the Commissioner for Regional Policy Hahn, during the 2010–2013 period, as [Figure 3](#) shows. Barroso, in particular, upheld the 'dynamic macroeconomic environment' argument that was already present in Schmidhuber's 1988 and 1993 speeches: 'the most effective use of the budget comes when there are no structural imbalances and no distortions' (Barroso 2012). The same argument is found in Hahn's speeches, presenting MEC as an 'incentive to improve economic governance', which 'can only benefit the quality of the investments made with Cohesion policy' (Hahn 2012).

On the contrary, the EP and some of the EU advisory bodies considered the measure to be controversial. The European Court of Auditors argued that MEC could result in 'risk for the fulfilment [...] of partnership contracts' (ECA 2011, 5). The Committee of the Regions noted that MEC 'was contrary to the primary objective of Cohesion policy' (COR 2012, 58). The EP, in its first opinion, had asked for MEC to be removed altogether. However, when it issued its final amendments, in November 2013, the EP had accepted MEC in principle. According to Hübner (2016, 149), the Council had decided to adopt the Commission proposal on MEC as the Council position, in extenso. The Lithuanian Presidency attempted 'to make the Council's position impossible to change' by referring to the MEC provision as a quasi-legislative act. This made it de facto impossible for the EP to have a say on the matter of conditionality; the decisive match, then, was in the Council.

In this second arena, the debate on MEC proved to be equally polarising, as two adversarial coalitions of Member States emerged. The first one was the 'Friends of Cohesion', mostly East and South European Member States, which wanted to secure an adequate budget for Cohesion policy. Their position emerged both in two joint declaration between June and October 2012 where they argued that Cohesion policy could assist in 'striking the balance between economic growth and fiscal stability'. To this end, they argued that 'a fair financing [should have been] preserved'.

The second coalition was that of the 'Friends of Better Spending', a group of continental and northern European Member States, whose primary commitment was to achieve better results while maintaining or even decreasing the existing budget (Laffan and Lindner 2014, 236). Germany and the Bundesbank were once again crucial. Between 1998 and 2009, the 'stability culture narrative' was 'demoted in the German federal

government discourse'. The Bundesbank, however, had been watching over its members. With the new economic context these ideas regained clout, and by autumn 2011 'the Bundesbank had persuaded the German Federal government that the process of drift away from the Maastricht principles of sound money and finances [had] to be reverted' (Dyson 2012, 797). The German government substantiated its ideas on how to achieve 'better spending' with a 'non-paper' that circulated during the Cyprus European Council of August 2012. This document argued in favour of extending MEC to 'all funds from the Common strategic framework' to sanction member states 'which have failed to comply with the guidelines set forth for the surveying of fiscal and economic policies' (Gotev 2012).

The battling ground on conditionality and the budget was the Council debate on the 2014–2020 MFF. One of the Council's initial discussions occurred in December 2011, but there was no approval. During a second discussion, in June 2012, some of the Foreign affairs ministers voiced their concerns about this form of conditionality, while the Danish presidency decided to await clarification. In the meanwhile, the discussion on the budget stalled. In September 2012, the Cyprus Presidency acknowledged that 'downwards adjustments of the expenditure ceilings proposed by the Commission are inevitable'. However, since the Cyprus Presidency failed to reach an agreement the European Council President Van Rompuy took the negotiations in his hands.

The Council reached the final compromise on the MFF in February 2013. Differently from the 1991 compromise that created the Cohesion Fund, this compromise did not represent all the positions that emerged during the negotiations. Concerning the budget, the position of the 'Friends of Better Spending' was taken seriously. The Member States agreed on a cut of the 3.4%, in real terms, of the 2007–2013 MFF ceilings. By agreeing on a reduced budget, there was nothing comparable to the bump that the Cohesion Fund gave to Cohesion policy in 1991. MEC was included in the final ESIF Regulation that the EP and the Council approved in December 2013, thus providing another tool for ensuring compliance with the fiscal discipline within EMU.

Consistently with the 'EMU stability' narrative, Cohesion policy needs to create economic convergence. Within the boundaries of this narrative, 'how' to create convergence is open to debate: in 1991 it was through inducements, with residual sanctions to appease the net payers; in 2013, the preservation of the existing 'structural policy' resources comes at the price of accepting increasing sanctions.

## Conclusion

This paper discussed how the Community resorted to two different narratives, one of EU solidarity and one of EMU stability to justify the creation of redistributive patterns across the EU. While both the narratives were related to the economic integration of the Community, they bore two contradictory ideas of solidarity, based on the role of conditionality. In analysing how these two narratives applied to Cohesion policy we identified two cognate narratives based on inter-territorial and cross-national divergences. On the one hand, the 'harmonious development' narrative, centred on the possible disadvantages that peripheral regions would have faced in the Single Market. At its core, this narrative conceptualised EU solidarity in terms of benevolent compensation: inter-territorial solidarity would serve the purpose of creating 'harmonious development'

among the European regions. The obligations between the Community, as the donor, and the recipient regions were seen as unidirectional, and there was no MEC.

On the other hand, the 'structural policy' narrative, which emerged from the Werner Report on EMU, centred on the idea that structural differences among the Member States' economies could hinder the stability of the Monetary Union. While assisting the countries in the process of structural adjustment, the Community should have also ensured EMU stability. EU solidarity was characterised as 'reciprocal': the Community had the duty to provide financial assistance to the less-developed Member States in their process of structural adjustment to EMU. Conversely, these Member States had to commit to the 'necessary' reforms, and to not endangering the macro-fiscal stability of the single currency area.

The 'structural policy' narrative resurfaced during the EMU negotiations in the early nineties, becoming increasingly salient when framing the creation of the Cohesion Fund during the 1991 IGC. In this juncture, Germany became pivotal: to appease domestic actors such as the Bundesbank, the 'structural policy' narrative borrowed elements from the German 'Stability Culture'. The French preferences on sanctioning excessive deficits also played an important part. The new design of the Cohesion Fund appeased the preferences of both the southern Member States the continental Member States. The former could justify the fiscal duress of EMU with the Cohesion Fund's largesse. Conversely, Germany, as the 'EC paymaster' could justify the additional solidarity effort vis-à-vis its domestic actors by arguing that the MEC would contribute to creating a *Stabilitätsgemeinschaft*.

In the early 2010s, the Sovereign Debt Crisis should have made evident that this instrument had failed in incentivising fiscal rigour in the former 'cohesion' countries. However, rather than changing the narrative, the Commission and a group of 'core' Member States, along with the ECB and the Bundesbank, decided that the existing rules needed to be reinforced. The narrative of 'stability' regained public favour, thanks to the 'saints and sinners' narrative. The Commission firstly proposed to extend MEC to all of the Cohesion Policy. During the MFF negotiations, the proposal became extremely polarising, dividing the Member States into two factions. Ultimately, the issue was decided within the Council. Net contributors and net recipients battled on the 'generosity' of the EU budget and the inclusion of MEC in the Cohesion Policy regulation. In the end, the budget was slightly reduced. On the other hand, MEC was now a provision to which the entirety of Cohesion Policy was subjected. In the end, the 'structural policy' narrative, interwoven with the German 'stability culture' narrative, has given a new meaning to Cohesion policy, and, in doing so, it has transformed EU solidarity, making it conditional on EMU stability.

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