The book addresses the evolution of the European economic governance system. Why are some policies regulated by soft forms of coordination whereas others are subject to hierarchical modes? Building on a discursive institutionalist approach, the book draws attention to the role of policy discourses in European decision-making. Although previous studies illustrate how discourses shape policy outcomes, they neglect to explain particular governance structures. The book addresses this shortcoming and explores the evolution of business taxation and monetary regulation, cases of soft and supranational governance.

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Band 8
Hanna Lierse

The Evolution of the European Economic Governance System

Monetary and Business Tax Cooperation from a Discursiv Institutionalist Perspective

Nomos
Acknowledgement

This book is my PhD dissertation, which I wrote between 2007 and 2010 at the Department of Socioeconomics of the University of Hamburg. Such a challenging task as writing a book on the evolution of the European economic governance system is certainly not the result of my own effort but it was only possible with the support of a variety of institutions and people. Above all, the financial stipend from the Hans Böckler Foundation was indispensable allowing for three years of independent and focused research.

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1. **Introduction: European Economic Governance**

During the course of European integration, member states have set-up a variety of joint rules and institutions. Besides the Single Market in which goods, people and capital freely circulate, the European Union (EU) also accounts for an economic governance system, which involves rules that form part of the process of positive integration. Accordingly, European integration has not only brought about the removal of national frontiers but it also involves the creation of new institutions through which the member states jointly intervene in economic processes. The establishment of the European Central Bank (ECB) is just one example of this transformation. Also in other economic areas such as tax, fiscal and employment policy the member states have introduced common rules. To create such a joint framework has often proven difficult as it requires an extensive amount of consensus with regard to the ways and the goals of intervention.

Currently, the European Economic Governance System (EEGS) is characterised by a variety of different forms of coordination. For instance, monetary policy is managed supranationally while business taxation is subject to a non-binding agreement, according to which the member states remain the key decision makers. Surprisingly, reasons to explain the differences in economic governance outcomes have been little scrutinised. This is even more curious as a well-coordinated European governance system is fundamental for the overall welfare of society within the Union. The recent finical crisis once more brought to light the importance of a coherent and stable European framework. High budget and balance deficits of member states, the near bankruptcy of a number of banks and rising unemployment rates revived the debate about joint institutions. The Commission’s “Europe 2020 agenda” calls for stronger economic coordination to achieve high levels of employment, productivity and social cohesion. But what kind of coordination does it involve? And what are alternative forms and goals of cooperation?

Although the need to coordinate economic policies in the EU is widely recognised, there is little debate about the options and alternatives of EU regulation (Hix 2006). In fact, European integration is often depicted as a dichotomy of either integration or no integration and there seems to be a lack of knowledge about the political agendas of the left and right-wing parties of the European Parliament. Moreover, a one size fit all solution can prove difficult in a union of 27 member states with different economic structures, traditions and ideological governments. It is therefore not surprising that economic policy-making in the EU is often perceived as aloof and distant by European citizens (Eurobarometer...
Thus, it is essential to deal with questions about European economic coordination and to uncover the ways in which governance decisions are taken. Only with public involvement and feedback mechanisms, it is possible to tackle the problem of policy aloofness and to create a legitimate and sustainable Union.

It is the aim of this project to identify the particularities of the EEGS and to explore reasons for the emergence of different forms of intervention. It is to go beyond the question of why the Community intervenes in some areas and to explore why they create particular governance structures. Although European integration has received extensive scholarly attention, the emergence of different forms of coordination is often taken for granted and not subject to empirical inquiry in itself. Who determines whether soft, hard or supranational governance is more appropriate? Does public support and opposition influence reform choices taken by political leaders? The research project deals with the evolution of the European economic governance system, identifies the way goals and forms of intervention have changed since the 1970s and explores the role of political communication for decisions about European governance.

1.2. Scientific contribution of the study

Since the 1950s scholars are interested in understanding the reasons and motivations that drive the process of European integration. Why do states assign decision-making competences to supranational institutions? Neofunctionalism (cf. Haas 1958), one of the first schools to deal with this question, highlighted the role of spillover effects, which suggests that existing cooperation will lead to further cooperation to overcome costly interdependences in adjacent fields. Although this theory contributes to a better understanding of overall integration dynamics it does not provide answers to why different governance structures emerge across time and policy field or why certain reforms fail altogether. For instance, free capital movement is likely to put pressure on tax and monetary policy cooperation. But will this automatically lead to new supranational institutions in those areas? While neofunctionalism draws attention to the role of existing institutions, it assumes integration to be an automatic and unproblematic process neglecting to account for political and distributional conflict in the creation of new governance structures. It is therefore not able to explain the failure or emergence of different governance structures1.

1 Please note, that the terms “success” and “failure” of a reform are used throughout the project without a normative connotation. That is, it merely refers to whether the reform was realised or non-realised. It does however, not suggest whether the outcome was good or bad, right or wrong.
Scholars from the intergovernmental school (Hoffmann 1964, Moravcsik 1991, 1993) draw attention to aspects that neofunctionalists failed to explain. Their main argument is that cooperation only proceeds as far as it is in the national interest of powerful states. While this school significantly contributes to understanding different governance outcomes, it remains limited in other respects. Above all, it assumes the national interests to be natural without making them subject to inquiry in itself. It assumes that actors react the same way to externality and public goods problems as they know about all reform possibilities, can weigh the cost and benefits of economic interdependencies and have the same preference ranking. But based on what assumptions do actors define desirable policy solutions? And whose interest do they reflect? Social constructivists (cf. Checkel 1999, Christiansen et al. 1999) criticise that interests are subjective responses to material conditions and thus need to be the focus of inquiry in itself.

Building on this criticism, a number of studies have increasingly dealt with the role of economic ideas. Although the way ideas are conceptualised differs, a common characteristic of these approaches is that they show how actors employ ideas to make sense of their environment under conditions of uncertainty, conflict and complexity (Radaelli 1998). This line of thought does not assume fixed logics of integration but draws attention to how actors themselves shape the understanding of how European cooperation should best proceed. The way actors perceive a situation and how they make sense of governance possibilities depends on their issue-specific ideational background. For example McNamara (2006) showed that there was little controversy with respect to price stability, central bank independence and sound finances as beliefs had converged around the goal of price stability during the 1980s. Certainly, actors can deliberate about their ideas and thus change them, but the degree to which a certain set of ideational structure is institutionalised, restricts the reform solutions that are perceived as appropriate and feasible. The research builds on these approaches and attempts to better uncover how the interests of political leaders are formed and the underlying ideas that structure them.

Although a number of ideational studies have investigated European integration processes, some main deficits remain in this strand of literature. First, no coherent research programme has emerged as only a few empirical studies have been conducted (Jachtenfuchs 2001). Moreover, those studies have only investigated single cases without comparing different policy areas. It is however, in the comparison that more general taken for granted assumptions can be uncovered. Second, these studies have focused on the way an ideational consensus is reached and how this contributes to the emergence of European institutions. However, they have neglected to account for different governance outcomes.
How to make sense of the emergence of soft, hard and supranational governance structures? This project attempts to fill in the above mentioned deficits of this literature by building on a comparative case study approach.

Moreover, ideational studies tend to highlight the role of epistemic or expert communities (Haas 1992, Zito 2005, Verdun 1999). For example Verdun (1999) shows that it was necessary for European Economic and Monetary Union (EMU) that the experts of the Delors group held similar ideas about European monetary integration. There is little doubt that such groups are particularly influential in the EU: due to the absence of a stable governing coalition a different source of policy input and coherence is needed, which often originates in the Commission or issue-specific expert groups (Richardson 1996). While these studies draw attention to where a reform idea comes from, they do not explain why a governance reform succeeds. For this, a discursive institutionalist approach is more suitable (cf. Schmidt 2008 a, b, Hay 2006) as it emphasises the importance of the institutionalisation of economic ideas as well as the ways in which they are communicated. It draws attention to the particularities of the European decision-making process, which involves a wide range of national and European actors.

This project builds on the discursive institutionalist approach, according to which governance reforms are the product of a coordinative and a communicative discourse (Schmidt 2008a, b): the former is an institutionalised process wherein political actors have the power and capabilities to shape the outcome. The Commission and the Council are important actors in this process with different roles and possibilities to influence economic reforms. Yet, it is possible to assume that these actors also need to legitimise their reform choices; for the communicative discourse they depend on the media to reproduce and disseminate information and viewpoints and to allow for feedback from the public (cf. Entman 2003). Thus, this project focuses on the communicative discourse as mass communication rather than as a realm of deliberation among individuals. Yet, the extent to which the communicative discourse actually matters in the EU has hardly been researched by scholars.

Due to a lack of a common language, a missing European-wide media and a common identity, some scholars suggested that a European communicative discourse does not exist (Grimm 1995, Schlesinger 1995). By contrast, others analyse the particularities of European communication (Risse 2000, 2003, Eder and Kantner 1995) suggesting to think of a common discourse not in terms of a unified discursive community but in terms of the Europeanization of various national communities. Following this line, some scholars have shown that a European communicative discourse exists (Risse et al. 2003), while others (Oppermann 2008, Brüggemann 2005) claim that issues are still embedded in domestic
structures of contestation. It is the aim of this project to explore the role of the communicative discourse and the way it contributes to the construction of different governance outcomes.

As political communication in the EU is fragmented and mainly occurs through the national media, it is possible that domestic opposition may be reinforced in such a way as to restrict or delay the evolution of economic governance. Yet, whether opposition to European reforms emerges, is likely to depend on the reform and the extent to which economic ideas differ among the states. Moreover, if the appropriateness of the European level is contested, soft forms of cooperation are more likely. The goal is not to achieve a one-size-fit-all solution but to support benchmarking and to leave room for national adaptations. By contrast, hard forms of governance are more likely to be realised, when the necessity of the European level and the reform ideas are uncontested as they involve fixed references of right and wrong. The project identifies the way in which goals and forms of intervention have changed since the 1970s and develops a discursive institutionalist framework to uncover the role of issues-specific policy discourses in the EU.

The scientific contribution of this research is of theoretical and political nature. According to the former, social scientists can further develop the discursive institutionalist approach and form their own hypotheses about European governance change. Besides serving as a catalyst for scholarly discussions on European integration dynamics and policy discourses, it also provides insights to methodological issues on case study designs and qualitative data analysis. Besides a theoretical and methodological contribution, the project has political implications. By exploring the way in which decisions are taken and the way a communicative discourse matters, it draws attention to the EU’s communicative deficit: it is based on a lack of political left-right agendas as well as the missing accountability of European leaders. As such, the project’s results can be of interests for anyone being concerned about the future cohesion of the region.

1.3. Introducing key terms

The project is based on two key terms, which are essential to grasp. First, the dependent variable, the European economic governance system, needs clarification, above all, because the term governance has become a popular word used by academics and politicians alike. Second, discursive institutionalism, which aims to explain governance outcomes, is based on the notion of discourses. Yet again, it is a term that has become popular and received scrutiny from a variety of schools, so that there is the need to show how this project builds on them. It is
briefly to introduce these two terms and to show how they are adopted in this project. A more extensive discussion of them can be found throughout the theoretical foundation of the dissertation (Chapter 2-3).

The term governance is generally used to describe changes of the economic and political institutions of capitalistic systems. Yet, it is possible to distinguish between two different approaches to “governance”: a political science and an economic perspective. Whereas economists tend to stress differences in terms of the functioning and the efficiency of economic systems or subunits of these, political scientists adopt a macro-perspective drawing on ideas about changing relations between the state, market and society. In order to describe these changes, the latter often contrast governance from the more traditional term government. The central idea is that government consists of concrete actors with formal authority over a specific territory. In contrast, governance can involve both private and public actors and other means than the traditional top-down approach of managing issues of social concern.

By contrast, the economic perspective draws on new institutional economics, which revived the idea that the relationship between institutional structure and economic performance requires attention (c.f. Williamson 1975). What is the central mechanism of coordination and what ramifications does this have? This approach involves a number of different forms of governance structures such as hierarchical and more horizontal forms of coordination. Thus, it is a more nuanced concept to identify differences at the policy level. How is monetary policy coordinated and how do European institutions intervene to regulate business taxation? This perspective highlights that policy coordination is not an end in itself but that it influences the performance of issues of public concerns. While the approach has the advantage of providing a tool to capture the different institutions that exist in an economy, it does not explain “change” as such (Chapter 2). To understand change, this project builds on a discursive institutionalist approach in which the notion of a “discourse” is crucial.

A further aspect to be briefly illuminated at this stage is the term discourse. Is it a speech or a conversation? Does it refer to the content or the communicative process? Or is it even a philosophy? The notion of what a discourse is, varies enormously: on the one hand, a discourse is used in a linguistic sense looking at semantic aspects of language. On the other hand, in the social sciences, a discourse “usually refers to (more or less) public, planned and organised discussions, dealing with a specific subject that has social relevance” (Keller et al. 2001:7, own translation). The term draws attention to the social impact of language and communication and how they contribute to the construction of reality, that is, the process of giving meaning and interpreting (Keller 2007, Torfing and Howarth 2005).
Particularly, the works by Habermas and Foucault have shaped the term “dis-
course”. Although they both refer to the same term, the way they conceive of
discourses differs widely. To extensively deal with their works exceeds the pos-
sibilities of this introduction and has also been done elsewhere (Keller 2005,
Howarth 2000). Yet, it is to provide a brief overview of how the conception of
this project builds upon and diverges from the two scholars. Habermas (1981,
1996) developed a normative theory of public communication in which he sug-
gests an ideal speech situation. It is a situation, in which humans are free to entre
the discussion, they are able to question the validity of the utterances and the
arguments are comprehensible, true, right and sincere. Accordingly, the Haber-
masian tradition perceives of a discourse as a non-hierarchical and non-
dominated form of communication. It constitutes a normative theory of discourse
ethics describing an ideal situation of how legitimate decisions should be
reached.

Different than Habermas, Foucault’s (1970, 1972) idea of a discourse is less
normative. Although he is probably one of the most cited authors, there is no
clear and coherent definition that builds upon his discourse conception (cf. Diaz-
Bone et al. 2007). Keller (2005) therefore argues that his work is a central source
of inspiration presenting a “delightful set of proposals and toolboxes open to
various interpretations” (Keller 2005: 229). Although a Foucauldian line of
thought does not exist as such, related works tend to involve an analysis of the
production of meaning, its circulation and transformation. Accordingly, dis-
course is conceived of as a group of statements, of certain rules and practices that
construct the meaning of an object. In the context of European integration such a
perspective has received attention, too. It starts from the assumption that discurs-
ive symbols and concepts determine how we conceptualise European govern-

While this project is interested in the production and transformation of mean-
ing about European economic governance, the project adopts a more institution-
alist and actor-centred understanding of discourses. Accordingly, discourses do
not simply float freely but they involve an institutionalised process in which
actors’ roles and ideas determine the boundaries of a newly emerging discourse.
Following Schmidt (2008a), the author finds it helpful to distinguish between
ideas, which are the substantive content of a discourse, and the interactive and
communicative side of them. Thus, this project deals with the ideas about the
EEGS and how they are communicated. What image does EMU or European
business taxation have? And which ideational structures are they based upon? It
shows that the institutionalisation of economic ideas can restrict or facilitate
certain governance outcomes.
1.4. Research aims and objectives

There are a variety of options of how and with which goals the member states can intervene in economic processes to achieve macroeconomic goals of stability and employment. Differences do not only lie in the degree of centralisation of a policy in the EU but also as regards the reform objectives that are being prioritised. But who determines how economic policies should be regulated and the goals they should contribute to? The EU does not have a government or a stable governing coalition, which is elected by the citizens and sustained by a majority in the Parliament. By contrast, the main decision-making body, the Council, is composed of national leaders with a variety of cultural and ideological backgrounds. Hence, stability or policy cohesion mainly originates from the Commission’s Directorate Generals. Moreover, the Commission is also the formal agenda initiator and as such has a major stake in determining the Community’s overall way forward. Building on a discursive institutionalist approach, it is argued that the degree to which economic ideas are institutionalised within the EU and the member states restricts the reform solutions that are perceived as appropriate. Thus, the Commission’s formal economic agenda is likely to be influenced by the existing economic ideas and their background information.

To understand how the ideas about the EEGS evolved, it is necessary to identify the Commission’s formal policy proposals. What are the ideas about tax and monetary policy coordination in the EU? Yet, to explore why reforms fail altogether and why different governance structures are created it is necessary to further investigate actors’ reactions to the Commission’s economic agenda. The degrees to which the reforms harmonise or conflict with the member states determine the reform solutions. Hence, if the appropriateness of the European level is contested, then the creation of hard forms of governance is unlikely to be successful. Thus, the project draws attention to the perceived interests of actors, the underlying ideas that structures them and the reactions to the Commission’s reforms. A further objective is to explore the ideas that are communicated. Hence, it is to identify the interplay between claims made by political leaders, socio-economic elites and the media to assess governance outcomes. The research project deals with the following main three research objectives to shed light on the evolution of the European economic governance system:

- To identify how the Commission’s goals and forms of EU economic governance have changed since the 1970s.
- To understand how policy discourses contribute to the construction of different European economic governance outcomes.
- To identify preconditions for achieving a more legitimate EEGS that provides macroeconomic stability in an integrated Union.
To obtain credible results and to answer the main objectives of the research, the following cornerstones must first be laid: first, it is essential to discuss what the EEGS entails and how it can be classified. What are different governance structures and how can we distinguish them? Second, it is to better elucidate the independent variables to explain European integration. As reasons for institutional change can be manifold, the research need to be based on certain assumptions and simplifications as otherwise it would not be possible to judge causality of a social phenomenon. Taking all plausible influences into account is no more than a thick description of the phenomenon. Finally, the researcher needs to obtain empirical evidence and assess the Community’s reform goals as well as the reactions to those reforms. The following section provides a brief overview of the scope and the limits of this study.

1.5. Scope of research: case and country selection

As social change is usually not due to one causal factor but it is the combined effect of various conditions and their intersection in time and space it is a key challenge to unravel the relevant causal combinations that prevent or facilitate change across a range of cases. The detailed literature review allows focusing on a theoretically specified dimension (Chapter 3). The main causal mechanism of this process lies in policy discourses, which links the choices taken by European leaders to domestic reactions. Causality is however not understood as the direct and single effect of X that gives rise to Y. Instead, this project follows Gerring (2005, 2008) who proposes that causation refers to a condition that raises the probability of an event to occur. To be causal, the independent variable in question must not be the sole trigger for Y but it must contribute to the generation of a governance outcome.

Besides the literature review that helps to single out the variables to focus upon for explaining different economic governance outcomes, the study conducts an empirical investigation to test the proposed hypotheses. The focus of this investigation is on economic policies: monetary, fiscal and tax policy, which unite on a number of characteristics that justify their comparison (Chapter 4). Above all, they are part of the process of positive European integration, in which member states do not simply remove national frontiers but they create new joint competences to intervene in economic processes. The entrustment of these policies to the EU therefore requires a significant degree of (ideological and interest-based) consensus concerning the measures and goals of intervention. The scope of the research results are thus limited to these policy fields and may not be transferrable to other areas.
By opting to compare four cases of monetary and tax policy cooperation (Table 4.1), the research builds on the idea of Mill’s method of difference (Gerring 2008). It suggests comparing instances, in which the phenomenon under investigation occurs with instances, in which the phenomenon does not occur but that is similar in other respects. The idea is that if a set of cases was selected in terms of the same dependent variable (e.g. two supranationalised economic policies), one can only collect part of the information needed; namely, the degree to which a certain factor (A) is present in the cases under consideration. However, by including cases with different outcomes, it is possible to explore whether they have less or more of factor A (Geddes 2003, Ragin 1987). While studying the transformation of two economic policies could be criticised for being a too small sample, the combination with an over-time approach increases the validity of the research conclusions drawn from the cases.

To test the hypotheses and to evaluate the policy discourse of the four reforms, it is necessary to collect empirical data from European and national sources such as media articles, statements, internal documents and official policy proposals. It draws on the European level as this is the official decision-making arena, where reform proposals are drafted, discussed and negotiated. Although it is referred to as the “European level”, it is obviously not one unitary actor. In contrast, there are various actors such as the Commission, the Council and the Parliament, which take on divergent roles in the formal decision-making process (Section 3.3). However, it is important to be aware that also within these institutions there are divergent demands; particularly in the Council where national representatives attempt to defend their “national” policy interpretation.

To study the evolution of the policy discourses of all member states however exceeds the resource capacities of the researcher. It was therefore necessary to delimit the countries to be researched. Due to the unanimity procedure in the Council, it is considered important to involve the policy ideas of antagonistic players, which can however vary between policy areas. Consequently, the focus countries were not chosen statically but were well considered for each issue area. As a result, the two corporate tax cases are based on an analysis of Germany and the UK whereas the monetary cases draw on Germany and France, which were identified as the two most important actors that dominated the negotiations respectively (Chapter 4). Although these countries may not represent the European average, they reflect the positions of the veto-players and can therefore allow for testing the specified hypotheses.
1.6. **Structure of the project**

To answer the research questions and to get the essence of the research goal, it is necessary to proceed in a scientifically structured manner. The structure needs to promote fluency and overall understanding while also allowing for in-depth analysis of key aspects. Therefore, the research is organised into three main parts: the first part forms the theoretical background of the study (Chapter 2-3), the second (Chapter 4) deals with methodological questions and the third part (Chapter 5-6) is of empirical nature and covers case description and analysis before the final Chapter (7) combines the parts for a conclusion. This structure was chosen as the theoretical part is a necessary precursor for the empirical study involving definitions of key terms of the dependent and the independent variables and showing how it builds upon previous studies. It explains and justifies the focus on reform discourses and how it contributes to the existing literature.

The first chapter, the present introduction, provides the reader with an overview of the issue under investigation along with the research goal. Furthermore, it provides a brief description of the case studies and the country selection to grasp the limitations and contributions of the empirical study.

Chapter two marks the beginning of the main part of the research establishing the theoretical pillars from which the remainder of the research commences. Herein the reader is first introduced to the concept of the European economic governance system, the dependent variable of the project. This chapter starts by providing a better understanding of the meaning of “governance” introducing two broad approaches to the term. Furthermore, the chapter demonstrates that economic governance in the EU involves a variety of forms of intervention with different benefits and drawbacks. It is a useful concept that helps to describe the dependent variable of the project.

Chapter three provides a detailed literature review with the aim to single out a theoretically specified variable to explain European governance outcomes: it identifies reasons and factors that drive and restrict the European integration processes. The chapter starts discussing previous theories such as neofunctionalism and intergovernmentalism and justifies why it adopts a discursive institutionalist approach to explain different governance outcomes. Although one may criticise that the former two have been discussed at length elsewhere, it is considered necessary to identify the main explanatory variables and to show how this project deviates from and complements them. Furthermore, the chapter identifies and defines the key explanatory variable of the discursive institutionalist approach and ends by outlining guiding research hypotheses.

Chapter four addresses the methodological approach employed throughout the project. It is the aim to explain how empirical material was collected and evaluated to reach valid and reliable conclusions with regards to the research hypothe-
The chapter is divided into two main parts: first, it addresses why a qualitative small-n case study approach is adopted. The advantages and limitations opposed to alternative ways of doing research are outlined and the criteria for selecting the countries and cases are discussed in detail. Second, it justifies the methodological approach for the sampling and the data analysis technique. Thus, the chapter deals with methodological issues underlying the research project showing how potential pitfalls are to be overcome.

Chapter five and six explore the hypotheses by dealing with empirical evidence from the field of European monetary and tax governance, respectively. Each chapter involves two reforms, of which one failed and one was realised. The analysis is structured as follows: at the outset, a general overview of European developments and initiatives in the two issue areas is provided to place the reforms in their contexts. In a second step, each case is explored in more detail by analysing the Commission’s reform ideas, the reactions by domestic elites and the media. At the centre of the analysis are the media and the way in which they monitor decisions and provide feedback from the public. Throughout the discussion verbatim examples are provided to illustrate the main arguments before a preliminary conclusion as regards the hypotheses is reached.

The final chapter summarises the main arguments and empirical findings of the research project and critically discusses the achievements and shortcomings of the discursive institutionalist approach. The chapter is divided into several parts: it starts by discussing the Commission’s reform ideas and shows how they are embedded in the ideational background assumptions of the respective time. The following three parts summarise the main findings with respect to the guiding research hypotheses. Can public support or opposition influence governance outcomes? The final two sections deal with the relationship between the public, the media and political leaders in shaping economic governance outcomes and provide a critical evaluation of the research findings.