Drunk on Conditionality: The Move to Coercive Conditionality in the EU Periphery

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This short paper tries to understand the evolution of EU instruments for crisis management in the Eurozone. In so doing, it joins a crowded field.[1] Sidestepping a number of other important debates, it focuses instead on two less-studied dimensions: first, the way in which instruments for crisis management in the Euro are shaped by the prior decade's largely happy experiences with conditionality in the context of EU enlargement between about 2000-2007; and second, the largely disappointing results of conditional instruments and the policies they have helped bring about in Southern Europe since 2010. One implication is that further reliance on conditional policies is unlikely to bring the positive outcomes the main European institutions—here the Council, Commission, and ECB—have long hoped for. Thus, our paper joins a chorus of recent voices in suggesting the EU needs to try something new (Matthijs and Blyth 2015; Chalmers, Jachtenfuchs and Joerges 2015; Börzel, forthcoming).[2] While the nature of that 'something new' is beyond the scope of this paper, we hope to offer a diagnosis of one of the little-seen but quite important roots of EU conditionality.

Our working title is a reference to the idea that the EU—in particular, the Commission—is taking a legitimate policy tool in what may ultimately prove to be illegitimate directions. Conditionality is a new tool in the Commission's tool kit, having been most prominent since the accession of ten new member states in 2004 and 2007. In subsequent years, it was used in a somewhat different form 'against' Romania and Bulgaria even after they became members. Since 2008, it has then morphed into an increasingly widely-used instrument vis-à-vis the Southern European member states, particularly Greece, Spain, and Portugal and, for a much shorter period, on Latvia, Hungary and Romania, which also needed bailout programs.

Of course, our title is an allusion to the idiom that someone is "drunk on power." The underlying idiom juxtaposes two important ideas. The first is the idea that someone or something is relying on power and, by implication, not on persuasion, deliberation, side-payments or some other form of cooperative inducement. But the second crucial idea is that this overreliance on power is an *aberration*, and this work

[1] Hodson, Blyth, Matthijs, Schmidt, Schelkle, Jabko, Woodruff, Streeck, Scharpf, Jacoby, Hopkins, Börzel, Dullien, de Grauwe, Eichengreen, Bibow and on and on. In general, please forgive the limited citations in this draft.
[2] Matthias Matthijs and Mark Blyth (2015), The Future of the Euro. (Oxford University Press); Damian Chalmers, Markus Jachtenfuchs and Christoph Joerges, (eds) (2016) The End of the Eurocrats Dream: Adjusting to European Diversity (Cambridge University Press).

is done by the word ‘drunk.’ Someone drunk on power is someone who is—counter to expectations or past practices—is now over relying on power. We use this idiom in moments when a peer has been promoted to leadership and seems to have forgotten where they come from. Or when a professional body has lost touch with its membership and has stopped trying to persuade. Or when a government body gives top-down orders while blocking bottom-up feedback. To overuse something often also implies using it badly or, in a word, drunkenly. By extension, to ask if the EU is “drunk on conditionality” is to ask both if the EU institutions are overusing conditionality and if they are using it clumsily in cases where it is deployed. We find evidence for both of these propositions.

One important reason for caution on conditionality is that it was neither a pure strategy during enlargement negotiations, nor did it always succeed. Without a doubt, conditionality did play an important role in preparations for the 2004 enlargement, but success always depended on much more than conditionality. For example, Bruszt and Langbein (2014) show that the EU used a range of other informal instruments to help develop CEE states for membership (see also Bruszt and Vuchow 2015). Thus, conditionality was not the only or even main tool used by the EU during enlargement. Notwithstanding such evidence that the EU always depended on a far broader range of instruments than conditionality, the EU approach to Southern Europe appears to have elevated the conditionality tool to a much more central place in its policy mix.

To an extent, this actual practice appears to have a strange mirror in scholarly practice, where one of the widely internalized “lessons” of enlargement is that “conditionality worked” (Jacoby 2006). For example, many sophisticated works of scholarship on the region—eg. Vachudova 2005—have been subsequently stylized and simplified in citations, such that the EU role is reduced to ‘active leverage’ or conditionality. Meanwhile, her claims about ‘passive leverage’ and indeed a range of other instruments are downplayed or even forgotten. To be sure, Commission officials are generally well aware of the shortcomings of their conditionality instruments (and some are now increasingly aware of the difficulties the IMF has long faced in using conditional tools). They have certainly worried about the ineffectiveness of conditionality tools against backsliding of 2004 entrants like Hungary; meanwhile, others see the endemic corruption of 2007 members, and still others emphasize the essential irrelevance of conditionality for some states in the Western Balkans. And yet notwithstanding what must be some level of ambivalence at the EU level about conditionality tools, we see a veritable explosion of these instruments being used ‘against’ existing member states. Greer (2014) establishes that these conditions have strong affinities with IMF conditions familiar from long experience.[3] By extension, it should be possible to show that they have relatively little in common with membership conditionality.

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[3] Though Lütz and Kranke stress the more orthodox position of the EU Commission relative to the more lenient IMF (2014), while Woodruff stresses the extreme orthodoxy of the ECB (2014)

Stylized differences: Conditionality across two periods

A stylized summary of the differences in conditionality in the two periods appears in Table 1. Conditionality toward CEE states in the late 1990s and early 2000s (top row) was aimed at ensuring a certain level of institutional convergence on EU-15 practices. Single Market regulations have direct effect and often required little explicit legislative work by the candidate states, although compliance often required setting up entirely new state institutions in domains from agriculture to consumer protection to energy and transportation. EU directives, of course, also required a legislative product and often also required new bodies to be established or heavily reformed. If we focus on the approximately 30 policy areas affected by the Commission's screening process, these generally did not involve core state functions of citizenship, defense and foreign policy, or basic economic choices about fiscal, social, and labor market policy.[4] Monetary policy was another matter, as all CEE states were obliged to commit to future membership in the EMU. At the same time, these challenging measures were flanked with many policies of a non conditional nature (Brustz and Vukow 2015). Moreover, there could be little doubt the EU controlled the central reward promised through conditionality, namely full membership in the EU. In that sense, the conditionality was likely to be credible.

Table 1: Stylized differences in the two phases of EU conditionality

	Kind of states affected	Policy areas affected	EU measures flanking conditionality	Does the EU control the reward?
Conditionality in CEE during early 2000s	Candidate states with a membership perspective	Primarily non-core state functions	Trade access, FDI promotion, value-chain incorporation	Yes, the central reward is EU membership
Conditionality in CEE and SE in crisis period	Member states	Often core state functions, (fiscal, labor market, social state)	Emergency liquidity assistance of various kinds	No, the central reward is the return of economic growth or lower debt/GDP ratios

Recent crisis-era conditionality in both CEE (Latvia, Romania and Hungary all had Troika programs) and SE have a quite different character.[5] First, the affected states are all EU members, including longtime members in Iberia and indeed one founding EC member in Italy. Second, conditionality here is very much focused on core state

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[4] The Copenhagen criteria, which included democratic rule and a functional market economy, clearly did involve core state functions. We treat these as a pre-requirement for opening negotiations and would not deny that the EU thus had some influence over core state functions. Our point is that the EU generally did not use its formal conditionality instruments for core state functions.
[5] Hungary and Romania are not EMU members, and Latvia was not at the time of the IMF program.

functions in fiscal, labor market, and social policy domains—all areas of traditional member state prerogative. Third, the flanking measures have been both narrower and deeper. On the one hand, the rewards for the conditioned behavior have been almost exclusively monetary, primarily in the form of liquidity assistance for banks or programs to purchase the bonds of states. At the same time, the amount of money provided by or with the help of the European institutions is far higher than what was available in the pre-accession programs.[6] Yet despite the vast sums of money spent in crisis states, the EU is only in a position to reward crisis state policies with the promised liquidity. It cannot, of course, give them stable fiscal balances, let alone economic growth. Simply put, happy economic outcomes are not the EU's to bestow, and additional liquidity—though badly needed—cannot be linked to a concrete outcome in quite the same way EU membership could.[7]

Thus, despite some commonality in the instruments developed and deployed in the two periods, there are significant differences in important scope conditions. The next section briefly recaps the development of conditional instruments in the EU before turning to a summary of the ways in which conditionality has been deployed after the 2008 global financial crisis and 2010 Eurocrisis.

The EU discovers conditionality: The enlargement period

Historically, the EC/EU has made very little use of conditionality—defined here as promises by international organizations to provide benefits to states in exchange for those states enacting specific policy changes spelled out by the IO. For the most part, the EC/EU have worked according to a legal logic, in which the costs and benefits of both intergovernmental and supranational modes of policy making were shared by all member states. At most, one might see an important locus of proto-conditionality in the policy area of structural funds, where member states received variable access to investment funds and only if they fulfilled an increasingly complex set of requirements (Hooghe 1996).

This changed with the Council's decision to shape a "membership perspective" for states in the former Eastern Block. One aspect of this pre-enlargement process was the translation of the large corpus of primary and secondary legislation of the Union into a set of institutional targets for the ten states then actively pursuing membership. By all accounts, these efforts to promote legal, institutional, and behavioral reform went well beyond those made in prior (much smaller) waves of enlargement. A number of tools intimately related to conditionality were developed, primarily by the Commission. These includes aid instruments (Phare) that themselves involved conditionality, plus the screening exercise, national programs

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[6] Official pre-accession assistance for the relevant 2000-2006 budgetary period amounted to 22 billion euro, which includes, Phare, ISPA, and SAPARD. See http://ec.europa.eu/enlargement/archives/questions_and_answers/11-22_en.htm#costs

[7] Add data on the deterioration of debt/GDP levels in some Southern economies during the period of austerity.

for the adoption of the acquis communautaire, and the Commission's annual report series on each prospective member state. These have all been detailed in an extensive literature.

In addition to conditionality, however, the EU also made available what Bruszt and Vukow (following Bruszt and McDermott) call "multiplex" assistance programs that gave the EU-prospective member state relationship a joint problem-solving dimension. As noted earlier, these programs were also flanked by foreign direct investment from private sources that saw the slow but substantial incorporation of the region into the production chains of firms headquartered in Western Europe (EEER paper). To be sure, these firms (and the states in which they were headquartered) kept a close watch on competitive conditions and often actively "managed" their own backyard in ways that were opposed by states in CEE (Jacoby 2010). Still, the important points are that EU conditionality was focused on one major goal (membership), generally targeted non-core state functions, and was flanked by both private and public initiatives that promoted the rise of CEE up the value chain.

Crisis-era conditionality: from lever to club?

EU actors had many reasons to feel satisfied with their use of conditional tools, and there is evidence they did feel satisfied. First, all of the states subject to conditionality in the enlargement period were ultimately allowed to join the EU. Had this not been the case, second thoughts about conditionality might have registered sooner. Second, when the decision was taken to delay Bulgarian and Romanian accession by three years (when compared to the other then-candidate states), the Commission leaned even more heavily on conditional instruments in its overall policy mix. Indeed, the EU generated a new mechanism for Bulgaria and Romania that preserved elements of conditionality even after membership. Moreover, when the EU established an instrument for what came to be called the "Neighborhood," there was a strong element of path-dependency in the instruments used (New Wine). To be sure, it soon became quite clear to the EU and in the literature that the lack of a membership perspective had made conditionality substantially less effective in the neighborhood. Still, the general consensus was that the EU had surprised the scholarly world (which generally had found little evidence for successful conditional policies in other world areas), its transatlantic partners (see the surge of interest in democracy promotion in the US), and even itself. One might even argue that the Nobel Peace Prize was a reflection, in part, of the EU's successful engagement of Central and Eastern Europe, including the conditional instruments developed there.

These circumstantial points are important, as this draft of the paper provides no direct sociological evidence that conditional programs in the first period were highly influential in setting up conditional programs in the second period. Certainly, we know that every DG inside the Commission was involved in enlargement through the legislative approximation and monitoring functions, so experience with conditionality was spread widely across the Commission's relatively small staff. This

does not preclude—and our interviews have confirmed—that DG ECFIN officials also learned about conditional instruments from their interactions with the IMF already with the outbreak of severe balance of payments problems in CEE in 2008.[8] This argument is broadly consistent with Börzel's argument (forthcoming) that the EU tried to manage the Eurocrisis as a "regulatory" matter, as regulatory politics was the classic locus of conditionality during enlargement.

Of course, a key difference is that the debtor countries of the periphery were already fully compliant EU members, and therefore none of the measures could be regarded as requirements for continued membership. Instead the conditionality measures were measures that in many cases had already been recommended, for example through the Open Method of Coordination, but which could now be coercively imposed as the need for financial aid gave the EU institutions dramatically increased leverage. This gave a deeply invasive quality to the European institutions' interventions in the organization of the economy and society, and brought them into deeply sensitive and normative areas of domestic politics in some member states, whilst others maintained a greater degree of independence.

The interventions took different forms with the involvement of different institutions. Here we distinguish between conditionality in the Economic Adjustment Programmes for Greece, Ireland, and Portugal (and later Cyprus), and the Financial Sector Adjustment Programme for Spain, led by the European Commission, and conditionality as part of the interventions of the ECB to provide liquidity assistance and other forms of monetary financial support.

Conditionality and Monetary Union: From Maastricht to Troika

Although all the countries subject to conditionality under the various financial assistance arrangements were already EU member states, participation in European Monetary Union had itself been conditional on success in meeting a series of 'convergence criteria' established by the Maastricht Treaty. This experience differed from EU accession in that its requirements were mostly in terms of measurable economic outcomes such as (inflation rates, interest rates, exchange rates and levels of government borrowing) rather than institutional or legislative changes (although central bank independence was part of the package).

This previous experience of conditionality had two salient features which may have influenced subsequent choices. First, the success of some of the economically weaker member states in achieving the quite demanding requirements of monetary union established a very positive precedent which policy-makers could draw on. When the criteria were decided some believed that they had been defined with the

[8] Woodruff (2014) links conditional policies also to ordoliberal ideological impulses emanating mostly from Germany. Thus, we do not insist that CEE experiences were the only route through which ideas about conditionality entered the EU institutions.

express purpose of excluding some of the more vulnerable member states, especially Italy and Greece with their very high debt/GDP ratios. The apparent success of national policy-makers in persuading voters to accept politically challenging reforms and stringent fiscal and monetary policies were celebrated as an example of how external pressures could force governments to adopt the right policies, overcoming domestic opposition (Dyson and Featherstone 1996, Ferrera and Gualmini 2000). It was hoped that, faced with the constraints of operating within the rules of the single currency, this positive reform trajectory could be continued and enhanced.

A second, less positive feature was the evidence, already visible at the time but even clearer in retrospect, of 'gaming' the process so as to meet the criteria with the minimum of real change. In this the Southern countries were assisted by the difficulty Germany and France themselves faced in complying, which encouraged a more lax interpretation of the criteria in order to allow the process to go ahead (de Grauwe 2009). It subsequently became apparent that accounting tricks of various kinds had also been deployed in order to reduce borrowing figures artificially, most notably by Greece, whose resort to fiscal sleights of hand became apparent once the financial crisis began.

The convergence criteria suggested an enthusiasm for external supervision and disciplining which was particularly present in Germany and other Northern European core countries who were sceptical of pooling monetary sovereignty with member states in the South with a history of high inflation, weak fiscal policy and debt default. The architecture of EMU was therefore designed to monitor the fiscal behaviour of participating states, both as political cover to reassure Northern electorates that the euro would not expose them to excessive risks, and as a practical matter, to provide Northern governments with some degree of control over the new arrangements. In this sense, conditionality was present at the birth of the single currency, although its usages in the event of a global financial catastrophe were barely anticipated.

The sovereign debt crisis in the eurozone periphery began with Greece's slide into insolvency in 2010. The €110 billion bailout agreed by the Eurogroup and the IMF was the first move in the European response to the run on periphery debt, and therefore had to overcome a good deal of political resistance. European elites faced a difficult dilemma between avoiding contagion and creating moral hazard, and were constrained by rules established by the designers of the EMU that outlawed direct bailouts of indebted governments or debt monetarization. When the Greek situation became unsustainable without outside help, the response was to lend Greece the money on condition that it both implemented austerity measures to reduce its deficits, and introduced structural reforms to address some of the country's most glaring weaknesses. By imposing harsh conditions on Greece, the potential moral hazard would be attenuated, and the more unpleasant the conditions, the more it would send a clear signal that bailouts would not be an easy option for profligate eurozone governments.

The 2010 conditionality measures in Greece included structural adjustments on Fiscal Policies, including the task to reduce general deficit by 11 perfect of GDP over three years to 3 percent by 2014 (Henning 2011 and Henning 2014, Annex 1).[9] This was done through the reduction of the 13th and 14th holiday payments for civil servants and cutting bonuses by a further 8 percent to save 1.1 billion euros in 2010.[10] These measures also included cutting public investment plan by 500 million euros (Petrakis). To raise revenue, there was an "increase in the two main sales-tax rates to 23 percent from 21 percent and to 11 percent from 10 percent. That's equivalent to 800 million euros in 2010 and 1 billion euros in 2011" (Petrakis). Revenues also included an increase of 4% GDP through 2013 by raising taxes on luxury items, tobacco, and alcohol among other items (Henning).

This harsh austerity may have been questionable in economic terms, given the recessionary and debt deflationary dynamics it unleashed (Krugman, Blyth), but it did serve a clear political purpose. "These countries can see that the path taken by Greece with the IMF is not an easy one. As a result they will do all they can to avoid this themselves," Angela Merkel told the Bild am Sonntag newspaper[11]. This same point was made more forcefully in private meetings of European leaders, according to Timothy Geithner's memoirs: unnamed EU leaders took the view that "we're going to teach the Greeks a lesson. They are really terrible. They lied to us. They suck and they were profligate and took advantage of the whole basic thing and we're going to crush them"[12].

The headline points of the Economic Adjustment Programme for Greece were the fiscal measures, but underpinning the Commission's analysis was a diagnosis of structural weaknesses in the Greek economy that needed to be addressed[13]. The Programme used the language of structural reform and competitiveness, arguing

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[9] Henning, C. Randall. "Coordinating Regional and Multilateral Financial Institutions." *Peterson Institute for International Economics Working Paper*, no. 11-9 (2011).

[10] Petrakis, Maria and Natalie Weeks. "Greece Outlines Conditions of EU-IMF Package: Summary" Bloomberg.com (May 2, 2010).

[11] "Eurozone approves massive Greece bail-out" , *BBC News*, 2 May 2010 http://news.bbc.co.uk/1/hi/business/8656649.stm

[12] Timothy Geithner, *Stress Test: Reflections on Financial Crises* (New York: Random House, 2012).

[13] European Commission, Directorate General for Economic and Financial Affairs, 'Economic Adjustment Programme for Greece', Occasional Papers 61, May 2010. http://ec.europa.eu/economy_finance/publications/occasional_paper/2010/pdf/ocp61_en.pdf

that Greece 'underperforms in many structural policy areas', notably 'rigid product and labour markets' which would 'undermine the Greek economy's capacity to adjust'[14]. These were areas that the Commission had already identified as problematic in the past[15]. The Programme also identified major failings in the operation of the Greek public administration and public financial management. In short, the Programme laid down an ambitious plan for the reform of the Greek state and economy, with a conditionality regime to make further disbursements of aid dependent on achieved agreed reform targets.

Despite it being based on 'conservative assumptions'[16] subsequent events proved this Programme so unsuccessful that a second Greek rescue package, amounting to €164.5 billion, was needed by late 2011. The Second Economic Adjustment Programme superseded the first one, and brought additional conditions, including in 2013 a cut in the minimum wage by 22%, a reduction in ULC of about 15%, a reduction in health-related expenditure by 1.1 billion Euros and 500 million in pensions and family allowances (Henning). The second bailout was needed because of the sharper than expected collapse of Greek GDP in the wake of the austerity measures introduced, and the spiking of interest rates across the periphery leading to fears of contagion.

The Eurogroup, wary of the apparent failure to make sufficient progress after the first bailout, urged an increase in monitoring the Greek government, '(inviting) the Commission to significantly strengthen its Task Force for Greece, in particular through an enhanced and permanent presence on the ground in Greece, in order to bolster its capacity to provide and coordinate technical assistance'[17]. Here conditionality was complemented with attempts to establish increasingly invasive oversight and control. This included the demand to introduce into "the Greek legal framework a provision ensuring that priority is granted to debt servicing payments", requiring constitutional change. In this example, conditionality tools extended to altering the fundamental law to (attempt to) prevent the Greek state spending money on its own citizens that could be spent on repaying international creditors. These moves reflected an increasing exasperation at the difficulties involved in getting Greece to meet the conditions of financial aid, difficulties due to both the political constraints facing Greek leaders, and the Greek government's awareness of the lack of options facing European leaders fearful of the consequences of a Greek financial implosion.

The Greek bailouts are perhaps the sharpest case of the dilemmas of conditionality, and other programmes proved less difficult, but reveal similar tensions. The

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[14] Ibid., p.6.
[15] Ibid., p.13.
[16] Ibid, p.28.
[17] Eurogroup, "Eurogroup Statement", 21 February 2012. http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/128075.pdf

Portuguese bailout of 2011 amounting to 78 Billion Euros contained measures to cut on 5% average public sector wages and wages and pensions to be frozen, with a reduction of civil servants at the central government by 1% in 2012 and 2013 (Hemming). "Spending reductions for 2012 and 2013, including cuts to pensions, will amount to 3.4 percent of GDP, while revenue increases will represent 1.7 percent of economic output."[18] Cyprus conditionality is similar to that of Greece and Portugal. There are increased Public sector wage freezes, cutbacks to welfare programs and pensions. A few key statistics on Cyprus conditionality include an "increased the standard VAT rate from 17% to 18% in 2013 and to 19% in 2014, and the reduced rate from 8% to 9% starting in 2014."[19] There will also be public sector wage freezes or cuts including "a reform of the cost of living adjustments, wage indexation mechanism in the public sector by extending its freeze to the end of the program and limiting its application to 50% of the price index thereafter" (Griffiths, 15).

Spain differs from the other countries in that the major conditions are to restructure the Spanish banking sector. The key banks included in the reconstruction are Bankia, Novagalicia Banco, Catalunya Banc and Banco de Valencia.[20] Bankia said it would "lay off 6,000 employees, or 28 percent of its work force, and cut its branch network by 39 percent. The bank predicted it would return to profit next year and reach earnings of 1.5 billion euros ($1.9 billion) by 2015." In this respect, Spain was treated rather differently, and after the conservative Rajoy government pushed through a far-reaching liberalization of the labour market which had the effect of accelerating wage adjustment, the European institutions have tended to treat Spain similarly to Ireland, as a success story to contrast with the Greek debacle.

Conditionality and the ECB

The ECB also exercised conditionality. Such tools had generally not been part of the ECB's standard practices. Since its foundation in 1998, the ECB had seldom been in a position to ask individual states to change their policy. With the Eurocrisis, this changed (Henning). Woodruff shows three separate episodes in which the ECB demanded of certain member states specific policy responses as a precondition for enhanced liquidity. In the first case in 2010, Trichet made liquidity provision

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[18] Neuger, James G. and Anabela Reis. "Portugal's $111 Billion Bailout Approved as EU Prods Greece to Sell Assets" May 16, 2011, Bloomberg.com

[19] Griffiths, Jesse and Konstantinos Todoulos. 2014. "Conditionally Yours." European Network on Debt and Development. Page 15.

[20] Minder, Raphael and James Kanter, "Spanish Banks Agree to Layoffs and Other Cuts to Receive Rescue Funds in Return" NYT.com (2012)

conditional on both the Council's adoption of a broader rescue mechanism (which became the European Fiscal Stability Fund) but also on specific austerity pledges by Greece, Portugal, and Ireland. In Greece and Portugal, funding was also made conditional on pledges by opposition parties to respect the arrangements should they come to power (2014: 100).

In the second case, Trichet sent detailed letters to the governments of Italy and Spain in late summer 2011 calling for 'intensified austerity, labor market reforms and a liberalized reorganization of collective bargaining' (Woodruff 2014: 100). While the letters did not mention enhanced liquidity conditions then being considered by the ECB, press reports indicate that most observers understood the reforms to be a quid pro quo for ECB bond purchases, and both governments made the suggested changes, including in the Italian case the deposing of Silvio Berlusconi as Prime Minister and his replacement by the former European Commissioner Monti. The ECB also provided cover for the idea of a new "Fiscal Compact" that would effectively constitutionalize the recent German-Swiss innovation of a federal "debt brake." Pushing the Fiscal Compact was one of the first moves of new ECB-President Mario Draghi in late fall 2011, and access to the ESM was made conditional on ratification of the Fiscal Compact (2014: 102).

In the third case, the ECB acted in a future-oriented way to embed conditionality into a provisional program, that of Outright Monetary Transactions. Under Draghi's leadership, the ECB embedded conditionality into any future use of OMT, which allowed the ECB to engage in unlimited intervention in bond markets. As Woodruff observed, the OMT combines "certainty for markets" by making possible the monetary resources to stop self-fulfilling pessimism about doom loops, but also "uncertainty for governments" by making access to OMT conditional upon their policy responses in many other areas (2014: 103). This obviously tracks the similar use of future-oriented conditionality in the ESM, which, like OMT, has not been deployed to date.

In other words, monetary policy responses were conditional on fiscal policy changes or on labor market or other structural reforms. Moreover, Woodruff shows that these reforms were not intimately bound up with the success of the monetary policy stance. Instead, 'ideas' and 'politics' were the driving forces, particularly ordoliberal interpretations of needed reforms. But where did these ideas come from? This Woodruff does not explain, although he implies that financial interests are always quick to discovery monetary policy as a lever with which to repress populist politics. Our article shows another very important institutional antecedent, namely the Commission's own discovery and refinement of a set of conditionality instruments during the previous decade's intense EU enlargement exercise.

These new Commission and ECB roles in exercising conditionality in core state functions also help shed light on otherwise puzzling developments elsewhere in the

literature.[22] For example, new research on the European Council (Puetter 2014) explicitly denies any prominent role for 'hierarchy' in the 'new' domains of economic governance and monetary policy.[23] According to this view, as member states have grown wary of the community method, they have developed important new instruments in economic policy, but these have relied on an intergovernmental process marked by substantial and sustained 'deliberation.'[24] This has entailed a major shift by the Council away from its prior focus on legislative work and towards inter-state coordination in various fora. Integration thus increases but without legal delegation but instead by cooperation from which defection remains an open possibility.

Applying this broad argument to the case of economic policy, Puetter finds that the member states have sought to limit the Commission's role in these new areas and have also prevented ECJ oversight by placing them in new treaties (e.g. ESM) or intergovernmental agreements (e.g., Fiscal Compact). Puetter is convincing in showing that the instruments of control at the Council level are not legally binding, and we can accept the idea that states can break these commitments. The evidence for this is substantial.[25] Where we break from Puetter is our insistence that quite a lot of conditionality and 'hierarchy' is being used (see also Börzel, forthcoming). Thus, we insist on the crucial point that—whatever deliberation is going on at the Council level—other agents, such as the ECB and the Commission, are indeed able to flank or enforce the agreed policies.

A related case is that of Macroeconomic Conditionality, which was introduced into the structural funds programming for the 2014-2020 budget period.[26] The core idea of this legislation introduced is that a member state's structural fund access would depend on the state's compliance with broader requirements of economic governance (van Hecke, Bursens, and Beyers 2016). A group of states known as the "Friends of Better Spending" and consisting of Austria, Denmark, Germany, the Netherlands, Sweden, and the UK supported this proposal, which won the backing of the Council. The core idea is that if a member state fails to comply with steps listed under macroeconomic coordination and subsequently fall into a too-large budget deficit, its access to structural funds would be suspended. Indeed, this proposal was opposed by the associations of regional governments on the grounds that regional

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[22] The ECB also used conditionality on the question of exactly how the Irish retired bond debt.

[23] The European Council and the Council: New intergovernmentalism and institutional change. OUP 2014. Uwe Puetter.

[24] Puetter extends this argument to foreign policy and employment policy as other examples of new domains of Council/European Council activity.

[25] Hallerberg in MonekyCage on the systematic breaking of Fiscal Compact.

[26] Marjorie Jouen, (2015) "The Macroeconomic Conditionality: The Story of a Triple Penalty for the Regions," Notre Europe, Policy paper 131, March, see especially pp 4-5.

governments could lose access to funding as a result of (national) spending patterns they cannot control.[27] The final legislation foresees that structural fund projects can be "suspended" by the Commission if a state is in excessive deficit and also "cancelled" if such deficits persist.[28]

Conclusions

This paper has made a first attempt to suggest how the EU came to develop conditional instruments during the enlargement process of the 2000s and then began to develop similar logics again after the onset of the global financial crisis in 2008. Our central worry is that the contemporary EU's overextension of its conditionality tools may result in a kind of simplistic and 'truncated' developmentalism. In some cases, this set of tools seems highly inappropriate in some of the contexts they are being used.

This paper shows that the recent Southern European experience suggests conditionality has significant limitations in achieving the goal of structural reform, and works differently in cases where countries are already inside the EU and the eurozone. One obvious difference is that, in the absence of a specific 'reward' to be dangled before national level policymakers, elected politicians have less incentive and fewer resources to mobilize political support for reforms. The experience of the same countries' accession to the single currency in the 1990s is instructive – policymakers were able to win support for unpopular measures by evoking the sunny uplands of a more prosperous future within the euro area. Romano Prodi's 'Eurotax' is a good example of this. More short-term negotiations on the release of bailout funds or the provision of central bank financing lack these characteristics, in particular because national policymakers are aware that the bailouts are of mutual advantage to creditors and debtors, but also because the nature of the political path to the 'reward' precludes political mobilization around it.

The other obvious difference is that the policies upon which financial aid is made conditional are unable to achieve the broad goal of structural reform that implicitly or explicitly informs them. Specific fiscal requirements aimed at reducing deficits do not preclude that inefficient, corrupt or clientelistic patterns of public spending and regulation can continue. Exhortations to reform economic institutions, such as labour market regulations, can fall on both the legislative process, as measures are watered down (such as for instance labour reform in Italy), or in implementation, as judicial institutions reverse or nullify the intended effects of reform. The essential weakness remains that conditionality sits uneasily with member state-level democratic institutions. If what the Troika or the Commission want is unacceptable

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[27] Van Hecke, Matti, Peter Bursens, and Jan Beyers (2016), "Listening to the Regional Voice: Discerning Patterns of Regional Representation in EU Policy-Making," CES Conference, Philadelphia, April.
[28] Jouen p. 5.

to democratically elected representatives, or even to those involving in implementing policy, then it is likely to fail. In this sense there is a principal-agent dynamic, with the member state governments acting as agents with far greater knowledge and control of national institutions than any external monitors can muster.

In sum, up to now conditionality in the Southern European context seems to be working much as the experience of structural adjustment programmes in other parts of the world would predict. As Greer explains, 'The null hypotheses from the large literature on structural adjustment policies suggest that the (they) will: be badly implemented; be neutral or bad for growth; be bad for equity and the poor; have unpredictable policy consequences; and will allow incumbent elites to preserve their positions. Preliminary evidence from (Southern Europe) confirms that the same problems' are arising. One caveat to this, however, is that established partisan and governing elites in Southern Europe are under severe pressure, with electoral breakthroughs by populist alternatives in Greece, Italy and Spain threatening an outright rejection of the policy prescriptions imposed from outside.

This is in contrast to the more benign role conditionality appeared to play in the enlargement process. The connection between recent use of conditionality tools in the various bailouts and the EU's prior experience with conditionality remains unclear: we hypothesize that that there is a causal link between conditionality developed in stage 1 (enlargement) and that in stage 2 (crisis programs), but for the moment lack clear evidence to back this claim. However at this point we can conclude that this new conditionality is maximalist and aggressive, to some degree by design; and it is unlikely to bear the fruit the Council and Commission desires, given the flawed nature of the theories underpinning the policy programme deployed and the predictable political backlash to the bullying nature of some of the adjustment programmes imposed as conditions of financial rescues.