INTRODUCTION

The financial crisis of 2008 has devastated global economy, and has worsened people's expectations. The European Union (EU) which has been promoting its Single Market as the world's largest market has been hardly hit on the financial sector and the real economy. This paper is an attempt to evaluate the impacts of the 2008 crisis on European integration. It examines the tension between individual versus ‘community’ interests, whereby reconsiders the meaning of ‘community' interest in the context of EU 27.

The established literature on European integration argues that economic integration is the most progressed, the most sophisticated, and relatively speaking, the most solid area of integration. In particular, to the functionalist and sociological approaches, the success of economic integration has provided the strongest argument in scholarly debates. Moreover, the Union has often promoted its financial and market integration as a proof of its solidarity and its strength as a global financial actor. This paper re-evaluates the validity of these claims at the occasion of the 2008 crisis which has put the endurance of European economies, the EU’s actorness on the international arena, and solidarity among member states to a test. This paper argues that the crisis of 2008 has revealed some vulnerabilities of economic integration, with regards to solidarity and equality in decision making. Busy with problems at home, the core member states did not go to the rescue of some new member states (NMS), despite the various solidarity commitments that the EU community made in the aftermath of the crisis, until the economic impacts have challenged the Eurozone economies. In other words, the richer core member states did not keep to the solidarity commitment when their national interests fell at stake. This paper follows the liberal intergovernmentalist school of thought in elaborating on the issue.

Crises, *per se,* bring on to the surface vulnerabilities of a system. Studying the EU’s behaviour under the 2008 financial crisis is therefore, helpful to pinpoint the strengths and weaknesses of integration, the decision making mechanisms and solidarity between 27 members. On the other hand, timing makes this subject of study yet more interesting. In that, the crisis broke out shortly after the two enlargements that brought in the fledgeling economies of Central and Eastern Europe, mostly in transition. The EU had been arguing that, on the whole, the enlargements had gone smooth and that their impacts were on the way of settling. At various occasions, EU actors emphasised that the collective decision making was going mostly well, in a spirit of unity and solidarity between the old members and the new members. The behaviour of the EU actors under the crisis has yet departed from the so claimed patterns. That is why studying the behaviour of the actors during the crisis is meaningful to comprehend the extent to which the NMS have been accommodated in the Union, and the degree to which the Union's decision making mechanisms have been open for the NMS to equally voice their demands and concerns. This paper aims to contribute to the ongoing studies on EU enlargement and integration, by shedding a new light on the relationship between the core and new members at the particular occasion of the 2008 financial crisis. This study may also add to the wider debate in international relations on the assets and influence of powerful states in interstate bargaining and in decision making arenas. This paper is structured in two sections. The first part examines the impacts of the crisis in the short and medium terms, as well as the EU's attempts to formulate an 'EU strategy' to the crisis. The second part dwells upon the EU's collective responses; discusses the efficacy of these measures, and how the decision making process affected the relationship between member states. The analysis spans the period from the advent of the crisis in September 2008 to the mid-2009 in order to evaluate the EU’s crisis management performance in the medium run. This paper uses a chronological approach to pinpoint the sequence of events. Studying the events in this manner helps capture the interaction between the actors, and to conceptualise actor behaviour in relation to instances. The research materials encompass official documents by the EU as well as by other international institutions, also press releases and media.

I. THE EU AND ITS MEMBER STATES IN THE AFTERMATH OF THE CRISIS

The 2008 financial crisis broke out in September 2008. This paper sets about by establishing the facts, member states responses to those facts and collective strategies at the EU level, in an attempt to understand the underlying motives. This section screens the period from the outbreak of the crisis to the issuance of the EU's collective action plan. It examines the behaviour of the member states, the Council, the European Council (EC) the Commission and the European Central Bank (ECB), while leaving aside the European Parliament and other specialised bodies and agencies of the Union. The reason is this paper focuses on the tension between individual versus ‘community’ interests in the area of economic integration. The established literature often represents the Commission as the integrationist wing in the EU; pursuing community interests and detaining the competence to initiate policy making under the first pillar. The ECB likewise, pursues community interests in the area of economic integration. In contrast, member states are generally portrayed as actors pursuing private interests, and partaking in collective action when they see benefits and/or when they are compelled to. The Council and the EC are influential actors channelling state interests. On the other hand, the Parliament and other EU bodies are left aside, partly because the preliminary research established that they produced trifling impacts on the debates and the crisis management process, and also because this paper focuses on the interplay between state interests versus community interests.

I. I. The Outbreak of the Crisis

The financial crisis manifested various symptoms already in 2007 in the housing sector; it yet reached its critical point in September 2008 when the major financial institutions began collapsing or seeking rescue from the US government. The US government took over the leading mortgage banks (i.e. Freddie Mac and Fannie Mae), investment banks (i.e. Lehman Brothers, Merrill Lynch etc.). Having witnessed the successive fall of the major financial institutions within a couple of weeks, investors withdrew money from the markets, which depressed the value of financial assets; US stock markets plummeted.[1] In liquidity shortage, corporations could not pay up their short-term debts. The US government injected liquidity and extended insurance for money markets. Nevertheless, the distress in the financial sector inevitably caused decline in wealth, consumption, business investments, hence in employment.

The impacts of the crisis did not contain in the US. The reverberations of the US market crash were felt in Asian and European markets already on September 16. To isolate the effects; Russia closed its stock markets. On September 18, Indian markets underwent intense fluctuations; in Europe, Britain's biggest mortgage lender, the HBOS collapsed. As panic gained citizens, shares plunged on the London Stock Market; and some leading companies, such as Lloyds TSB and HBOS, launched merger talks. The divulgence of HBOS takeover ignited the fear of job cuts in Britain. British banks pressured on Bank of England for an extension of the liquidity scheme.[2] In response to these developments, the European Central Bank (ECB), the Bank of Japan, the Swiss National Bank, the Bank of Canada and the Bank of England decided to inject liquidity in short-term US dollar

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1 Altman, Roger, "The Great Crash, 2008", *Foreign Affairs*, Jan.-Feb. 2009, Vol. 88, No: 1.

2 Liquidity scheme allows banks to deposit assets for which there is little market, such as mortgage-backed securities, in return for Treasury bills, which are gold-plated and used as a source of funding. Seager, Ashley, "King forced into U-turn with extension of liquidity scheme", *The Guardian*, the official website, 17.09.2008, http://www.guardian.co.uk/business/2008/sep/18/bankofenglandgovernor.banking, 19.01.2008.

markets. The Federal Reserve (FED) lent money to the central banks in Europe, Asia and North America to prevent liquidity shortage.[3] In coordination with the FED; the ECB "increased the amount of US dollar provided to the counterparties of the Eurosystem for the 28-days maturity operations."[4] The FED and the ECB also purchased government debts and troubled private assets from banks to alleviate credit freeze problem. A long series of liquidity injection followed these interventions. By the end of 2008, the FED, the ECB, and other central banks happened to inject $2.5 trillion into the credit markets, hence realising the biggest monetary intervention in world history.[5] Still, liquidity supply could not attenuate panic on the markets. Stock exchanges kept falling both in Britain, and the US. As a result, Britain's Financial Services Authority announced a ban on the short-selling of bank shares; and the FED mentioned a plan to create a federal entity to clear the mortgage-related debts.[6] Thereupon, the US administration announced a $700 billion bailout plan to recover the financial institutions. In sum, in one week following its advent, the crisis upset the global financial sector. In an attempt to control, and if possible, to counter the detrimental effects of the crisis, state actors intervened to pay up the debts of the banks and to increase monetary supply in the markets. The central banks of the rich countries pursued consulted and /or coordinated actions to prevent the financial situation from getting any worse. Yet, both unilateral and collective measures failed to restore markets in Asia, the US and Europe.

The event that all financial actors focused on was the $700 billion US bailout plan. The administration worked hard to convince the public and the Congress in favour of the plan. However, the elite opinion turned against the proposal; both presidential candidates of the time, Barack Obama and John McCain condemned the initiative for giving a "blank cheque for the US treasury to buy up debt".[7] In the end, the Congress declined the plan down. The repercussions of the rejection were immediately felt in other regions. In Europe, job cuts augmented, especially in Britain; Ireland fell into recession; and the Commission reported that Germany and Spain were

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3 Elliott, Larry, "Banking crisis: Central banks pump billions in to ease the strain", *The Guardian*, the official website, 18.09.2008, http://www.guardian.co.uk/business/2008/sep/18/marketturmoil1, 19.01.2008.

4 ECB Press Release, "Measures designed to address elevated pressures in the short-term US dollar funding markets" 18.09.2008, the ECD official website, http://www.ecb.int/press/pr/date/2008/html/pr080918.en.html, 20.01.2009.

5 Altman, *op.cit*.

6 Clark, Andrew, "Wall Street: US government taking steps to clean up mortgage-related debt", *The Guardian*, the official website, 18.09.2008, http://www.guardian.co.uk/business/2008/sep/18/wallstreet.subprimecrisis, 19.01.2008.

7 Burkeman, Oliver, "US election briefing: Unity breaks out against Bush bailout", *The Guardian*, the official website, 18.09.2008, http://www.guardian.co.uk/world/2008/sep/23/uselections2008.barackobama1, 19.01.2008.

undergoing the same risk.[8] The EU actors behaved proactive in fighting the crisis. French president and holder of the EU presidency Nicolas Sarkozy called for a world leaders summit to discuss the developments. Upon this initiative, a G7 meeting was convened on September 22. The leaders committed to restore the integrity of the international financial system, to smooth functioning of the markets, and to fully and rapidly implement the Financial Stability Forum (FSF) recommendations to enhance the resilience of the financial system in the longer run. They gave support to the US programme on removing illiquid assets that destabilise financial institutions. Finally, the leaders set to enhance international cooperation, and called on other G7 leaders to take similar actions.[9]

Of the European member states, Britain was one of the hardest hit by the crisis. The pessimistic outlook compelled Prime Minister (PM) Gordon Brown to contact world leaders to develop coordinated action. On September 26, PM Brown addressed the UN General Assembly to advocate for new systems of international regulation. PM Brown called for international cooperation, responsibility and consistency with the rules for better crisis management.[10] In the meantime, Apple shares in US markets, and Bradford & Bingley shares in British markets plummeted, as if corroborating the significance of Brown's messages. The falls instigated the fear of job loss amongst people. State actors began nationalising ailing firms. Britain nationalised Bradford & Bingley, while Spain's Santander bought Bradford & Bingley's 200 branches.

In the meantime, the US bailout plan reached the House of Representatives. On September 30, the House voted, and rejected the bill. Thereupon, global stock markets crashed. In the EU, the leading banks began falling one after the other: The Belgian-French municipal lender Dexia collapsed, while the Belgian-Dutch financial group Fortis circumvented bankruptcy thanks to Belgian, Luxemburger and Dutch governments' rescue plan. Royal Bank of Scotland shares lost half their values. The Irish government guaranteed the retail deposits for the next two years. In Iceland, the government nationalised the major banks. Germany prepared a rescue plan for ailing banks; and French President Nicolas Sarkozy convened the leaders of the major banks to draw up a strategy.

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[8] Kollewe, Julia, "Ireland falls into recession", *The Guardian*, the official website, 25.09.2008, http://www.guardian.co.uk/business/2008/sep/25/recession.ireland, 19.01.2008.

[9] ECB Press Release, "Statement by G-7 finance ministers and central bank governors on global financial market turmoil", 22.09.2008, the ECB official website, http://www.ecb.int/press/pr/date/2008/html/pr080922.en.html, 20.01.2009.

[10] Brown's plan envisaged a financial stability forum to be built on five principles of transparency, including sound banking practice, responsibility, integrity and global regulation. Wintour, Patrick, "Gordon Brown calls for end to 'age of irresponsibility' in UN speech", *The Guardian*, the official website, 26.09.2008, http://www.guardian.co.uk/politics/2008/sep/26/gordonbrown.economics, 19.01.2008.

Thus, as the problem of indebted banks gained salience, the interbank lending rate peaked. Central banks in the member states increased monetary supply to distress the system. On the other hand, successive bank collapses eroded depositors' confidence in the banking system. In the middle of speculations about which bank would be the next to fall, people became unsure about the future of their savings. Uncertainty reflected on the real economy; companies could not find credit, hence pay their debts. Major firms started layoffs; or reduced working hours, if not closed down like Miss Sixty in Britain or car companies in France. As a result, unemployment peaked in Europe, as in the US; people's income and purchasing power dwindled. Economic activities slowed down, hence triggering the risk of recession. The downturn fuelled social discontent. People who lost their jobs, who lived with the risk of layoff, whose working hours or salaries were reduced went on strike; protests escalated across Europe.

In sum, in a couple of weeks following September 12, the financial crisis originated in the US gained momentum in the world. The immediate impacts were liquidity shortage, indebtedness, credit freeze and uncertainty. The deterioration of the financial situation worsened expectations, triggered crash on stock markets, and decline in wealth and investments. “Tighter financial conditions, falling wealth, and greater uncertainty have triggered a sharp decline across all types of demand”.[11] Following plunging demand, commodity prices and trade contracted; inflation fell, investments and exports thereof. With regards to the real sector, firms began closing down; and layoffs augmented. Briefly, the global economy has fallen into recession. Industrialised economies received the impacts earlier than emerging economies because of their greater exposure to the international finance and trade systems.[12] In the EU, the core member states, most of which are Eurozone countries, received the immediate impacts, as their financial systems were more developed and more integrated in the global financial system. Following the rejection of the US bailout plan, major European banks collapsed one after another; most Eurozone governments nationalised ailing banks; stock exchanges plummeted; and firms began closing off. Panic dominated European societies because of increasing unemployment, shrinking incomes, and eroding depositor confidence in the banking system. Accordingly, social discontent escalated; strikes and protests took place across the EU, despite government efforts to circumvent it. State

[11] Zoli, Edda, “Europe Battles a Deep Recession”, IMF Survey Magazine, Countries & Regions, 12.05.2009, the official website, http://www.imf.org/external/pubs/ft/survey/so/2009/CAR051209A.htm

[12] “Regional Economic Outlook, Europe Addressing the Crisis”, *op.cit.*, p.8.

actors initially defined unilateral solutions such as liquidity provision or nationalisations. Then, they began seeking venues to develop cooperation and coordination at the global level, considering that individual strategies were unlikely to prove successful in the context of economic interdependency. On the other hand, independent financial authorities took concerted and coordinated actions. It is noteworthy that Britain and France were the most proactive and the most visible amongst the member states. The reason was not only that they received the immediate impacts, but also that they wanted to rise as influential players in the global arena.

I.II. The Impacts of the Crisis in the Longer Run

The crisis on the financial sector grabbed the real economy soon after its eruption. Output, trade and prosperity declined. Due to diminishing global demand, companies reduced working hours or closed down. Britain for instance, launched construction plans to boost economy. Nevertheless, public finances made an unprecedented deficit; interest rates were cut down; and job supply shrank off, hence resulting in the biggest drop in GDP that the British economy has made since 1990. Meanwhile, layoffs augmented in Germany, France, Austria, the Netherlands and Belgium. Unemployment reached an unprecedented level in Spain; Italy followed it near. As such, trade was unlikely to be a motor for recovery in the medium term in Western Europe. On the other hand, the shrinking demand and credit freeze in the core member states affected the NMS economies.[13] Due to the tight financial conditions and declining demand, the core member states interrupted credit flows to Central and Eastern Europe, which constituted the main motor of growth prior to the advent of the crisis.[14] Accordingly, output and stock prices fell; sovereign bond spreads increased, and devaluation came about across all NMS.[15] To give an idea of the extent of currency depreciation, the Polish zloty had fell by 15% against the euro; the Hungarian Forint declined about 13.7% against the euro; the Czech Koruna has slumped by 9.2% and the Romanian Leu by 6.7% after the crisis.[16] One reason behind these phenomena was the rise of "credit-default swaps on sovereign debts", which in turn, triggered the risk of default in the region.[17] In response to this risk, Western banks holding investments in the region curtailed foreign currency lending. This restriction

13 "Financial Sector Key to European Recovery", *IMF*, IMF Survey Magazine, 24.04.2009, the official website, http://www.imf.org/external/pubs/ft/survey/so/2009/car042409c.htm

14 "The Ties that Bind", *the Economist*, 19.02.2009, http://www.economist.com/opinion/displaystory.cfm?story_id=13145857

15 "Regional Economic Outlook, Europe Addressing the Crisis", *op.cit.*, p.56.

16 Schneeweiss, Zoe and Magnusson, Niklas, "Banks Face Eastern Europe Downgrades, Moody's Says", Bloomberg, 17.02.2009, http://www.bloomberg.com/apps/news?pid=20601087&sid=a7rstGPFeihs&refer=home

17 "The Ties that Bind", *op.cit.*

caused liquidity shortage; thus unsettling the domestic interbank money markets and generating depreciation. While some local banks collapsed in the process, others became dependent on Western banks for financing. On the other hand, as banks became stricter in granting loans, customers began paying late; whereby economic activity decelerated in contrast to accelerating unemployment.[18] Rising unemployment together with falling output augmented the cost of social policies; whereupon governments tended to curb down social spending.[19] Welfare deprivation however, engendered social unrest. The other problem challenging the NMS economies was high current account deficit. Due to the depreciation of local currencies, the price of foreign debt rose; more expensive debts widened budget deficits. Account deficit augmented the NMS riskiness for lending, as well as the cost of borrowing for them. It is worth noting that NMS economies displayed greater current account deficits, external debts, higher inflation and greater dependence on credit flow, than the core members. Given these vulnerabilities, the NSM received greater damages by the crisis than their Western neighbours.[20] On the other hand, damages occurred at different levels, depending on the country specific conditions. In sum, the interlinks with the core members that had once promoted growth by credit flows became a source of vulnerability after the crisis, as they aggrandised risk exposure in the region.

Of the NMS, the countries that were the worst hit were the ones with a weak financial system. The weakness stemmed from “badly run local banks with loosely overseen subsidiaries of Western ones”.[21] Even if poor regulation and risk taking helped attract a considerable amount of foreign capital, thereby foster growth prior to the crisis, they proved to be fatal once foreign investors withdrew their money. Hungary and Romania fall into this category. In contrast the countries with a sounder banking system, namely the Czech Republic, the Baltic states, Bulgaria, Poland, Slovenia and Slovakia, have circumvented this risk. A comparison between Bulgaria and Romania is particularly illustrating. Both countries display a small size economy with poor income per capita and dependence on credit flow. However, because it had a better regulated and more risk-averse banking system, financial difficulties did not cause downturn in Bulgaria. Bulgaria fell in recession;

18 Dempsey, Judy, “Currency Issues Weigh on Eastern Europe”, *the New York Times*, 17.02.2009, http://www.nytimes.com/2009/02/18/business/worldbusiness/18eastecon.html?_r=1&ref=worldbusiness

19 Dempsey, Judy, “Currency Issues Weigh on Eastern Europe”, *the New York Times*, 17.02.2009, http://www.nytimes.com/2009/02/18/business/worldbusiness/18eastecon.html?_r=1&ref=worldbusiness

20 “Global Crisis Pushing Almost…”, *op.cit.*

21 “Argentina on the Danube?”, *The Economist*, 19.02.2009, http://www.economist.com/opinion/displaystory.cfm?story_id=13144925

because plunging external demand incised exports, and faltering credit flows shrank domestic demand. In other words, Bulgaria's vulnerability was its being a small size economy too much dependent on exports. Secondly, the economies using fixed exchange rate regime experienced problems with trade, domestic demand and inflation, due to the strong position of euro. The Baltic States and Bulgaria embody this strand. Exchange rate regime has been particularly fatal for the Baltics; their debt levels rocketed. Thirdly, the countries where credit flow created housing booms experienced high debt levels and decline in domestic demand. Again, the Baltic States and Bulgaria exemplify this trait. In sum, the countries displaying one or more of these vulnerabilities have been the worst damaged by the crisis; namely, the Baltic members, Hungary, Bulgaria and Romania. In contrast, the countries applying stable macroeconomic policies before the crisis have better performed. Slovakia, Slovenia, the Czech Republic, and Poland to some extent, appear in this category. Notwithstanding the decline in exports and in output and high inflation, these countries exhibit some strengths; sounder financial institutions, flexible exchange regime, and growth propelled by domestic demand. Moreover, the Czech Republic and Poland enjoyed the advantage of being larger size economies. In that, even if their growth depended also on exports, the Czech Republic and Poland hedged collapse unlike Bulgaria. On the other hand, although Slovenia and Slovakia were small size economies, they profited from the comparative advantage of Eurozone membership.

This section made a comparative analysis of the impacts of the crisis in the EU in the medium run, with a focus on the NMS. It established that the crisis penetrated in Central and Eastern Europe through Western Europe; but the impacts have been heavier in the former. The core member states enjoyed liquidity injection by the ECB and national central banks, whereas all NMS suffered from the halt in credit flow from West and capital outflow. The Western European members held the comparative advantage of having a richer economy and a sounder financial system vis-à-vis their Eastern neighbours. On the other hand, the crisis produced disparate impacts on NMS economies; with the type and gravity depending on the patterns of growth. The countries that displayed structural vulnerabilities (i.e. dependence on foreign capital, small size economy, and unsound macroeconomic policies) received greater damage than others. On the whole, the impacts of the crisis differed from Western to Eastern members, as well as among the NMS. Having established the disparate impacts of the crisis across member states, let us see what type of a collective response the EU brought forth.

I. III. Taking Collective Action at the EU Level

Following the initiatives at the global level, the EU set about developing a collective strategy at the EU level in October 2008. On October 1, the Commission proposed a revision of rules on bank capital requirements, the restriction of the ceiling of bank lending, the establishment of national supervisory authorities to overview the activities of cross-border banking groups in an effort to restore confidence in the financial markets.[22] On October 2, the Commission tightened the rules to safeguard European banks from meltdown. On the other hand, closing companies and the resulting problems of unemployment and shrinking incomes were other vital problems in EU economy. Accordingly, Commission President Barroso discussed with EU President Sarkozy an “EU bailout plan”. It follows that the priority was the financial sector. Following this initiative, President Sarkozy invited Britain, Germany and Italy for emergency talks in Paris on October 4. Besides conveying solidarity messages and calling for common action, the four leaders agreed on providing €300 billion aid to ailing SMEs across the EU.[23] The four also called for a global economic summit that would convene the G8 leaders, plus China, India, South Africa, Brazil and Mexico.[24]

The decisions taken at the emergency talks entered the Ecofin Council agenda of October 6-7. The ministers established that “member states were facing common shocks” (with disparate effects on the economies and across groups); thus, the Community needed to develop a common action plan.[25] The ministers decided to support growth and monetary policy, to reduce inflation, so as to protect people's purchasing power. With regards to the financial sector, they agreed to restore confidence on financial markets through full implementation of the October 2007 roadmap, and to avoid excessive tightening of credit toward SMEs. The Council also set to be proactive in the international arena.[26] Thus, the first EU level meeting concluded on a threefold strategy; measures towards the financial system, growth oriented macroeconomic policies, and international cooperation. These initiatives set the guidelines to the following actions. It is noteworthy that the outcome of the Ecofin meeting

22 *European Commission, Economic and Financial Affairs*, the official website, 1.10.2008, http://ec.europa.eu/economy_finance/thematic_articles/article13203_en.htm, 21.01.2009.

23 Helm, Toby, “Europe calls for global summit on bank crisis”, *The Guardian*, the official website, 04.10.2008, http://www.guardian.co.uk/politics/2008/oct/04/paris.economy, 20.01.09.

24 *ibid*.

25 Bulletin EU-10-2008 (en) 1.7.6. the EU official website, http://europa.eu/bulletin/en/200810/p107006.htm, 20.01.2009.

26 *ibid*.

mirrored the decisions taken at the emergency talks between the four core members, France, Britain, Germany and Italy. It is equally meaningful to pinpoint that Britain, a non-Eurozone but a leading economy, partook in attempts to develop measures that would apply to the Eurozone.

EU actors began by implementing the measures in the financial sector. European central banks cut interest rates on October 8, to ensure the appropriate liquidity conditions for financial institutions. In addition, at the EU level, the Commission established a high-level expert group called Larosière group, to study the impacts of the crisis, and to set the principles to effective supervision at the global and EU levels. However, the burning issue was ailing financial institutions; which urged the heads of states of the Eurozone countries to convene at another emergency meeting on October 12. The Eurozone countries decided to provide, temporarily, liquidity to ailing financial institutions; state aids so to speak. The aid scheme encompassed additional capital provision, recapitalisation of distressed banks, and simplification of the funding of banks.[27] To ensure flexibility in the implementation of accounting rules, the leaders invited the Commission to apply flexibility in state aid decisions. The leaders also underlined the need for enhancing cooperation procedures among member states.

State aids were unusual in many respects. Firstly, the decision communicated that the EU actors suspended, for 'emergency reason', the golden rule of 'no-intervention'. Secondly, the issue of bailout was posing a challenge to coordination and harmony for EU governance; because the crisis, having engendered impacts at different levels across member states, would lead to dissimilar aid schemes whose implications on competition would be hard to control. Thus, the Commission had greater responsibility to ensure coherence between national action and EU level action, as well as coherence between actions by Eurozone members and by those outside it.[28] To forestall eventual breaches to the competition policy, the Commission needed to enhance supervision, and to make extra regulations, which would translate as greater complication and additional regulations in European governance. Hence, the state aids were challenging both for the Commission and EU

[27] Summit of The Euro Area Countries, Declaration on a Concerted European Action Plan of the Euro Area Countries, European Council, Economy and Finance Publications, the official website, 12.10.2008, http://ec.europa.eu/economy_finance/publications/publication13260_en.pdf, 21.01.2009.

[28] Barroso, José M.D., President of the Commission, "Creating a European Response to a Global Crisis", European Parliament of Enterprises, Brussels, 14 October 2008, EU press releases, http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/08/525&format=HTML&aged=0&language=EN&guiLanguage=en, 21.01.2009.

governance as a whole.

The Commission released the communication on state aids on October 14. The communication regulated state aids in a way to unblock bank lending to companies thereby to guarantee continuity in their access to finance; and to encourage companies to continue investing. The regulation mainly targeted the SMEs; it aimed to assist them in areas such as access to finance to R&D, innovation, training, employment, environmental measures. Aids were conditioned on compatibility with the energy and climate change policies. Building on this framework, the Commission allowed state aids under the forms of guarantees, subsidised interest rate, and production of green products.[29] In addition, the Commission simplified the short-term export credit measures, and the procedure for rescue packages. Finally, the communication defined the measures that would not be state aids. Measures such as delay in payment deadlines for social security and similar tax extension would be in order provided that they applied to all companies in and outside the territory.[30] Hence, the Commission brought forth a detailed regulation. Supervision was yet to be tackled.

The Commission pursued its actions towards the financial system. To lessen uncertainty, there was need to regain depositors' confidence. It is worth reminding that, due to the successive bank collapses, depositors were no longer sure whether their money would be adequately protected if their bank failed. This concern had compelled most member state governments to guarantee deposits in the short run. However, the existing ceiling set by the framework of the Directive on Deposit Guarantee Schemes allowed member states to cover only 90% of savings. That a certain portion of savings may not be covered, added to uncertainty. Besides, payouts would be released within three months time, whereas even a week could be detrimental for firms in the context of crisis. Thus, on October 15, the Commission released a proposal to increase the ceiling from €20 000 to €100 000, to ensure reimbursement of the totality of deposits up to the coverage level, and to

[29] Some of the additional conditions were as follows: “The aid “should not exceed a cash grant of €500 000 per undertaking; it should be granted in the form of a scheme to firms which were not in difficulty on 1 July 2008; it may be granted to firms that were not in difficulty at that date but entered in difficulty thereafter as a result of the global financial and economic crisis. The aid schemes would not apply to firms active in the fisheries sector; and the aid would not be used as export aid or aid favouring domestic over imported products”. Communication from the Commission — Temporary Community framework for State aid measures to support access to finance in the current financial and economic crisis, (2009/C 16/01), Official Journal of the European Union, 22.1.2009, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2009:016:0001:0009:EN:PDF, pp.3-8.

[30] *ibid*.

reduce the payout delay to three days.[31] The EC of 15-16 October adopted the Commission's state aid plan and other measures concerning the accounting standards, and the establishment of an informal warning information-exchange and evaluation mechanism.[32] Hence, within two weeks, the EU managed to define common measures towards the financial sector. It can be inferred that this issue was of utmost priority to the Community. The Council meetings, the emergency summits between the heads of states, and the way in which the heads of states pushed for regulation show how sensitive the state actors were on the matter. However, looking at their visibility in the decision making process, it can be inferred that financial downturn was more of a concern to the core member states. On the other hand, the speed with which directives and regulations came out demonstrates the responsiveness of the Commission to member state demands.

Following the decision on state aids, governments set about designing rescue packages. On October 16, Germany, France, Austria and Spain made rescue packages of, approximately, €2 trillion. In the following two weeks, Italy, Sweden, Poland, and Norway also issued rescue packages. These aids officially aimed to remedy domestic problems; but they equally mattered for the prestige of the core member states on the international arena. Britain, France, Italy and Germany in particular, desired to outdo US performance of crisis management, thereby to demonstrate their grandeur as global players. President Sarkozy's statement that "United Europe has pledged more than the US" illustrates this ambition.[33] Likewise, pointing at the fact that the US nationalised its banks on October 14, days after nationalisations in Europe, Italy's Unicredit bank reported, "European policymakers were racing ahead of the US in their efforts to solve the crisis".[34] It is noteworthy that these four members were the most visible in the EU decision making. It is equally significant that these states were also the ones that conveyed the greatest number of solidarity and unity messages.

The EU Community kept to the solidarity commitment with regards to Hungary. As mentioned earlier, Hungary was undergoing serious budgetary problems that urged the country to seek loans from foreign authorities. The ECB announced the release of €5 billion loan facility on October 16.

[31] **The proposal suggested** revision to EU rules on deposit guarantee schemes in accordance with the decision taken at the Ecofin on 7 October 2008. Proposal on Amendment of the Directive on Deposit Guarantee Schemes, European Commission, Single Market, the official website, http://ec.europa.eu/internal_market/bank/docs/guarantee/citsum_en.pdf, 21.01.2009.

[32] EC Presidency Conclusions, 15-16 October 2008, the Presidency official website, www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/103441.pdf, 20.01.2009.

[33] Traynor, Ian, "EU takes a €2 trillion financial gamble" *The Guardian*, the official website, 14.10.2008, http://www.guardian.co.uk/business/2008/oct/14/europe-europeanbanks, 20.01.09.

[34] *ibid*.

The bailout was unprecedented, as the ECB did not fund a non-Eurozone member. The EU wanted to contain the implications of the crisis in the country; because some core member states; i.e. Austria, Sweden and Italy, held heavy investments in Hungarian banks; heavy indebtedness risked infecting these Eurozone players as well. This issue will be elaborated in the next section.

Meanwhile, the Commission pursued its regulatory tasks; and set about improving supervision at the EU level, since this function had remained inadequate to the crisis context.[35] The communication on a European framework of action released on October 29 proposed further guarantees to deposits, and enhanced supervision on financial operations (especially those concerning the derived products and speculative funds and funds of capital reinvestment). It equally stressed the need to redefine the structure of regulation and supervision.[36] The communication also called on the member states to respect competition rules in developing state aids, to augment investments in R&D, and to promote environmental friendly sectors. As regards unemployment, the Commission proposed reprogramming the European social funds in a way to reintegrate workers into the job market, controlling the impacts of the crisis on the sectors undergoing structural adjustments through state aids, and reforming taxation and income support schemes. Finally, the Commission asserted the need to pursue international cooperation in restructuring the global financial system. It can be inferred from this process that the financial sector continued to be the priority. It is worth reminding that this sector was rather the concern of the core member states. The NMS concerns remained less influential on the decision making process.

Despite various measures and precautions, the prospect of European economies did not improve. The economic situation, especially in the real sector, deteriorated across member states. Hungary was the worst case since it added to the list of countries requesting loans from the IMF.[37] Despite efforts to rectify the situation, the Commission was pessimistic. It forecast further deterioration in the real economy for the period from 2008 to 2010. The Commission estimated increase in

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35 Almunia, Joaquín, Commissioner for Economic and Monetary Policy, SPEECH/08/534, "Boosting growth and productivity in an open Europe", DG ECFIN Annual Research Conference - Centre Borschette, Brussels, 16.10.2008, The EU's official website, http://europa.eu/rapid/pressReleasesAction.do?reference =SPEECH/08/534&format=HTML&aged=0&language=EN&guiLanguage=en, 20.01.2009.

36 Commission Communication, "From financial crisis to recovery: a European framework for action", Communication COM(2008) 706, the official website, http://ec.europa.eu/commission_barroso/president/pdf/ press_20081029_fr.pdf, 21.01.2009.

37 Gow, David, "From the Baltic to Turkey, fears grow of domino effect as nations seek rescue", *The Guardian*, the official website, 28.10.2008, http://www.guardian.co.uk/business/2008/oct/28/creditcrunch-globaleconomy1, 20.01.2009.

unemployment, and decline in wealth and inflation. Inflation and ascending unemployment would augment pressure on public finances.[38] The grim panorama should not yet yield to the conclusion that the EU failed in crisis management; the outlook was grim also outside Europe. Shares kept falling in Asian markets; the Bank of Japan cut down on interest rates for the first time in seven years; and the FED further reduced interest rates.[39] All global actors were undergoing difficulties, some perhaps more than others; but the extent to which a player managed to cope with the crisis would depend on the speed of its economic recovery.

The Ecofin Council convened on November 4, 2008 to evaluate the economic situation. Bearing the Commission forecast in mind, the ministers focused on public finances and balance of payment problems. The ministers agreed to strengthen the fight against VAT fraud, and to introduce a computerised excise duty monitoring system. In addition, the Council decided to increase the ceiling for financial assistance to the balance of payments in the event of financial difficulty of a member state. [40] In this vein, the Council decided to grant a loan of €6.5 billion to Hungary. The loan was a part of the €12.5 billion assistance package from the IMF and €1 billion from the World Bank. The Council conditioned the assistance on the implementation of accompanying measures, the consolidation of the budget and the reform of budgetary governance. The assistance was not a considerable amount; besides the EU was not the sole donor. Nevertheless, the bailout proved of an act of solidarity for the EU.

The heads of states approved the Council decisions at the Brussels meeting on November 7. The other issue on the table was the incoming G20 Summit in Washington. The leaders defined a common position. The EU position involved support to international regulation to encompass all financial institutions, market segments and jurisdictions; and support to the convergence of accounting standards. The EU also demanded the establishment of codes of conduct to avoid excessive risk-taking in the financial sector, including in the area of systems of remuneration. The EU agreed to give the IMF a greater role in restoring confidence and stability, and to submit rating

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38 European Economy, Economic Forecast, Autumn 2008, European Commission, Economic and Financial Affairs, the official website, 03.11.2008, http://ec.europa.eu/economy_finance/publications/ publication13290_en.pdf, 22.01.09.

39 McCurry, "Japanese interest rates cut for first time in seven years", *The Guardian*, the official website, 31.10.2008, http://www.guardian.co.uk/business/2008/oct/31/globaleconomy-japan, 20.01.2009.

40 Press Release, ECOFIN, 15067/08 (Press 311), 2901st Council meeting, Brussels, 4 November 2008, the Presidency official website, http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ecofin/103811.pdf, 20.01.2009.

agencies to registration, surveillance and rules of governance.[41] The heads of states also charged the Council and the Commission to present a European strategy to the next EC summit.

The G20 Summit[42] on Financial Markets and the World Economy took place on November 14–15, 2008.[43] The summit gathered, for the first time, the leaders of all rich and emerging economies, which represent almost 90% of the global GDP.[44] The summit followed from the initiatives by France, Britain and the US, upon the guidelines set at the G7 meeting of October 11, 2008. The establishment of the guest list caused conflict between the US versus Britain and France. France and Britain wanted a Bretton Woods II-style gathering to outdo US prestige on the international stage. President Bush however, insisted on a G20 gathering, so as to dilute European dominance. Bush plan became the winner. At the summit, the leaders laid down the principles (transparency, integrity, responsibility, and sound banking practice) for reforming the financial markets, and launched an action plan while reaffirming their commitment to free markets. This initiative reaffirms that eagerness for international cooperation veiled their ambition for grandeur on the international arena. However, the controversy over the guest list communicates that the EU members lag behind the US in terms of influence.

Back home, the issue on the agenda was the 'European strategy' towards the crisis. Charged by the heads of states, the Commission announced the advent of the European Economic Recovery Plan (EERP) on November 26.[45] In the meantime, the Commission issued a proposal on the regulation of credit rating agencies to increase investor protection by enhancing transparency and surveillance;[46]

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41 "Informal meeting of the Heads of State and Government of the European Union on 7 November", the Presidency official website, http://209.85.129.132/search?q=cache:CUZXpEMhCMYJ:www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/misc/103873.pdf+Informal+meeting+of+the+Heads+of+State+and+Government+of+the+European+Union+on+7+November&cd=2&hl=en&ct=clnk&gl=tr&lr=lang_en&client=firefox-a, 20.01.2009.

42 "The Group of Twenty (G-20) Finance Ministers and Central Bank Governors was established in 1999 to bring together systemically important industrialized and developing economies to discuss key issues in the global economy. (…)The G-20 was created as a response both to the financial crises of the late 1990s and to a growing recognition that key emerging-market countries were not adequately included in the core of global economic discussion and governance.", "About G20", the official website, United Kingdom 2009, http://www.g20.org/about_what_is_g20.aspx

43 "2008 G-20 Washington summit", Wikipedia, http://en.wikipedia.org/wiki/Bretton_Woods_II, 20.01.2009.

44 "Not a bad weekend's work", *The Economist*, the official website, 16.11.2008, http://www.economist.com/finance/displaystory.cfm?story_id=12623258, 21.01.2009.

45 Almunia, Joaquin, European Commissioner for Economic and Monetary Policy, "A recipe for recovery: the European response to the financial crisis", 2nd Brussels' International Economic Forum, Brussels, 11 November 2008, Press Release, the EU official website, http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/08/601&format=HTML&aged=0&language=EN&guiLanguage=en, 20.01.2009.

46 "Commission adopts proposal to regulate credit rating agencies", Press Release, the EU official website, 12.11.2008,

and signed a Memorandum of Understanding and a loan agreement with Hungary.

The EERP came out on November 26; as promised. The plan built upon the framework defined by the Stability and Growth Pact (SGP). It aimed to restore consumer and business confidence, to stimulate investment and innovation, to pursue structural reforms especially with regards to the environmental standards, and to alleviate human cost of the crisis by reducing job losses, by assisting people in their reintegration into the job market.[47] The EERP allowed a temporary fiscal stimulus of around €200 billion (1.5% of EU GDP), within both national budgets (around €170 billion, 1.2% of GDP), and EU and European Investment Bank (EIB) budgets (around €30 billion, 0.3% of GDP) for loans to SMEs to be distributed through commercial banks. The plan defined measures to alleviate the procedure for SMEs to promote cash flow.[48] Also, it simplified the rules on state aid approvals, and called on the member states to reduce social charges on employers. Furthermore, the EERP set out short term measures to boost demand and investment in infrastructure projects. Finally, it reaffirmed the EU's commitment to international cooperation. Thus, the EERP took actions along three lines; international cooperation; the financial sector and the real economy. The accent was on the financial sector; most EERP measures concerned the supply side; and the plan targeted mainly the problems in richer economies, mostly in the Eurozone.

On December 2, the Ecofin council approved the EERP, as well as the directives on bank deposit systems, bank capital requirements, and solvency of insurance companies. The Council invited the member states to establish swiftly national schemes to support the financial sector.[49] It also called on the Commission to issue the guidelines for recapitalisation of distressed institutions. The Commission fulfilled this task on December 5.[50] Meanwhile, the ECB reduced interest rates to 2.5%, which constituted the biggest reduction since the introduction of the euro.[51] Finally, the EC of

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/08/1684&format=HTML&aged=0&language=EN&guiLanguage=en, 20.01.2009.

47 Communication, "A European Economic Recovery Plan", COM(2008) 800 final, the Eurolex official website, 26.11.2008, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0800:FIN:FR:PDF, 21.01.2009.

48 These measures pertain to the removal of the requirement to prepare annual accounts, or reducing the fees for patent applications. "A European Economic Recovery Plan", *op.cit.*

49 Press Release, Council of the EU, 16231/08 (Presse 342), 2911th Council meeting, Brussels, 2.12.2008, the Council official website, http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ecofin /104530.pdf, 20.01.2009.

50 "Commission Communication Recapitalisation of financial institutions in the current financial crisis", 05.12.2008, European Commission, Competition, the official website, http://ec.europa.eu/competition/state_aid/ legislation/recapitalisation_communication.pdf, 21.01.2009.

51 "Monetary policy decisions", Press Release, the ECB official website, 4 December 2008,

December 12-13 approved the EERP, the other regulations and the interest rate cut.[52] Thus, the EERP, together with the other measures, entered into force. Thence, the EU came to develop an EU strategy, the EERP, in about two months. In 2009, the EU set about implementing the EERP, as well as promoting its actions with regards to regulation, supervision, and financial solidarity.

On the whole, in about two months (from October to December 2008), the EU actors developed common measures and an EU plan. The four members, Germany, Italy, France and Britain, initiated the process, and cued the Council meeting of October 14 and the EC of October 12 by the guidelines that they defined at the emergency meeting on October 4. These four members were also the ones to incessantly accentuate the importance of international cooperation, and to be the most visible on the international scene. The comparison communicates that while they had conspicuous influence at the EU level; they lagged behind the US on the international stage. On the other hand, considering the speed with which the regulations came out, it can be argued that the Commission was efficacious and responsive in addressing Council and EC demands. With regards to the content, the EU took action along three lines; the financial sector, the real economy and international cooperation. The priority was the financial sector, since this issue was the first to be tackled among others; and most measures fell within this scope. The EU defined measures to distress the system, assist the ailing institutions and regain depositor confidence. State aids challenged competition and coordination, whose implications will be further examined. The EU increased its actions towards the real economy; after the crisis sprang from the financial sphere onto this sector, and generated unemployment, distraction of demand, recession and social discontent across Europe. To tackle all these problems, the EU issued the EERP. The EERP recapitulated and framed the existing measures; and equally conveyed to the world that the EU had a concrete and principled strategy in dealing with the crisis. On the whole, EU level measures chiefly addressed the banking and financial systems and state aids to ailing institutions. However, these were mainly the problems on the core member state economies. The NMS suffered from capital outflow, rocketing debts and shrinking demand, and they did not have numerous ailing institutions to save. It follows that the NMS had lesser influence on decision making; since the core member states concerns mainly shaped EU level actions. And among the core members, Britain, Germany, France and Italy were

http://www.ecb.int/press/pr/date/2008/html/pr081204.en.html, 20.01.2009.

52 Presidency conclusions - Brussels, 11 and *12 December 2008*. 17271/08, the official website of the Presidency, http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/104692.pdf. 21.01.2009.

the most influential countries. That is to say, the already existing prominence of these four states did not change after the two enlargements. Finally, the EU kept to its solidarity commitment by releasing loans to Hungary, and by affirming at the Council meeting that the EU would assist member states experiencing budgetary problems. Hence, the EU has kept more or less to all of its commitments (developing a collective strategy and financial solidarity) following the outbreak of the crisis. The EU's responsiveness to the crisis was relatively slower than a state; but not so tardive for a union composed of 27 member states.

II. ACTING TOGETHER, BUT IN SOLIDARITY?

To evaluate the EU's crisis management performance, it is necessary to look at the extent to which the defined measures correspond and remedy the problems in member state economies. The implementation phase is the appropriate period to do that analysis. Immediately after the EERP entered into force by mid-December 2008, the Commission tackled the problem of unemployment. On December 16, the Commission issued a proposal on new skills for new jobs to counter short-term unemployment. Therein, the Commission proposed creating jobs by matching skills with vacancies, by organising skills assessments on a permanent basis, and by improving information sharing between member states.[53] The Commission also suggested transition to low carbon economy as a means to spur employment. The Commission set to scrutinise on a monthly basis the labour market developments so as to effectively respond to the needs.

With regards to the financial system, the Commission issued, on January 23, 2009, a proposal to support specific activities in the field of financial services, financial reporting and auditing.[54] The proposal enabled direct contributions to the funding of the reporting and auditing bodies (such as the European Financial Reporting Advisory Group, International Accounting Standards Committee Foundation or Public Interest Oversight Board) under the Community budget. Further to that, the EU concluded with Latvia, on January 26, a Memorandum of Understanding and a Loan Agreement that released up to €3.1 billion.[55] To remind, Latvia was suffering from rocketing foreign debts. This

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53 European Commission, "Communication on New Skills for New Jobs", COM(2008) 868/3, {SEC(2008) 3058}, Brussels, the Commission official website, 16.12.2008, http://ec.europa.eu/social/BlobServlet?docId=1496&langId=en

54 "Commission Proposal of establishing a Community programme to support specific activities in the field of financial services, financial reporting and auditing", {SEC(2009) 54}, the official website of the EC, 23.01.2009, http://ec.europa.eu/internal_market/finances/docs/committees/financing-decision_en.pdf.

55 "EU provides €3.1 billion Community financial assistance to Latvia", The official website of the Commission, http://ec.europa.eu/economy_finance/thematic_articles/article13872_en.htm

grant mirrored the Council decision to assist member states undergoing budgetary problems; as such it stood as an act of solidarity between member states.

In February 2009, EU actors pursued their actions with regards to the EERP, monitoring of public finances, and restructuring of the global financial system. In addition, the Ecofin Council of February 10 discussed the adoption of fiscal measures to boost demand. The ministers concluded on VAT reduction, on a permanent basis.[56] Another issue on the table was financial support to investments in the energy and infrastructure sectors. This matter yet, caused controversy in the Council, as some members raised concerns about protectionism and competition. As mentioned earlier, state aids challenged the competition policy, as they caused discrimination between those who could afford assistance and those who could not. To assuage worries, the Council invited the Commission to review the proposal in question. Following the summit, the Czech Republic, Denmark, Germany, the Netherlands, Poland, Spain, Sweden, Finland, France and the United Kingdom adopted fiscal stimuli. That the state actors began dwelling more upon the real economy implies that this issue has gained importance from 2008. The reason was escalating social discontent across Europe. Protestations and riots augmented since 2008, due to the deterioration of the economic situation, contraction of purchasing power of households, job losses and worsening expectations about future. Workers, trade unions and farmers in France, Hungary, Latvia, Greece, Germany, Britain, Bulgaria, Lithuania, Slovakia, the Ukraine and Germany protested recession and unemployment. The protests were of a violent nature in the NMS and in Greece.

At the international level, the EU attended a G7 meeting on 13-14 February, 2009. The issue on the floor was the increase of the IMF funding and the problems on the real sector. The G7 agreed to reform the IMF and to increase its funding, in an effort to prevent the downturn spilling over the emerging markets and low-income countries. In addition, the G7 decided to augment liquidity and funding through the FSF, regional development banks and the World Bank.[57] With regards to the real economy, the G7 set to temporarily use individual fiscal stimulus to boost domestic demand and job creation. The ministers also welcomed financial assistance for vulnerable sectors and firms.

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[56] ECOFIN Council Decisions, Brussels, 10 February 2009, Pres Release, 6069/09 (Presse 32), http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/106007.pdf

[57] Communique of G7 Finance Ministers and Central Bank Governors, "Statement of G7 Finance Ministers and Central Bank Governors", Rome, Italy, February 14, 2009, 2009 Italian Presidency Meeting, http://www.g7finance.tesoro.it/opencms/opencms/handle404?exporturi=/export/sites/G8/it/2009ItalianPresidency/Meetings/February/Communiques/Documents/Comunicato.pdf&, p.1.

They underlined that they would continue to monitor exchange markets closely and to take necessary measures against protectionism. As such, G7 decisions mirrored Ecofin decisions. Following the summit, the US adopted the American Recovery and Reinvestment Act of 2009. The bill, which President Obama signed into law on February 17, was a $787 billion stimulus plan that contained measures such as tax cuts, expansion of unemployment benefits and other welfare provisions, and of spending in education, health care and infrastructure.[58]

Meanwhile, the Commission assessed stability and convergence programmes of the member states; and established that Ireland, Greece, Spain, France, Latvia and Malta exceeded the SGP limits. On the other hand, Bulgaria, the Czech Republic, Denmark, Germany, Estonia, Hungary, the Netherlands, Poland, Sweden, Finland and the United Kingdom remained within the limits of the pact. The assessment identified that fiscal stimuli helped member states to keep budgetary discipline.[59] The assessment communicated that some Eurozone members departed from SGP rules. The Commission's assessment was encouraging for government interventions; accordingly, the member states intensified their actions in this respect. The car industry exemplifies such initiatives.

Following the EU decision of providing assistance to ailing institutions and sectors, car producing member states prepared state aids for the automotive industry. Germany offered tax incentives for the new cars market; France improved liquidity access.[60] Thereupon, the Commission issued a communication to regulate financial support to the car industry; also tightened supervision.[61] Nevertheless, the French bailout plan to car industry, issued in February 2009, attempted to breach the competition rules. In that, France conditioned state aids on not to close production sites in France during the duration of the loan.[62] The plan caused controversy in the Union. While the car

58 "The American Recovery and Reinvestment Act of 2009", the official website of the White House, http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111_cong_bills&docid=f:h1enr.pdf

59 "Commission assesses Stability and Convergence Programmes and presents reports under excessive deficit procedure", European Commission, Economic and Financial Affairs, 18.02.2009, http://ec.europa.eu/economy_finance/thematic_articles/article13960_en.htm

60 "Ministers gather for car industry 'summit'", *Euractiv*, 16.01.2009, http://www.euractiv.com/ en/transport/ministers-gather-car-industry-summit/article-178536

61 "EU support to fight the crisis in the automotive sector", *Europa Press Releases Rapid*, 25.02.2009, the EU official website, http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/318&format=HTML&aged=0&language=EN&guiLanguage=en

62 " Automobile : le plan d'aide en chiffres », (Automobile: aid plan in figures), *Portail du gouvernement, Premier Ministre*, (Portal of the Government, Prime Ministry), the official website, 10.02.2009, http://www.premier-ministre.gouv.fr/chantiers/plan_relance_economie_1393/relancer_secteur_automobile_1397/automobile_plan_aide_chiffres_62595.html

producing core member states criticised the plan, the NMS assailed it. Poland and the Czech Republic in particular, blistered France for being protectionist and tyrannical in the Union. They also criticised the EU decision making arenas of not being on equal footing for the NMS; whereupon the French government had to annul the territoriality clause. The French case has sat an example in various respects. Firstly, it has substantiated the concerns about protectionism and competition in the EU. State aids were necessary for economic recovery; but the EU could not implement a uniform measure due to country specific impacts of the crisis across the Union. On the other hand, leaving the aid design to member states risked such breaches. This drawback underlined the need to enhance monitoring and supervision at the national level to prevent free riding. Secondly, it has conveyed that even a founding member who is reputed for its keenness on principles and regulations may attempt to break the rules of the game for its national interests.

Following the French plan, the Commission stiffened supervision in state aids as well as in other areas. In response to the ECB recommendations and the concerns raised by some delegations at the Council of February 9-10, the Commission issued the communication on asset relief measures wherein it laid down the guidelines for designing domestic asset relief schemes. Building on the banking communication of October 2008 (defining the principles of state aids), and on the recapitalisation communication of December 2008 (establishing the principles to recapitalisation of banks) the communication left the design of schemes (including asset purchase, insurance, swap, and guarantee or hybrid models) to member states. However, national schemes would enter into force upon approval by the Commission which would check it against protectionism.[63] This clause shows that the Commission has learned from the French case.

Protectionist tendencies had origins in domestic problems. Social discontent across Europe had climbed up since the beginning of 2009, due to further deterioration of the economic situation, escalating unemployment, job insecurity, dwindling welfare benefits and wealth loss. Strikes and protests augmented in number, hence causing political controversy across the EU. In the core member states, demonstrations were frequent, but not of a violent nature, except in Greece. In contrast, social discontent took the form of social unrest in the NMS where the macroeconomic impacts have been the hardest; namely, Hungary, Latvia, Romania, Bulgaria and Lithuania. Poland

[63] "State aid: Commission provides guidance for the treatment of impaired assets in the EU banking sector", Europa Press Releases Rapid, 25.02.2009, the EU official website, http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/322

and the Czech Republic, which have better survived the crisis, did witness protests and demonstrations, but not of a violent tone. The Latvian government resigned in February; the Hungarian collapsed by the end of March 2009 due to social discontent. The Czech government also fell by the end of March; hence making the Czech Republic the first country whose leadership broke down while holding EU presidency. Social costs of the crisis compelled the heads of states to organise an informal meeting on March 1. The leaders agreed to rely on the single market to support growth and jobs. Remembering the French case, they approved the communication on the automotive sector, and charged the Commission with assuring effective information sharing about national support schemes. With regards to unemployment, they decided to improve the use of the European Social Fund (ESF) and the revised Globalisation Adjustment Fund (GAF) to limit unemployment.[64] On the other hand, the leaders revisited the solidarity commitment; they refused to give grants to the NMS that claimed budgetary problems.

The EC of March 19-20, the Spring EC so to speak, was the major instance to evaluate the economic situation and social costs. To prepare for the summit, the Commission issued, on March 4, a communication that addressed, mainly, the real economy and financial stability. With regards to the real economy, the Commission set to simplify criteria for support from the ESF, to re-programme spending, and to increase advance payments from early 2009, so as to reinforce active labour market policies. It proposed readjustment in the GAF to provide cash for training and job placement schemes. The communication recommended the extensive use of free movement of workers in remedying the mismatches between skills and labour market needs, as well as the problem of social dumping. The Commission suggested inciting demand for education and training, and developing of ‘green jobs’. With regards to the financial sector, the Commission announced a new supervision system and an incoming Communication on retail investment products. The communication also set to accomplish the implementation of measures to reinforce bank depositor, investor and insurance policy holder protection, and measures on responsible lending and borrowing by the end of autumn 2009. Moreover, the Commission reaffirmed its commitment to improve risk management in financial firms, to align pay incentives with sustainable performance,

[64] “INFORMAL MEETING OF HEADS OF STATE OR GOVERNMENT OF 1 MARCH 2009: JOINT PRESS LINES”, the official website of the Council, Brussels, 1.03.2009, http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/misc/106390.pdf

and to review the Market Abuse Directive.[65] Hence, the Commission proved its intention to improve the regulatory and supervisory frames, and to ameliorate the situation in job markets which constituted the burning issue since January 2009. It is worth reminding that the Commission envisioned launching job market policies provided that they are compatible with the objectives of the Lisbon strategy; i.e. promoting competitive knowledge-based economy and safeguarding environmental standards. In other words, the Commission stood up for the existing policy framework. In addition, the Commission studied the pensions system, and established that the system was relatively robust in the short run.[66] On the other hand, the ECB decreased interest rates;[67] and the EU signed a Supplemental Memorandum of Understanding of €2 billion with Hungary, on March 11, following the Council decision of November 2008.[68] As for the Council, the Ecofin convened to discuss the adoption of additional fiscal stimuli before the Spring EC. The Council agreed to further reduce VAT in ailing sectors.[69] It follows that the real economy became the priority in this period. On the other hand, the EU rejected the NMS's assistance request on March 1 while it signed an additional loan agreement with Hungary; which shows that the core members kept to the solidarity commitment when it did not clash with their interests.

At the international level, EU actors attended the G20 meeting on March 14, 2009. The theme of the summit also was social costs. The participants agreed to assist developing economies in turmoil. They yet divided over whether to bailout before restructuring or the inverse. Britain and the US argued the first option while France and Germany insisted on the second. In the end, the G20 decided to augment the IMF's resources through individual contributions, by increasing official borrowing arrangements, or by reviewing quotas. With regards to growth, the G20 called on the IMF to assess and to guide states in adopting fiscal measures and interest rate cuts.[70] Concerning financial stability, the participants agreed to sustain liquidity support, to recapitalise banks, to tackle

65 "Driving European Recovery", COMMUNICATION FOR THE SPRING EUROPEAN COUNCIL, VOL 1 COM(2009) 114 final, Brussels, the official website of the Commission, 04.03.2009, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2009:0114:FIN:EN:HTML

66 "The economic crisis and pensions in the EU", Europa Press Release, MEMO/09/99, 06.03.2009, http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/09/99

67 "5 March 2009 - Monetary policy decisions", Press Release, the ECB official website, 05.03.2009, http://www.ecb.int/press/pr/date/2009/html/pr090305.en.html

68 "EU about to release second instalment of €6.5 billion Community financial assistance to Hungary", Brussels, the official website of the Commission, 11.03.2009, http://ec.europa.eu/economy_finance/thematic_articles/article14465_en.htm

69 The Economic and Financial Affairs Council Meeting, Brussels, 10.03.2009, http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/106576.pdf

70 "G-20 Asks IMF to Track, Assess Global Crisis Response", the IMF official website, 14.03.2009, http://www.imf.org/external/pubs/ft/survey/so/2009/NEW031409A.htm

impaired assets, and to improve regulation and supervision. Comparing G20 decisions to those taken at the other G20, G7 and EU summits, it can be inferred that financial stability, unemployment and supervision constitute common concerns worldwide. All instances proposed liquidity provision to guarantee, recapitalise and resolve financial institutions as solution. It is noteworthy that such interventions were unprecedented for policymakers in terms of scope.[71] Finally, the summit exposed the divide between the core member states; Britain, Germany and France; hence revealing that the EU could not speak with one voice on the international stage.

The Spring EC took place on March 19-20. The EU took actions along three lines. With regards to financial solidarity, the EC decided to double the assistance to non-Eurozone countries, and agreed to make the €5 billion of the EERP available for infrastructure projects and €75 billion for a voluntary loan to the IMF.[72] Towards the financial sector, the EU set to increase regulation and supervision to prevent protectionism. Also, the Council urged the member states to return to their medium-term budgetary objectives and keep to the SGP, which means the EU closed off further stimulus measures. With regards to the labour market, the leaders decided to stimulate demand by promoting the acquisition of the new skills for new jobs. They also agreed to improve the use of social protection systems, and of labour mobility.[73] Thus, at this summit, the EU stopped inciting the supply side by fiscal measures; instead it intensified its actions to stimulate the demand side. Moreover, the EU reaffirmed its solidarity commitment by doubling the ceiling of assistance. In line with the decision, on March 25, the EU together with the IMF and World Bank gave Romania a €20 billion to rectify its budgetary position, to fund stimulus packages and social spending. Social spending constituted a particularly critical issue for the government; the latter did not want to instigate further unrest within the society by cutting down on public services.

The priority in April 2009 was taxation and financial supervision. The Commission issued a proposal on tax transparency, exchange of information and fair tax competition within and outside the EU. The proposal also prescribed some measures to improve good governance within the EU.[74] In May, the EU pursued its actions in the area of financial supervision. On the other hand, the

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71 Zoli, "Europe Battles a Deep Recession", *op.cit*.

72 "PRESIDENCY CONCLUSIONS", Brussels, 20 March 2009, the official website of the Council, http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/106809.pdf

73 *Op.cit*., pp.7-8.

74 Communication, "European financial supervision", COM(2009) 252 final, {SEC(2009) 715}, 27.05.2009, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2009:0252:FIN:EN:PDF

Commission reported Lithuania, Malta, Poland and Romania under the excessive deficit procedure given their failure to comply with the treaty requirements.[75] In June, the Commission signed a Memorandum of Understanding on €5 billion balance-of-payments loan, as was decided earlier. In this period, the EU also took measures with regards to employment and public finances. It follows that two issues preoccupied the EU by mid 2009; financial supervision and the balance of payment problems of the NMS. Although the first was, more or less, a Union-wide issue, the second pertained to the NMS. This pattern demonstrates how the gap between the NMS and core member states economies and performances challenges EU governance.

In sum, by mid-2009, EU actors addressed the three areas defined in the decision making phase; financial stability, the real sector, and international cooperation. With regards to the real sector, EU actors implemented fiscal stimuli and state aids to assist ailing financial institutions and sectors. The Commission's assessment of stability and convergence programmes, the US bailout plan and social costs of the crisis encouraged governments to adopt further fiscal measures and aids schemes. Social discontent in particular, was a strong incentive for governments to turn to state aids. However, to prevent protectionism, such interventionist measures required tight supervision and monitoring, as well as member state commitment to abide by the rules. All of these remained at an inadequate level in the EU. The French case demonstrated that even the founding members attempt to shirk their responsibilities when their national interests fall at stake. French defection incited the Commission and the Council to tighten supervision on member state actions. On the other hand, EU actors pursued their efforts to restructure the global financial system. Of the EU member states, the most visible and proactive ones were France, Germany and Britain. Although an EU member each, they lacked of unity on the international stage. The contrasting attitudes of these member states at the G20 meeting in March also revealed that the EU does not yet speak with one voice; the core member states struggle individually, and often compete with one another to undertake the leading role in global forums. With regards to the content of the decisions, the analysis identified a similarity between the EU, G7 and G20 concerns and strategies. This similarity can strengthen the thesis that the EU's strategy was adequate to deal with the crisis. However, this thesis weakens if the evaluation criteria are set as the compatibility between the proposed solutions and the problems in the member states, as well as the compatibility between the strategy and member state expectations.

[75] “Commission presents reports under the excessive deficit procedure for four countries”, European Commission, 13.05.2009, http://ec.europa.eu/economy_finance/articles/sgp/article15141_en.htm .

To remind the findings of the previous section, the core member states and the NMS diverged in their needs. While the former needed first financial stability, then recovery in the real sector; the latter suffered from budgetary problems and downturn in the real economy. Both groups required money; but the Eurozone enjoyed the liquidity provision by the ECB in contrast to the NMS. The NMS requested bailout, which was declined at the Spring EC. The core members gave loans only to Latvia, Romania and Hungary on the grounds of their serious balance of payment problems. The grants prove of solidarity in the EU. However, the rejection of a region-wide bailout demonstrates the limits of solidarity. In sum, during this period, the EU faced coordination, supervision and rule-compliance problems. Also, the economic gap between the members challenged EU governance. Since not the members were all on the same boat, different needs required different measures. The implemented measures matched the objectives defined in the EERP; but, the EERP and other collective measures were rather designed according to the needs of the core members. Accordingly, the EU's strategy did address only a portion of the needs of the EU community. It can be argued, in support of this strategy, that, it is beneficial to save the stronger economies first, then turn to the ailing ones, given that the more industrialised economies are the engine of the EU economy, hence, if the former failed the EU would lag behind in the international competition. The trade-off was political problems between member states, complaints about inequality within the Union. Why did the core member states declined to assist the NMS in difficulty? How did this reluctance reflect on the relationship between the member states? Why did the core members reverse their reluctant position at the Spring EC? The final section will elaborate on this issue.

II. II. The Issue of Inequality

The issue of inequality between member states was raised at the occasions of the informal meeting of the heads of states on March 1, and the Spring EC. At the backdrop of this criticism lay domestic problems and concerns about the balance of power in the EU.

As mentioned earlier, the crisis caused welfare deprivation, and instigated social discontent in the NMS. Despite region-wide adversities, some NMS performed better than others. Of the non-Eurozone countries, Poland and the Czech Republic survived the crisis owing to their more stable macroeconomic policies. Others that had been undergoing budgetary problems and recession required financial assistance. This divergence in needs and contexts have affected the NMS stance vis-à-vis the core members. The NMS formulated two demands in the implementation phase.

The first demand came out before the informal meeting of March 1. Some NMS requested bailout to non-Eurozone countries. In that, financial assistance to Hungary and Latvia had motivated Slovakia, Bulgaria, Romania and the Baltic states to make a similar demand, on the grounds that their economy had received greater damage than the Eurozone ones. Poland and the Czech Republic did not give support to the request. Because they envisioned joining the Eurozone, they denied the need for a region-wide bailout. At the summit, Hungary requested €25 billion to prevent that "an 'Iron Curtain' be set up and divide Europe into two parts".[76] The Commission and the core members led by Germany declined the demand on the grounds that Eastern Europe was already receiving funds and loans from the EU, World Bank and the IMF. German Chancellor explained their reluctance to pay for the poorer members as follows: "Saying that the situation is the same for all Central and Eastern European states, I don't see that. You cannot compare Slovenia or Slovakia with Hungary."[77] The NMS asking bailout contested the summit outcomes, and condemned inequality in the Union. Poland and the Czech Republic joined this critique; the NMS accused the core member states of recapitalising domestic companies with bailouts, thereby reducing competitive advantage of the Eastern members.[78] The occasion also prompted the NMS to express their dissatisfaction with having been left out of the talks with the US, China and Japan. The disagreement exposed the vulnerability the EU's solidarity commitment, the divergence of views over the ways of handling the crisis within the EU, and the absence of an 'NMS or an Eastern bloc'.

The second demand came forth prior to the EC spring in March 2009. Poland, backed by other NMS, asked early facilitated entry to the Eurozone under the same conditions as the current members, which were allowed to depart from the SGP rules.[79] It is worth reminding that the Commission's assessment of the stability and convergence programmes had established that Ireland, Greece, Spain, France and Malta had made excess budgetary deficit. The Polish demand aimed to resolve the exchange rate volatility problem and to benefit from Eurozone membership. Exchange rate volatility triggered trade deficits, budgetary deficits and depreciation of local currencies.

[76] Whitlock, Craig, "E.U. Denies Request for Bailout of E. Europe", *the Washington Post*, 02.03.2009, http://www.washingtonpost.com/wp-dyn/content/article/2009/03/01/AR2009030100389.html

[77] *Brand, Constant, Associated Press Writer,* "Merkel, EU reject bailout for eastern Europe", Yahoo News, 01.03.2009, 4:55 pm ET, http://news.yahoo.com/s/ap/20090301/ap_on_re_eu/eu_eu_summit

[78] Puhl, Jan, "Eastern Europe's Economic Crash", *Spiegel Online International*, 23.03.2009, http://www.spiegel.de/international/europe/0,1518,614960,00.html

[79] "Eastern EU members seek shelter from economic storm", *EurActiv*, 20.02.2009, http://www.euractiv.com/en/euro/eastern-eu-members-seek-shelter-economic-storm/article-179614.

Currency instability engendered macroeconomic and social problems. The early facilitated entry the Eurozone would help deal with currency fluctuations, would thereby instil predictability, higher stability in planning, and would facilitate transactions. In addition, these countries would be able to enjoy the ECB's liquidity provisions in the form of lending and temporary currency swaps, which had alleviated problems in the current member states. The demand found support also in some core member states, particularly by Austria. The reason concerned heavy investments of some Western European banks in the region. As was briefly mentioned at the Hungarian case, Austria, Italy, France, Belgium, Germany and Sweden held considerable market shares in Eastern Europe; with the Austrian banks holding the largest portion. These banks operated mostly in the Balkan countries, Hungary, Slovakia, Czech Republic, Romania, Croatia and Bulgaria.[80] Interlinks in the banking system had urged the Austrian government to lobby for a €150 million bailout for Eastern European banks prior to the summit. Western European members led by Germany objected the suggestion. Germany in particular, was reluctant to compensate for the "mistakes of Austria's banks".[81] On the whole, some core members and the Commission declined the proposal prior to the Spring EC.[82]

By mid-March 2009, the core members and the Commission revised their stance over bailouts to non-Euro area. One reason behind the reversal was the risk that recession and exchange rate volatility in the region would bring instability in the Eurozone. France for instance, gave support to the Hungarian proposal considering this eventuality. France lobbied Germany; but the latter did not mirror the enthusiasm.[83] The Commission also asked Germany to lift its opposition to the €5 billion package for Eastern Europe. Finally, Luxembourg's PM, also the head of the Eurogroup, advocated financial assistance to the NMS due to his concern about escalating mass unemployment and the resulting social problems in the region. On the other hand, Poland and the Czech Republic formed a coalition with Slovakia, Slovenia, Romania, Bulgaria, Lithuania, Latvia and Estonia to insist on the demand and to dilute the predomination of Western interests at the EC.[84] Hence, the group in favour of bailouts gained in size on Germany on the eve of the summit.

[80] "Hungary: The Hungarian Financial Crisis' Impact on Austrian Banks", *Stratfor*, 20.10.2008.

[81] Whitlock, Craig, "Banks in Austria Highly Exposed In Eastern Europe", the Washington Post, 19.02.2009, http://www.washingtonpost.com/wp-dyn/content/article/2009/03/18/AR2009031803749.html.

[82] "Eurogroup chief rules out quick easing of euro candidate rules", *EU Business*, 01.03.2009, http://www.eubusiness.com/news-eu/1235906228.19/

[83] "Early Eastern eurozone entry a must, France warns", *EurActiv*, 06.03.2009, http://www.euractiv.com/en/euro/early-eastern-eurozone-entry-france-warns/article-180026

[84] "Eastern EU members seek shelter from economic storm", *EurActiv*, 20.03.2009, http://www.euractiv.com/en/euro/eastern-eu-members-seek-shelter-economic-storm/article-179614

The Spring EC approved the Hungarian proposal. Emphasising solidarity between member states, EU leaders decided to double to the €50 billion financial assistance to non-Eurozone countries facing balance of payments problems. The EU had been assisting balance of payment problems through the structural and cohesion funds, the application of reduced VAT, and the EIB actions to boost SME financing possibilities. With the new decision, the EU has overall made up to €30 billion available from resources. However, the clause contained the condition that bailouts would be decided on a case-by-case basis. This clause communicated that a region-wide assistance scheme was out of question. In other words, the core members refused the original Hungarian plan, and got their interests accepted at the EU level. The decision on doubling the ceiling for assistance could but partly satisfy the Eastern bloc. It is noteworthy that the shift in German position enabled the compromise. Two reasons underlay the German reversal. Firstly, Germany was "a nation reliant on exports"; therefore it needed to contribute to resuscitating the global economy so as to continue exporting.[85] In effect, one major cause behind Germany's approval to financial assistance was that Central and Eastern Europe imported heavily from Germany.[86] Secondly, Germany would not agree to bail out for the sake of bankers; it would do so only "to protect the jobs and savings of citizens and to avoid businesses coming to a standstill".[87] In other words, the already existing credit flows on which Germany had agreed accounted for a precaution against an immediate meltdown of the financial system; and they aimed to restore stability of the financial infrastructure.[88] In effect, the German Chancellor, together with the Dutch PM, believed "market driven and social world economy (…) generates (…) confidence and stability".[89] In this vein, the deepening recession in the non-Eurozone economies posed a threat to German priorities. It risked spreading instability over the Eurozone, and further decelerating economic activities. In short, macroeconomic concerns led Germany and other members opposing bailouts to reverse their position.

This section studied the impacts of the EU's crisis management strategy on the relationship between member states. Because it prioritised the interests of the core members, the EU strategy failed to

85 ""Merkel defends her crisis management", *Spiegel Online International*, 19.03.2009, http://www.spiegel.de/international/germany/0,1518,614296,00.html

86 Forelle, Charles, "Pension Glut Lies at Heart of Crisis Wracking Hungary", *the Wall Street Journal*, 25.03.2009, http://online.wsj.com/article/SB123793340762430957.html#mod=fox_australian

87 Merkel, Angela and Balkenende, Jan Peter, "Values for a Sustainable World Economy", *NRC Handelsblad*, 27.04.2009, http://www.nrc.nl/international/Opinion/article2186062.ece/Values_for_a_sustainable_world_economy

88 *ibid*.

89 *ibid*.

meet some NMS needs. The mismatch prompted the NMS to make two additional demands; a region-wide bailout to the non-Eurozone members experiencing budgetary problems, and the early facilitated entry to Eurozone. It is noteworthy that Poland and the Czech Republic did not support the bailout request, as they wanted to distinguish themselves from the NMS showing weaker economic performance, and they aspired to access the Eurozone. However, these two joined the others in their critique of inequality after the bailout proposal was buried down. In addition, Poland and the Czech Republic convinced the other NMS to endorse the second demand. This pattern of coalition communicates two results. Firstly, a 'NMS or Eastern bloc does not exist. The NMS race against one another; they form an advocacy coalition when their national interests require. Secondly, domestic factors affect the stance of a NMS within the Union. In the end, the Eurozone members and the Commission declined both demands. The decision on doubling the ceiling for financial assistance only partly satisfied the NMS demands; because the clause that this decision would be made on a case-by-case basis exposed that the richer members would not pay up for all NMS in difficulty. Besides, this decision had resulted from the financial and macroeconomic concerns of the core members, Germany in particular. Unable to get their interests accepted at the EU level, the NMS raised concerns about inequality in the Union. The NMS complained about being a second rank member in decision making, while holding equal membership rights in the Union, and despite all institutional and legal arrangements to assure equality and democracy in the Union. Thus, the critique of inequality revealed the limits of solidarity and of the openness of decision making venues in the EU. The findings of this analysis oppugn the conviction that the NMS are well accommodated in the Union. They establish that the EU's crisis management strategy was not appropriate to meet expectations of all member states; and that the tension between the core and new members in decision making venues disturbed interstate cohesion.

CONCLUSION

This paper examined the impacts of the crisis on European economies, EU governance and the relationship between member states. The analysis covered the period from September 2008 to the mid-2009. The objective was to evaluate the appropriateness of the EU's crisis management strategy to the needs of member state economies as well as to the dynamics of EU governance.

The first section studied the outbreak of the crisis, and its immediate and medium term impacts on

EU economies. The analysis identified that the crisis touched the core member state economies first, on the grounds of their greater integration into the global financial system. The core members suffered from the liquidity shortage in the financial sector, recession and unemployment. The NMS economies received the repercussions of the downturn through the more industrialised economies. The damages have been greater, since the core member states had sounder economies and that they benefited from the liquidity provision by the ECB. The NMS underwent budgetary problems, rocketing foreign debts, recession and unemployment. The crisis affected NMS economies differently depending on the patterns of growth. The situation was worse in the NMS that had less stable macroeconomic policies and a small size economy. On the other hand, all members experienced social discontent as a result of the deteriorating economic situation. The NMS yet had a greater number of protests when compared to the core members. Also, in some countries, protests were of a violent nature unlike those in Western Europe (except in Greece). Finally, some NMS, Hungary, Latvia and the Czech Republic, witnessed cabinet falls due to the crisis. These findings revealed that the crisis engendered asymmetric shocks; EU members diverged on the type and intensity of their economic needs.

Right after the outbreak of the crisis, in September 2008, the EU actors pursued unilateral actions; but economic interdependence compelled them to take multilateral actions and to enhance cooperation both on the EU and global stages. In October, the EU actors launched initiatives to develop collective action at both levels. They gave solidarity messages at every occasion. The initiatives started at the emergency meeting between Britain, France, Germany and Italy. The leaders discussed the strategy to fight the crisis. The resulting decisions were the same as those taken at the succeeding EC and Council meetings, which were the first EU level meetings. At these summits, the EU member states defined the guidelines to the EU strategy. It follows that the EU orientations were decided at the consultations between the four core members before those between the EU 27. The prominence of the four core countries stands for their preponderance in decision making. Substantively, the EU strategy comprised measures towards the financial sector, the real sector, and the global financial system. In the one and a half months following the advent of the crisis, most EU measures addressed the financial side; which indicates that this sector constituted the priority for the Union. Then, the Commission brought forth the EERP. The EERP recapitulated the so far taken measures with regards to the three areas, and defined the guidelines to the incoming actions. By the end of 2008, the EU actors had adopted measures mostly towards the financial sector. It follows that EU actions predominantly addressed the problems on the core member state economies. This pattern implicates that the NMS remained less influential in having their interests accepted at the EU venues. In the mean time, the EU actively partook in the efforts to restructure the global financial system. Of the member states, France, Britain, Italy and Germany were the most visible ones on the international arena. However, their influence remained limited when compared to their preponderance on the EU stage.

The second part reviewed the implementation period. The objective was to comprehend the extent to which the EU has met its targets, and how suitable the overall strategy was to the expectations of the member states. The analysis established that the EU implemented measures along the three lines that were defined in the EERP. With regards to the financial sector, it took actions to regain depositors' confidence in the financial system, to assist the ailing institutions and sectors, and to enhance supervision. State aids challenged EU cohesion and governance at this stage. Because the EU left the design of the support schemes to national governments, the rescue packages risked breaking competition rules of the Community. The French bailout plan to the car industry stood as an example; exposing that when nation interests are at stake, even founding members tend to breach the established rules. The French case also conveyed the need for tighter supervision, a stronger Commission to undertake this role, and the need for greater consciousness about rule compliance. Finally, the French case has reaffirmed that EU interests do not overlay national interests despite the length of experience with EU membership, and the length and depth of integration in a policy area. It follows that coordination, supervision and fiscal positions were the most challenging issues to EU governance in this period. In terms of compatibility between the deeds and the objectives (defined in 2008), it can be argued that the EU was overall successful. Besides, the overlap between the G7 and G20 strategies with the EU's roadmap strengthens the thesis that the EU chose the appropriate policy tools. However, in terms of meeting member state expectations, the EU strategy has partly been successful; since it partially addressed the needs of the NMS. The EU could complement this vacuum by financial solidarity. In this vein, the EU gave loans to Hungary, Romania and Latvia for their serious balance of payment problems. Solidarity has yet, proved to be limited. The rejection of the two additional NMS demands exposed the reluctance of the core members to pay for the NMS debts when their economies were in difficulty. Moreover, the reluctance thesis stands out despite the loan to Romania and the decision on doubling the ceiling for financial aid. The EU had to fund Romania since the latter had been experiencing serious social unrest, which would tarnish the EU’s image. On the other hand; the decision to double aid ceiling was conditioned on a case-by-case evaluation. This arrangement stemmed from macroeconomic concerns of the core members, particularly of Germany. It follows that domestic interests superpose solidarity when the solidarity act is too costly and merely profitable to national politics. This result substantiates the supremacy of the core members over the NMS in the decision making venues. It further shows that this hierarchy challenges EU cohesion and causes discontent in interstate relations; which the critique of inequality has illustrated. NMS criticism has further communicated that the NMS have not yet been well accommodated in EU governance, and that the EU decision making system was not as democratic and open as was described at the discourse level. Finally, this chain of events has substantiated the absence of a so-called 'NMS or Eastern bloc'. The patterns of coalition about the two demands show that NMS chose their sides and stance in the EU according to domestic factors and objectives such as joining the Eurozone.

On the whole, the findings point at the fact that not all member states are on the same boat. The crisis has exposed the economic gap between the NMS and the core members, as well as its political implications on EU governance. The divide between the industrialised and developing member states has hindered the efficiency of decision making, and caused problems of solidarity. The core members did not want to go to the rescue of the NMS because they themselves were in hardship. It can be argued that the issue of solidarity had not been posed in such a setting before. That is not to say, the EU had always been in solidarity. Conflict of interest on various issues had impaired unity in the past; i.e. the British rebate, the empty chair crisis etc. The previous enlargements, except those over southern Europe, brought in economies of equal strength; while the EU could successfully absorb the burden of the southern European enlargement. The economic and political implications of the last two waves however, were harder to accommodate given the number of the NMS. The financial crisis has exposed the EU's shortcomings and accentuated the tension between the richer and poorer countries. The crisis has disproved the EU claim that the enlargements were on their way of settling, and that the NMS were catching up at a good speed. Finally, the crisis has communicated that the interests of the core members, and particularly of Britain, France, Germany and Italy**,** continue to be predominant in the Union. It follows that the Eastern enlargements have not much altered the balance of power within the Union. In short, the crisis has underlined the EU's weaknesses in governance and decision making, and the divides between member states. The issue of inequality stands out as a serious challenge to EU governance, which compels policy makers, experts and political scientists to rethink the future of integration with 27 members.