

THESIS SUMMARY

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Eurozone Crisis Management in Neofunctionalist Approach

Ph.D. dissertation

Supervisor:

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Professor

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Department of World Economy

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1. INTRODUCTION AND HYPOTHESES

1.1. Research background and topic selection

Following the Second World War, six Western European nation-states (Germany¹, France, Italy, Belgium, the Netherlands, and Luxembourg) created a brand new political entity. The new organization soon became a unique phenomenon in the international relations. This uniqueness was the result of its institutional, decision-making and legal system. The new enterprise of independent states can be evaluated as a great success story of the European history. This is because the European Community (EC) – now the European Union (EU) – has been able to guarantee a long-lasting peace among the participant countries. Furthermore, eleven members introduced a single currency – the euro – on 1 January 1999, which resulted in a new phase of cooperation.

Partly due to these facts, the future (development trajectory) of the EU has always been a key question in the history of the integration. The significance of this issue became even more topical after the global financial and economic crisis of 2008-2009, which further exacerbated the economic, social and political problems of the Community².

The negative impacts of the crisis were most evident in the Eurozone (Euro Area), since the sovereign debt problems in certain member states jeopardized the entire Economic and Monetary Union (EMU). The potential collapse of the Eurozone and the single currency became a real threat to the European project (Aslett and Caporaso [2016]; Dyson [2017]). The depression made it clear that the EMU had been malfunctioning for many reasons. On the one hand, it became evident that little emphasis had been put on the coordination of the member states' economic policies in the original architecture of the monetary integration in the beginning of the 1990s. While monetary and exchange rate policy became a truly common policy in the case of Euro Area members, the economic side of the EMU (i.e. the fiscal policy) remained in the hands of the nation-states. On the other hand, the EU did not have any risk mitigation tools and mechanisms at all to manage potential crises. These failures and shortcomings altogether made it impossible for the Community to take effective measures to manage the situation.

¹ Of course, this meant West Germany until 1990.

² In order to avoid repetition, I use the terms European Community, European Union, and European integration interchangeably in the thesis. Of course, it has to be noted that these terms are not exactly the same.

Recognizing these failures, member states decided to launch reforms with the aim of strengthening the European Economic Governance (EEG). However, sovereignty and economic nationalism (protectionism) came again to the forefront of public debates, which made it difficult to improve the functioning of EMU.

The story is important from a *theoretical* perspective too. The ambivalent reactions of the member countries raise the question (or “puzzle”) of which integration theories have the capacity to explain these processes adequately. The history of the European integration has clearly shown that major crises always led to the strengthening (deepening) of the cooperation. However, this statement is now not obvious due to the complexity of the Eurozone crisis and crisis management. The strengthening of European Economic Governance raises a number of issues and conflicts that make the outcome of the integration uncertain (Benczes and Kollárik [2021]; Benczes [2020]).

1.2. Research questions and hypotheses

The dissertation examines the Eurozone crisis management from a theoretical aspect in order to answer, whether neofunctionalism can provide a useful theoretical framework following the crisis. Accordingly, the thesis has three major interrelated *research questions*. These are as follows:

- 1) Can spillover triggers be detected that are strong enough to make the initial equilibrium unstable?
- 2) Do spillover triggers lead to vertical institutional outcomes that result in the deepening of Economic and Monetary Union?
- 3) Can endogenous spillover triggers and/or vertical institutional outcomes be identified in terms of the European Banking Union (EBU) and the European Fiscal Union (EFU)?

Based on the research questions, we formulate the following hypotheses:

Hypothesis 1 (H1): The global financial and economic crisis of 2008 and 2009, as an exogenous spillover trigger, generates through the sovereign debt crisis further endogenous spillover triggers in the Economic and Monetary Union. The dissertation departs from the hypothesis that the global financial and economic crisis of 2008-2009 can be assessed as a critical economic exogenous shock. By the term ‘critical’ we mean that the shock was strong enough to have a serious impact on the system of the Economic and Monetary Union (and the European Union). The crisis revealed the latent problems and weaknesses of the EMU’s original architecture. This external shock contributed to a large extent to the outbreak

of the European sovereign debt crisis in the beginning of 2010, thus having become an endogenous shock. As a result, functional, political and institutional spillover triggers arose. Simply speaking, an initial exogenous trigger led to a critical juncture within the EMU, which generated internal triggers. This process can be defined as the first pillar of the spillover mechanism. The hypothesis also suggests that European integration may progress not just through its own internal dynamics, but due to external factors as well.

Hypothesis 2 (H2): Endogenous triggers lead to institutional outcomes that result in the deepening of the Economic and Monetary Union. This hypothesis claims that endogenous pressures arising from the dysfunctionalities of the EMU result in answers (actions) that contribute to vertical integration. Vertical integration (deepening), the second pillar of the spillover mechanism, may take different forms. This issue of operationalization will be discussed in detail in subsection 2.3.

Vertical (institutional) outcomes, in principle, end up in the improvement of the functioning of the EMU. However, spillover mechanism may have different types of feedback. If vertical integration takes place, the effect of institutional outcomes may generate positive or negative feedback. In this context, a single positive feedback means that an improvement in the functioning of the integration eliminates the initial triggers (dysfunctionalities). However, in the case of a dynamic positive feedback, an outcome may generate further endogenous triggers or critical junctures. For instance, these triggers may be the need for the modification (or fine-tuning) of previous vertical outcomes. Alternatively, new critical junctures (triggers) may arise which lead to the deepening again. This is in line with the theory's original version that emphasizes the internal dynamics of integration. The presence of negative feedback may be a third scenario when spillover outcomes finally turn out to be inadequate or even harmful to the integration process. Practically, it means that member states did not manage to respond to the triggers effectively. Consequently, dysfunctionalities need to be resolved in other ways.

In the case of *no vertical institutional outcomes* (no vertical integration), the functioning of the EMU does not improve because dysfunctionalities, and thus the triggers continue to exist.

Hypothesis 3 (H3): Spillover triggers and outcomes can be detected and identified regarding the plan and implementation of the European Banking Union (EBU) and/or the European Fiscal Union (EFU). European sovereign debt crisis compelled the member states to take effective measures in order to safeguard the single currency. Consequently, the

strengthening of the European Economic Governance became an indispensable task within the Eurozone. Nevertheless, crisis management proved to be a difficult process as (economic) nationalism got new momentum. Furthermore, the issue of burden-sharing among the members made the reforms even more troublesome. Despite these hardships, significant steps have been made, however, they took multiple forms. H3 alleges that European Banking Union and European Fiscal Union prove to be good examples of spillover triggers and outcomes.

Accepting the hypotheses has theoretical and practical consequences as well. From theoretical point of view, this means that neofunctionalism is not an obsolete approach, and it can make a meaningful contribution to the explanation of the integration process in the long run. From a practical aspect, on the other hand, it extrapolates the deepening of the EMU that may finally improve the efficiency of the European Economic Governance and the functioning of the Eurozone.

2. PRESENTATION OF THE APPLIED METHODOLOGY

2.1. The Neofunctionalist Research Program

The dissertation takes a *multidisciplinary approach*. It comes from the fact that we intend to study economic processes in a framework related to political science and International Relations Theory. The integration theory we chose as a *theoretical framework* is *neofunctionalism*. This is because we argue that neofunctionalism is probably the best approach, which has the capacity to explain long-run transformation and development of the European integration process.

Niemann et al. [2019] enumerate several reasons why neofunctionalism should be a matter of research. First, the theory is transformative of nature. This feature means that neofunctionalism has the capacity to incorporate changes while retaining the core concepts and hypotheses. Second, the theory treats institutions as agents trying to improve the existing order. From this perspective, institutions are different from those of intergovernmental organizations, which are non-transformative and aspire to sustain the *status quo*. Of course, the success of transformation depends largely on the response of the key actors. Third, neofunctionalism focuses not exclusively on states and governmental players, but also on non-governmental actors as well. The assumption that non-governmental agents do play an important role in shaping the integration, has a great significance in the world of growing interdependence. Fourth, the theory is also dynamic in the sense of human behavior. According to this, actors are rational units who actually learn from the experiences of repeated interactions ('repeated games'), and thus, the development of the integration is influenced by this practice. Fifth, in a broader sense, neofunctionalism may potentially be applicable in the case of other regional integrations. Finally, neofunctionalism, in its original version, deals with endogenous events, albeit the theory may also explain exogenous shocks (Niemann et al. [2019]). This argument is especially important from the perspective of the thesis since the global financial and economic crisis of 2008 was obviously an exogenous effect.

Since the very beginning of the 1970s, many variations of the school have been established. In the dissertation, we distinguish four phases of the Neofunctionalist Research Program (NRP), formation, withdrawal and transformation, recovery, and uncertainty. *Table 1* summarizes the evolution of the NRP based on our own categorization.

Table 1: The evolution of the Neofunctionalist Research Program

	Name of phase	Period	Main features/themes	Major works
1	Formation	1958 – 1964	<ul style="list-style-type: none"> • Initial success of the European integration • The birth of neofunctionalism and Integration Theory 	<ul style="list-style-type: none"> • Haas [1958/2004; 1961; 1964] • Lindberg [1963] • Haas and Schmitter [1964]
2	Withdrawal and transformation	1965 – 1984	<ul style="list-style-type: none"> • The “De Gaulle phenomenon” • Oil crises and protectionism • Failure of the Werner Plan • ‘Eurosclerosis’ • Classical Intergovernmentalism • Interdependence theory • Declaring neofunctionalism obsolete • Transformation of neofunctionalism 	<ul style="list-style-type: none"> • Hoffmann [1964; 1966] • Hansen [1969] • Haas [1967; 1970; 1976] • Lindberg [1965] • Lindberg and Scheingold [1970] • Nye [1968; 1970] • Schmitter [1969; 1970]
3	Recovery	1985/1986 – 2008/2010	<ul style="list-style-type: none"> • Adoption of the Single European Act • The Delors Plan • Adoption of the Maastricht Treaty • Single Market • Economic and Monetary Union • Rebirth of neofunctionalism • Liberal Intergovernmentalism • Supranational governance • Failure of the Constitutional Treaty 	<ul style="list-style-type: none"> • Tranholm-Mikkelsen [1991] • Bulmer [1983] • Putnam [1988] • Moravcsik [1993; 1995; 1998] • Pierson [1996; 2000] • Stone Sweet and Sandholtz [1997; 2014] • Verdun [2002]
4	Uncertainty	2008/2010 –	<ul style="list-style-type: none"> • Global financial and economic crisis • Eurozone crisis • Migration and refugee crisis • The Covid-19 crisis • Integration or disintegration? • New theories (e.g. postfunctionalism) 	<ul style="list-style-type: none"> • Hooghe and Marks [2009] • Dehousse [2015] • Bickerton et al. [2015] • Schmidt [2016] • Schimmelfennig [2014]

Source: Own table and categorization

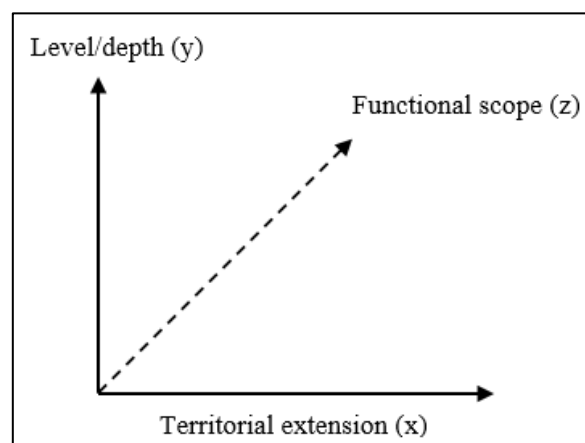
2.2. The modified neofunctionalist framework

Besides the fact that neofunctionalism is worth to study, our objective is to introduce and apply a modified version of the theory by using an *own analytical framework*. Based on previous works, we focus on the spillover mechanism, which has always been the central methodological element of the neofunctionalist thinking. While retaining the theory’s basics, we amalgamate the different versions into a new analytical framework. The framework incorporates, *inter alia*, some conceptual and operationalizational amendments.

The reasons why we intend to introduce a new analytical ‘toolkit’ are threefold. First, due to the significant level of interdependence, contemporary regional integrations cannot be isolated from external factors. Shocks coming from outside the EU may be strong enough to become endogenous and compel the integration to react by deepening. As Hansen [1969] notes, spillover process was largely seen as an internal phenomenon but external factors and the global environment were not included in the original neofunctionalist framework. He criticizes the Haas-Schmitter model, because it does not isolate and measure external factors that have an impact on the integration process (Hansen [1969]). Nye [1970] also stresses that external factors and players did not get sufficient attention in the original formulation (Nye [1970]). Incorporating the potential effects of exogenous triggers, the model can provide a more complex picture of the spillover mechanism. Second, it is reasonable to see the spillover mechanism as a complex and long-run process, which can be separated into causes (triggers) and results (outcomes) in a single model. Third, it is useful to establish a framework that can be adapted better to the features of contemporary world economy by taking relatively new non-governmental actors into account. Shortly, we offer a modified neofunctionalist framework, which is parsimonious, but amalgamates the major analytical elements of the previous versions of the theory. Furthermore, incorporating the influence of external triggers, neofunctionalist reasoning can be interpreted in a broader sense.

In order to clarify the basic dimensions of the integration, we depart from the following model. *Figure 1* shows a three-dimensional coordinate system, which represents the ‘*integration space*’. Let Ω denote the integration space, which is the function of three variables (dimensions), x , y , and z , where x represents the territorial extension of the integration, y denotes the centralization level (depth), and z is the scope of cooperation.

Figure 1: The three-dimensional integration space



Source: own figure based on Leuffen et al. [2013]

Accordingly, the structure of an integration scheme can be written in a mathematical form as follows:

$$\Omega = \Omega (x, y, z), \quad \text{where}$$

$x = x$ (territorial extension)

$y = y$ (level/depth)

$z = z$ (functional scope).

Territorial extension (dimension x) depends on the number of the participating countries in a certain integration scheme. In this respect, the accession of one or more states means the increase in the number of member states. We can also refer to this phenomenon as geographical integration or geographical spillover. Holding other dimensions constant (*ceteris paribus*), geographical spillover, in itself, does not mean a qualitative change, or in other words, a tighter and more efficient cooperation among the members.

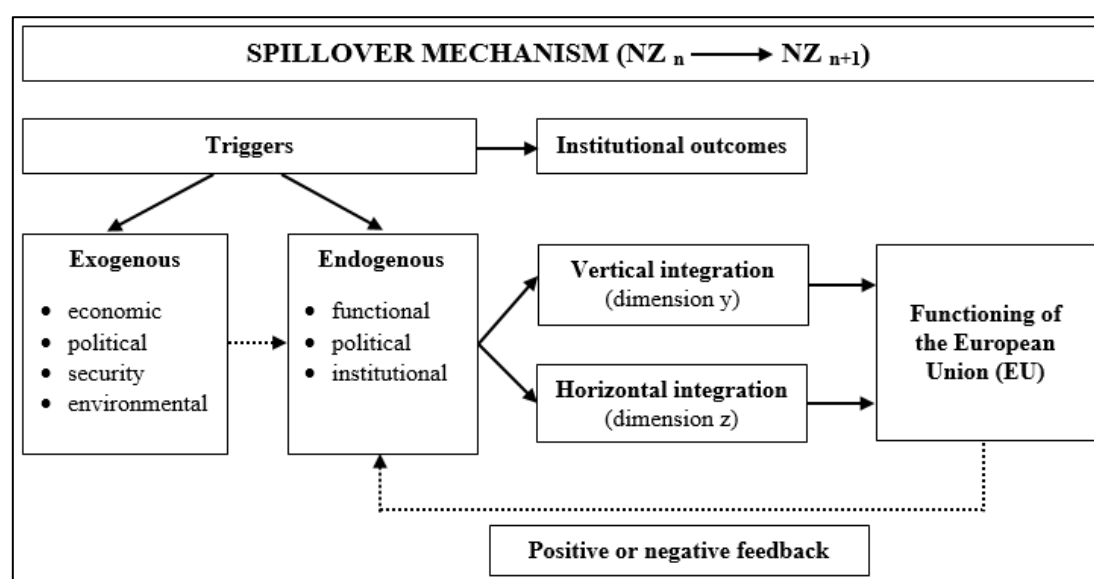
The degree of depth (dimension y) refers to the centralization level of the integration and this is what we call vertical integration. Here we face two fundamental and interrelated questions. The first has to do with the so-called dependent variable problem. In order to manage this problem, we do not assume a clear end-point. Instead, in line with Haas [1970], it may be useful to see the integration process as a scale on which we can move towards a higher degree of cooperation (or supranationalism) compared to a previous point in time (Haas [1970]). On the scale it is possible to identify multiple dependent variables (critical milestones) without referring to an end state. This mode of thinking is also in line with the concept of incrementalism, which is one of the major characteristics of the neofunctionalist theory. Accepting this view, we do not see the European integration a teleological process, however, we accept implicitly that some kind of end state may arise in the very long run.

The scope of integration (dimension z) represents policy areas where the member countries cooperate to some extent. We call this dimension horizontal integration. Taking into account that in the EU almost all policy areas are integrated to some extent (Stone Sweet and Sandholtz [1997]), this dimension has reached its (quasi) maximum value. To indicate this, we can rewrite the equation of the integration space in the following form:

$$\Omega = \Omega (x, y, z_{\max}).$$

Figure 2 represents our analytical framework in a schematic form.

Figure 2: The modified neofunctionalist framework



Source: Own figure and model

As in the previous versions of neofunctionalism, the central methodological concept of our model is the spillover, however, we give a somewhat different meaning to it. By spillover we mean the process (mechanism) which shifts the integration from an initial equilibrium (E_n) (neutrality zone, NZ_n) to a new one (E_{n+1} or NZ_{n+1}). As long as the initial equilibrium exists, the integration is in the so-called neutrality zone. The spillover mechanism should be seen as a complex system. Accordingly, we divide it into two stages, triggers and (institutional) outcomes.

Spillover triggers can be defined as factors that make the initial equilibrium state unstable. It practically means that these factors put pressure on the member states to shift the integration away from the neutrality zone. Furthermore, we can distinguish two types of triggers, exogenous and endogenous triggers.

Exogenous triggers are factors coming from outside the integration. These may be economic, political, security or environmental of nature. It has to be emphasized that exogenous triggers have to be strong enough to induce endogenous triggers. Put differently, external impacts have to be strong enough to affect the integration fundamentally and make the member countries to react.

Nevertheless, endogenous triggers may arise without the presence of exogenous ones. This is the case when tensions emerge due to internal problems and malfunctions or when member states and/or supranational players agree on horizontal and/or vertical integration. Thus, based

on Tranholm-Mikkelsen [1991], we discriminate functional, political and institutional endogenous triggers.

Functional triggers arise if the integration works inefficiently for certain reasons in one or more policy areas. Here we underline again that this inefficiency has to be powerful enough to cause critical disturbance in the functioning of the integration that makes the initial equilibrium unstable. A functional trigger, in itself, indicates only that something has to be made in order to manage the existing critical malfunction. Therefore, this type of trigger must be accompanied by the decision and action of the 'elites'. In other words, political and/or institutional triggers are also indispensable.

Accepting the framework of Niemann and Ioannou [2015], functional triggers can be operationalized by testing the following elements ('indicators'): (1) the salience of the original objective(s), (2) the existence of functional interdependencies between the original and other issue area(s), (3) the availability of alternative functional solutions, (4) and the perception of relevant actors. Put simply, a functional trigger can be detected if these four factors exist simultaneously. The first factor refers to one or more significant and/or urgent original policy objective(s), which can only be reached by further integration. Functional interdependencies represent the interconnectedness between different issue areas (Niemann and Ioannou [2015]). However, compared to the framework of Niemann and Ioannou [2015], we interpret this element in a slightly different way. In line with our own neofunctionalist model, we distinguish two types of functional interdependence: horizontal and vertical interdependencies. By horizontal interdependence, we mean the situation when the original issue (policy area) is in connection with another policy area. For instance, this was the case between the Single Market and the Economic and Monetary Union. Accordingly, horizontal interdependence extrapolates horizontal integration as an institutional outcome. By contrast, vertical interdependence exists when the original policy area is incomplete, and, as a result, works inefficiently. In principle, this type of relation should lead to vertical integration. With respect to the third element, functional triggers are considered to be strong if alternative functional solutions are not available, or these solutions are too costly. Finally, it is an important precondition that functional triggers have to be perceived by relevant actors. This is the case if political discourse is shaped by these functional arguments (Niemann and Ioannou [2015]). Nevertheless, it has to be noted that this element, to some extent, is intertwined with the concept of political trigger.

In our conceptual framework, the category of political trigger is used in a broad sense. We define political trigger as the integrative role of political actors who perceive that supranational solutions, i.e. horizontal and/or vertical integration, are beneficial and/or indispensable for the member states. However, by political actors, we mean all the agents (or interest groups) who have an impact, directly or indirectly, on the European politics. In this context, those players are relevant who articulate their positions in favor of further integration. Here we can mention a wide range of actors, such as political parties, politicians, governmental and non-governmental organizations, interest groups, financial institutions (financial markets³ in a broader sense), domestic companies, transnational or multinational corporations (TNCs/MNCs) and the public opinion.

Political triggers can be operationalized by scrutinizing two factors: (1) the extent to which supranational solutions are perceived advantageous by relevant actors, and (2) the degree to which these actors represent and articulate their positions in a coordinated way transnationally, rather than nationally (Niemann and Ioannou [2015]).

Finally, institutional trigger refers to the (potentially) pro-integration activity of the supranational institutions, i.e. the European Commission (EC), the European Parliament (EP), the European Court of Justice (ECJ) and the European Central Bank (ECB). It should be emphasized, however, that pro-integration activity can be induced either by functional dissonances or by the intent of supranational institutions to extend the limits of their power and competences. Of course, it seems reasonable that functional triggers may create the opportunity for this process.

Exogenous and/or endogenous spillover triggers may lead to various institutional outcomes. In accordance with our three-dimensional model, triggers may result in two possible outcomes, horizontal and/or vertical integration. Accepting that horizontal integration (dimension z) has already reached its maximum (z_{\max}), spillover outcome is relevant only in the vertical direction (dimension y). As it was mentioned earlier, the horizontal movement can be measured by the change in the number of policy areas where member states cooperate within the framework of integration.

³ As Niemann and Ioannou [2015] note, it might be problematic to treat financial market like unitary actors but their actions seemed unitary during the crisis. This perception was the result of high uncertainty and herd like behavior (Niemann and Ioannou [2015]).

Vertical integration refers to the delegation of new or already existing competences or policies to the level of integration. This process must entail the involvement of supranational actors (institutions) in decision-making. Based on Börzel [2005], we offer a three-level scale for the operationalization of the centralization level. The first level is the *intergovernmental cooperation* that can be characterized by a limited supranational involvement. In this case, the Council plays the key role since the dominant decision-making rule is unanimity. However, the supranational institutions have a very circumscribed decision-making power. The second level means the so-called *joint decision-making method* whereby the Council and the European Parliament, based upon the proposal of the European Commission, bargain over the final legislative outcome. In practice, the Council may decide either by unanimity or by qualified majority voting (QMV).⁴ The third level is the *supranational centralization*, which refers to the decision-making method where supranational institutions take unilateral actions (Börzel [2005]). Vertical integration may also be detected if new actors, institutions, mechanisms emerge with partly or fully supranationalized competence. From another point of view, it can be seen as a horizontal integration within a certain policy area.

Horizontal and/or vertical integration have an impact on the functioning of the integration, which in turn, may result in a certain type of feedback. In principle, we can discriminate three cases. *Positive feedback* occurs when the institutional outcome improves the functioning of the EU. However, positive feedback can be divided into two further subtypes, simple and dynamic positive feedbacks. Simple positive feedback refers to the phenomenon when the initial triggers cease to exist without generating new triggers. In this case, a stable equilibrium (neutrality zone) sets in. Practically, it means that the original problem is resolved by the institutional response (horizontal and/or vertical integration) and this response does not induce new problems. By contrast, it is also possible that the positive feedback leads to an unstable equilibrium and results in new endogenous triggers. Accordingly, member states decide to take further steps that yield new institutional outcomes. These triggers may be the subsequent modification or fine-tuning of the previous outcome. This means that a dynamic feedback has a kind of multiplier effect on the functioning of the integration. The dynamic process (feedback) stops if a certain outcome leads to a stable equilibrium. In principle, *negative feedback* may present if an institutional outcome finally turns out to be harmful or inefficient. If the member states give a ‘wrong

⁴ With the entry into force of the Lisbon Treaty in 2009, QMV and the co-decision procedure became the dominant rule in the decision-making system. According to the Article 294 of the Treaty on the Functioning of the European Union (TFEU), this is the ordinary legislative procedure.

answer' to the triggers, or if they are unable to work together efficiently in the new neutrality zone, then the initial problems (triggers) continue to exist.

2.3. Testing neofunctionalism: Exploratory case studies

The thesis examines the explanatory power of neofunctionalism based on *exploratory case studies*. O'Brien and Williams [2020] argue that case study is one of the most common methods of studying phenomena in the field of International Political Economy (IPE). We accept and follow their definition, according to which "[a] case study is a detailed investigation of a particular event or issue" (O'Brien and Williams [2020: p. 28]).

There are multiple reasons why we have chosen case study as a methodological tool. First, our goal is to investigate a contemporary phenomenon extensively. More precisely, we intend to test the explanatory power of neofunctionalism by analyzing two (potential) elements of European Economic Governance. In relation to this, we want to explore through the case studies whether spillover triggers and/or institutional outcomes can be detected. Put differently, exploratory cases serve as a field for testing our modified neofunctionalist framework (see *Figure 9*). Using the concept of Dul and Hak [2008], in the dissertation we use theory-testing case studies (Dul and Hak [2008]) in order to decide whether neofunctionalism provide an adequate explanation for the crisis management. Second, taking into account that we study contemporary events over which we do not have control, case study seems to be an appropriate methodological tool (see e.g. Yin [2014]). Third, the nature and complexity of the research topic and our model makes it (almost) impossible to apply other methods such as experiment, survey, econometrics, etc. As János Kornai [2019] emphasizes, there are systems, organizations and phenomena that are too complex to be modeled mathematically (Kornai [2019]). Fourth, the major neofunctionalist works also preferred this type of method to test the explanatory power of the theory (e.g. Haas [1958], Tranholm-Mikkelsen [1991]). In this respect, our own analytical framework and the exploratory case studies are tightly intertwined since we apply the modified model to the cases.

We have selected two cases: the *European Fiscal Union (EFU)* and the *European Banking Union (EBU)*. The *case selection* can be justified by the following arguments. Prior to the crisis, there was no efficient instrument for the fiscal and financial pillars of European Economic Governance (Szijártó [2018]). However, tight interconnectedness between these two areas in the form of the so-called 'diabolic loop' makes the whole system vulnerable. The significance and risks of this relationship were also emphasized in the 'Four Presidents Report' in 2012,

which envisaged the plan of the ‘genuine Economic and Monetary Union’ (Rompuy [2012b]). As a consequence, the simultaneous creation of the Banking Union and Fiscal Union would result in a qualitative change in the architecture of the EMU. Nevertheless, mostly due to divergent preferences, an asymmetric progress can be experienced in the two areas (Benczes and Kollárik [2021]).

The sovereign debt crisis has brought to the surface a series of problems, shortcomings and asymmetries of the Economic and Monetary Union. The fact that fiscal policies remained in the hands of the Eurozone member states resulted in a functional tension, which had to be handled by the countries. Therefore, the creation of a (potential) fiscal union came to the forefront of the debates in 2012 (Rompuy [2012a]). Although the idea of a fiscal union is quite controversial because there are several different and diverging preferences among the member countries. It is true that the protection of the Euro Area (as a public good) is a common interest, but the issue of burden-sharing leads at the same time to the clash of interests (Benczes [2020]). From this perspective one can easily argue that the existence of spillover triggers and effects is not obvious. Consequently, the case of the fiscal union is a good choice for testing neofunctionalism. Accordingly, European Fiscal Union is one of the case studies.

Prior to the crisis, countries exercised considerable authority over their banks (Epstein and Rhodes [2016]). Regulation and supervision of the financial institutions were in the hands of the member states in spite of the fact that the Single Market had come to existence already in 1993 (Benczes [2019]; Buda [2015]). However, as De Rynck [2016] notes, the idea of a supranational supervisory power has been floating in policy circles for more than two decades. Following the outbreak of the debt crisis, in June 2012, the EU decided to delegate banking supervision to the supranational level. On the one hand, it could be assessed as a breakthrough on the road to the Banking Union. At the same time, the loss of national control over certain competences was stressed by many member states (De Rynck [2016]). This ambivalence is described by Donnelly [2014] as the mismatch between functional and political demand for new mechanisms and the supply of financial stability (Donnelly [2014]). From another standpoint, this is a classical allocation problem of International Political Economy. In this context, providing financial stability should be perceived as a public good, and the debate is about the two major questions. The first question is about the financing (burden-sharing) of the Banking Union (the public good) while the second question focuses on the sharing of competences between states and the EU. Accordingly, the other case study is about the Banking Union.

3. RESULTS OF THE DISSERTATION

3.1. Reforms of the European Economic Governance

Following the eruption of the sovereign debt crisis, the EMU-states had to take immediate measures in order to safeguard the single currency and the Eurozone. However, in line with the neofunctionalist reasoning, it became evident that underlying problems and systemic shortcomings could be managed only by the strengthening of European Economic Governance. Endogenous triggers were strong enough to make the initial equilibrium unstable. Consequently, member states should have responded to the incompleteness of the EMU by deepening the integration. This process, at least in principle, became part of the long-run strategy of the Eurozone. *Table 2* represents the asymmetry and incomplete architecture of EEG before the crisis.

Table 2: The system of European Economic Governance before the crisis

	Pillar 1: Monetary policy	Pillar 2: Fiscal policy	Pillar 3: Financial regulation	Pillar 4: Soft economic governance
Objectives	Price stability	Sustainability of public finances	Financial stability	Harmonization and exchange of information
Instruments	<ul style="list-style-type: none"> • Conventional instruments of the European Central Bank (ECB) 	<ul style="list-style-type: none"> • No efficient instruments • Stability and Growth Pact (SGP) • Modified Stability and Growth Pact (SGP) 	<ul style="list-style-type: none"> • No efficient instruments • ‘Soft’ instruments: (Financial Services Action Plan; Lámfalussy Process) • External instruments: (Basel I and Basel II regulations) 	<ul style="list-style-type: none"> • Broad Economic Policy Guidelines (BEPGs) • Employment policy guidelines • Macroeconomic dialogue • Social dialogue • Open method of coordination (in relevant policy areas)

Source: Own table based on Szijártó [2018] with slight modification

The most efficient pillar was the monetary policy since the European Central Bank had been given supranational competence to implement monetary policy within the EMU. Regarding pillar 2, member states have not established a supranational fiscal policy. This shortcoming was a Pareto-inferior solution, which incorporated important functional pressures. Instead of establishing a true fiscal union, the Amsterdam Treaty, as a second-best solution, created the Stability and Growth Pact (SGP) with the aim of controlling public finances of the countries.

Furthermore, the fiscal pillar was supplemented by different elements of ‘soft’ economic governance (pillar 4). These elements facilitated economic cooperation through harmonization and exchange of information. Finally, regulation of the financial system (pillar 3), similarly to fiscal policy, remained in the hands of nation-states, which resulted in latent functional pressures. This area was characterized by various soft instruments (initiatives), and external regulations (Basel I and II).

Based on the analysis of the Eurozone crisis and EEG reforms, and in accordance with scholarly literature, (especially on Baldwin and Giavazzi [2015; Dyson [2017]; Hooghe and Marks [2019]; Jones et al. [2015]; Lefkofridi and Schmitter [2015]), we could accept the first hypothesis (H1) of the dissertation. According to H1 **“the global financial and economic crisis of 2008 and 2009, as an exogenous spillover trigger, generates through the sovereign debt crisis further endogenous spillover triggers in the Economic and Monetary Union.”** In line with our model, we can conclude that the Great Recession can be assessed as a critical exogenous economic spillover trigger that was strong enough to make the initial equilibrium unstable and induce endogenous triggers. In the last subsection, we scrutinized the new elements of the EEG, which made the EMU’s architecture extremely complex. We found, on the one hand, that the sovereign debt crisis led to the strengthening of fiscal and economic cooperation in the EMU. On the other hand, new components of the economic governance were established mostly on intergovernmental basis, however, supranational institutions played an important role in some cases. Despite the fact that numerous new mechanisms and rules were introduced during the crisis, neither of the above-discussed solutions led to vertical institutional outcomes. In other words, neither of them was able to support neofunctionalist logic. The Four Presidents’ Report (Rompuy [2012a]), by contrast, laid down a more ambitious package of proposals that anticipated the deepening of the EMU.

3.2. The European Banking Union

Despite of its incompleteness, the Banking Union can be assessed as a truly supranational solution in the system of European Economic Governance that led to a considerable transfer of sovereignty. According to our neofunctionalist model, different triggers can be identified, which finally led to vertical institutional outcomes, i.e. the EMU moved upwards in dimension *y*. Therefore, due to the spillover mechanism, the integration moved out from the neutrality zone and shifted to a new equilibrium, which improved the functioning of the EU.

Through the case study of the EBU, we explored each types of endogenous triggers, i.e. functional, political, and institutional. It practically means that political players (elites) and supranational actors played a key role in answering to functional triggers came from the incompleteness of the EMU. Furthermore, these triggers resulted in a vertical integration that improved the functioning of the integration. In sum, the case of the EBU supports our second hypothesis (H2), according to which **“endogenous triggers lead to institutional outcomes that result in the deepening of the Economic and Monetary Union.”** In addition, based on the institutional outcomes of the Banking Union, we can accept our third hypothesis (H3) as well, which states that **“spillover triggers and outcomes can be detected and identified regarding the plan and implementation of the European Banking Union (EBU) and/or the European Fiscal Union (EFU).”** However, it is important to emphasize that the Banking Union is still incomplete, thus the completion of the EBU remains an important task for the future.

3.3. The European Fiscal Union

Finally, in the last subsection, we analyzed the case of the European Fiscal Union (EFU). The establishment of a fully-fledged EFU would be another key element of the European Economic Governance. Fiscal federalism would strengthen the economic (fiscal) pillar of the EMU. However, as we argued, there are three basic factors impeding the creation of the EFU. First, a supranational fiscal union would require core budgetary functions to be delegated to the EU-level. However, member states are presently unwilling to give up their sovereignty in this policy area. Paradoxically, due to this sovereignty dilemma, member states strengthened fiscal governance via marginal (and Pareto-inferior) solutions. In line with our neofunctionalist model, it means that in spite of existing triggers, member countries chose marginal (mostly intergovernmental) answers to overcome the crisis. These reactions managed to alleviate functional pressures in the medium-term, but underlying pressures continue to exist. Finally, the conceptualization problem should be resolved, i.e. a clear and single definition of European Fiscal Union would be necessary in order to negotiate on the optimal institutional architecture. We finally concluded that in spite of strong functional, (EU-level) political and some institutional triggers, the implementation process of a European Fiscal Union became standstill. Nevertheless, we share the view of observers who claim that a supranational solution (a fiscal union or fiscal federation) is indispensable in the long run. To sum up, the (absence of) the **European Fiscal Union supports only in part of Hypothesis 3 (H3), i.e. while functional**

and institutional triggers can be explored, divergent national preferences hamper political triggers. As a result, in the absence of vertical institutional outcome, the fiscal side of the EMU is still incomplete.

3.4. Summary, contribution to the literature and further research directions

In our thesis, we tried to capture the developmental trajectory of an extremely complex system, the Economic and Monetary Union, and, indirectly, the European Union as a whole. To do so, we invoked the Neofunctionalist Research Program, which helped us with ordering and describing the post-crisis events from a theoretical point of view. Our major purpose was to test the explanatory power of the neofunctionalist approach in the uncertainty phase. We found that, in spite of the complex architecture of the European Economic Governance, the EMU reached a critical milestone in the area of financial regulation (Pillar 3). The establishment of the European Banking Union was considerable reaction to underlying pressures, which had to be managed after the Great Recession and the sovereign debt crisis. In accordance with the transfer of sovereignty in this policy area, we can conclude that neofunctionalism is still relevant in explaining long-run developments of the integration. Of course, the EMU (and the EU) is far from a fully-fledged economic federalism. Nevertheless, the NRP, and our theoretical framework may serve as a good tool in analyzing the developmental tendency of the EU.

The dissertation intends to *contribute to the existing scholarly literature* in three different ways. First of all, integration theory and its application is an underresearched area in Hungary. Accordingly, works on the European Union that study the integration in neofunctionalist framework, cannot be found in the Hungarian literature. Primarily, the thesis intends to fill this gap. Secondly, the work examines the Eurozone after the crisis of 2008-2009, so it extends the time horizon of the application of the theory to the post-crisis period. Generally speaking, it scrutinizes whether the theory has a satisfactory explanatory power regarding the reforms of the economic governance. Finally, in the thesis we apply an own analytical framework which is a slightly modified and transformed version of the neofunctionalist theory. It means that, on the basis of previous neofunctionalist works, we establish a new conceptual and methodological framework, and apply it in the case of European Economic Governance.

Of course, the dissertation can be further developed in several directions. Here, we mention three of them. First of all, there is an opportunity to refine further the modified neofunctionalist framework. Second, the model can be applied to analyze cases and events in other policy areas,

such as the Common Foreign and Security Policy. Lastly, the model might be useful in scrutinizing the development of other regional integrations in the world economy.

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