STRENGTHENING THE EUROPEAN COMMISSION'S BUDGETARY AND ECONOMIC SURVEILLANCE CAPACITY SINCE GREECE AND THE EURO DEBT CRISIS: A STUDY OF FIVE DIRECTORATES-GENERAL

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Has the executive role of the European Commission changed since the euro debt crisis? Intergovernmentalists point to the increased role of the member states and the Council at the expense of the Commission and other supranational institutions. This paper examines how the Commission has responded to the expansion of fiscal and economic rules such as the regulations that strengthen the EU's statistical competence and the Six-Pack and Two-Pack. Based on interviews conducted with key staff, we find that these rules have created significant coordination, information, and analytical demands on the Commission. The latter has enhanced its horizontal and vertical coordination efforts, prioritized staff for the Directorate-Generals conducting surveillance activities, added DGs to these efforts, and reorganized their organizational structures to promote a deeper understanding of the member states' fiscal and economic policies. Using a principal-agent approach this paper explains how the Commission has increased its role in European integration process.

Keywords: European Commission, Euro Debt Crisis, European Semester, Eurostat, Financial Crisis, Greece, Principal-Agent

1. INTRODUCTION

The euro debt crisis has drawn attention to the nature of governance in the European integration process. Many have pointed to the fact that it took the EU long to respond to the crisis and that the usual institutional structures were insufficiently equipped to cope with the unfolding crisis. In order to settle their differences member states often relied on the European Council to make decisions to deal with the crisis of the day.

Intergovernmentalists have emphasized that the euro debt crisis has brought to the fore that member states are in the driving seat. Bickerton, Hodson and Puetter (2015) speak about an 'integration paradox', that is, although there is more European Union (EU) activity they do not observe a transfer to supranationalism. They argue that 'The two key intergovernmental treaties following the crisis – the fiscal compact and the European Stability Mechanism (ESM) Treaty – empower the Commission to a limited degree in one case and not at all in the other.' (Bickerton et al. 2015, page X (2 of manuscript)). Indeed, numerous scholars point to a so-called 'weakening' of the European Commission (hereafter 'Commission'). Furthermore, Frank Schimmelfennig, in his reply to Bickerton et al., even if he disagrees with various aspects of Bickerton et al.'s 'new intergovernmentalism', does not hesitate to state that the Commission has weakened; become less empowered, when he writes: 'Even if traditional supranational institutions have been weakened – and there is widespread consensus that this is true for the Commission – it does not follow that the EU as a whole has become more intergovernmental. It is true that governments have been reluctant to empower the Commission in the policy areas integrated since Maastricht.' Schimmelfennig 2015, page X (2 of manuscript).

In the European integration literature, the Commission is often portrayed as an organization in a state of change, usually forced exogenous change that is resisted and contentious, but is increasingly seen as less influential relative to other EU institutions. Various waves of imposed reforms forced the Commission to move beyond the technocratic expertise that is the foundation of its authority and status. As such, it is characterized as an increasingly politicized organization under siege; one that is struggling to maintain its eroded political and administrative influence (Cini, 1996; Nugent, 2001; Dimitrakopolos, 2004; Wille, 2013; Kassim, *et al*., 2013). This literature defines executive influence and power primarily in terms of the Commission's functions as agenda setter and policy initiator. In the wake of the euro debt crisis, the Barroso-led Commission is said to have been losing influence to institutions such as the European Parliament (Hallerberg, Marzinotto, and Wolff, 2012), or the European Central Bank (Drudi, Durré, and Mongelli, 2012), as it exhibits a lack of initiative, visibility, and policy entrepreneurship (Hodson, 2013; Menz and Smith 2013; Copeland and James, 2014). The Commission is also suggested to be organizationally unresponsive to the euro debt crisis, such that the crisis has had little or no organizational or cultural influence on its institutional framework (Cini, 2014). Some scholars assert that these assessments of the Commission may be premature (cf. Bauer and Becker (2014a). Smith (2014), Hartlapp and Rauh (2013), and Hartlapp, Metz, and Rauh (2013) argue that the Commission's internal processes can increase its policy capacity and enable it to achieve societal goals even under challenging circumstances. To evaluate the ability of the Commission to initiate and manage change in the face of economic crises the Commission's capacity to exercise its critical administrative function as the "guardian" of EU rules must also be considered (Bauer, 2006; Ellinas and Suleiman, 2011; Bauer and Becker, 2014a, 2014b). The present study contributes to and is supportive of this latter critique by studying the dynamics of Commission bureaucratic capacity building in light of these economic crises. Has the Commission really become weaker in the wake of the euro debt crisis, or was it simply not in the driver's seat whilst the response to the crisis was being hammered out?

In the wake of the euro debt crisis the European Union (EU) enacted a series of rules aimed at strengthening the authority and technical powers of the European Commission (hereafter 'Commission') to conduct budgetary and macroeconomic surveillance of the member states. These rules are well-known. Some strengthened the Commission's statistical and auditing powers. The so-called Six-Pack produced the Macroeconomic Imbalance Procedure (MIP) and enhanced the Stability and Growth Pact (SGP), while the Two-Pack firmed up the European Semester (hereafter "Semester") (Buti and Carnot, 2012; Chang, 2013). A good deal of analyses has focused on the origins of these new rules, their contribution to the EU's legal framework, their potential influence on member state budgetary behavior, their macroeconomic consequences, and their implications for further European economic integration (e.g. Salines, Glöckler and Truchlewski, 2012; Gocaj and Meunier, 2013; Ioannou, Leblond and Niemann, 2015; Niemann and Ioannou, 2015; Verdun 2015). What is generally missing from these studies is an appreciation for how these new rules resulted in the Commission initiating and implementing substantial internal administrative change to accommodate the demands of these new procedures. Adopting a principal-agent framework this paper seeks to explain how the Commission increased its influence in the surveillance process.

The empirical problem begins with the Maastricht Treaty and the SGP requirements that stipulate that the Commission monitor member states' fiscal activities and initiate sanctions against excessive budgetary deficits and public debt. The Commission's well-known failure to identify Greece's budgetary evasions enabled that member state to gain entry into Economic and Monetary Union (EMU) and escape the Pact's sanctions (Savage, 2006; Heipertz and Verdun, 2010). Furthermore, the revelation of Greece's non-compliance proved to be a factor that contributed to the onset of the euro debt crisis (Angeloni, Merler, and

Wolff, 2012; Zahariadis, 2013). The extent of member states' noncompliance with EU rules resulted in the addition of more rules, which addressed the broad budgetary and economic responsibilities of the member states and the specific administrative capacities of the Commission in the surveillance process.

This research offers the perspective that in the case of the highly visible and potentially politically dangerous surveillance process, the Commission bureaucracy responded rather rapidly and effectively to the events surrounding the Greek and the euro debt crises. These crises provoked major EU rule changes that required the strengthening of the Commission's administrative authority and technical capacities, while also producing internal coordination challenges for the Commission to overcome. The Commission adjusted its internal operations, modified the formal organizational structure of some of its Directorates-General (DG), reallocated its personnel and hired new staff. These organizational reforms contributed to a deeper understanding on the part of the Commission of the economic life of the member states, and thus helped promote EU economic integration (Verdun and Tovias, 2013). Institutional change, in other words, can occur within the Commission in a far less contested manner than some of this literature suggests.

We adopt a principal-agent approach to explain the changes within the Commission. A defining characteristic of the EU is the delegation of authority from the member states acting as principals to the Commission acting as an agent. This is the case when the Commission serves as the guardian of EU treaties and is engaged in the surveillance task of monitoring the member states' budgetary deficits and debt (Pollack 1997; Majone, 2001; Savage and Verdun, 2007). In this context, the Commission as agent is delegated the challenging role of monitoring and enforcing the budgetary compliance of the principal member states. The economic crisis highlights the limitations of this surveillance, as the Commission often proved unable to monitor and secure the member states' compliance. In fact, member states acted as the P-A literature suggests: they engaged in *shirking* and other opportunistic behavior (Kassim and Menon 2003). This shirking is made possible because the ultimate enforcement and rule making authority rests with the member state principals, who also in this context of budgetary and economic surveillance have more information than their agents. The Commission as agent has responded by advocating in favor of strengthening these rules and its administrative capacity to enforce them, to gain added oversight powers and obtain more information to ensure greater compliance. This is indeed what occurred during this time, as we shall show below.

This study makes important contributions to a deeper understanding of the evolution and organizational behavior of the Commission, specifically as it develops its surveillance and programmatic procedures in light of the extended economic crisis. The Commission's efforts in this regard is one factor in explaining how the emerging institutional framework of EU rules, particularly the Semester, contributes to EU political and economic integration.

2. CASE SELECTION AND METHODOLOGY

This research focuses on the five Directorates-General (DG) that are now engaged in the surveillance process. Two of these DGs, Eurostat and DG Economic and Financial Affairs (DG ECFIN), are long-standing surveillance participants, while DG Employment and DG Taxation are new to the process. A fifth DG, the Secretariat-General is also a veteran participant, but its responsibilities have been transformed due to the changing EU surveillance rules. We examine below how the Greek crises resulted in the strengthening of Eurostat's administrative authority and capacities. We also analyze how the crisis produced new rules, especially the MIP and the Semester, which also changed and enhanced the roles of the other four DGs in the surveillance process. The additional rules required greater participation in the process by these other DGs, but they also produced additional demands for horizontal and vertical coordination within and between the DGs.

To conduct this research, interviews were carried out with eighteen key Commission staff, including Eurostat's director-general and each of the five DG's surveillance coordinating unit leaders and their staff. Interviews, as noted, were conducted beginning in 2010 and continued through 2014. Follow-up interviews were conducted as needed, as the DG's surveillance duties changed and expanded after the Greek and financial crises. Interviewees frequently requested and were assured anonymity to encourage candor in their remarks, especially in response to questions regarding such bureaucratically sensitive topics as organizational leadership, staffing, EU and Commission resource allocation, and relations within and among the Commission's DGs.

3. THE COMMISSION: DG EUROSTAT (DG ESTAT) AND THE REACTION TO THE GREEK CRISES

3a. EUROSTAT AND THE SURVEILLANCE PROCEDURE

Eurostat's significant role in dealing with the financial and economic crisis stems from the EU's budgetary surveillance requirements created in the Treaty on the Functioning of the European Union (TFEU), the Protocol on the Excessive Deficit Procedure, and subsequent regulatory legislation. Article 126 TFEU/Article 104, Treaty on the European Union, TEU, declared that member states shall avoid excessive general government deficits of 3 percent of GDP and gross national debt levels of 60 percent of GDP. The Protocol further defined what constitutes an excessive deficit, and it established a budgetary surveillance procedure requiring member states to submit biannual budgetary and economic data to the Commission for review. The Protocol stated that these data on "planned" or "actual" deficits and debt would be harmonized in terms of the national accounts framework outlined in European System of Accounts (ESA). Eurostat came to prominence in the surveillance process as the creator, administrator, and most technically competent interpreter of the ESA. Through its technical rulings on national accounts statistical case law Eurostat determined, for example, whether a budgetary or economic transaction added to or reduced the size of a government's deficit and debt. These rulings, made in consultation with the member states' national statistics institutes and central banks, proved to be pivotal in the decision to admit several member states into EMU, especially Italy, France, and Spain. Eurostat was the DG within the Commission that in 1998 finally certified the size of a member state's deficit and debt that affirmed the basis for EMU membership (Savage, 2001, 2005; Schelkle, 2009). Eurostat exercises similar authority in the administration of the SGP, as its certification that a member state's "actual" deficits violated the excessive deficit procedure (EDP) is necessary before financial sanctions may be imposed on a member state.

Eurostat reorganized its organizational structure and augmented its personnel to fulfill its surveillance responsibilities. Prior to the creation of the TEU in 1992, neither Eurostat nor any member state, for that matter, employed ESA to harmonize budgetary data. Eurostat's director established a new directorate, Directorate B, Economic Statistics and Economic and Monetary Convergence, to gather and harmonize all of data required by TEU. Within the directorate, B-4 managed public accounts statistics for the excessive deficit procedure, which entailed collecting the member states' biannual reports, and certifying their deficit and debt status. Despite this responsibility, B-4 never received more than twelve to fifteen staff, many of them seconded on from member states statistical offices. Eurostat's limited staffing meant that it lacked personnel literate in all of the member states' languages.

This staffing arrangement reflected the understanding that the surveillance of member state budgets during the critical years of the Stage II convergence process operated on the basis of trust. This meant that Eurostat accepted their budgetary data as accurate, credible, and reliable. The TEU pointed to this limited surveillance authority in Article 104(2), declaring that "the Commission shall monitor the development of the budgetary situation….in the Member States with a view to identifying gross errors." Consequently, not every budgetary transaction required review, but only the "gross errors." The technical questions therefore addressed by Eurostat were whether these data were properly translated into national accounts in a manner consistent with ESA, not whether a government's ledgers were internally consistent and valid. Eurostat lacked the formal authority to audit a member state's budgetary accounts, in the manner that the European Court of Auditors might assess the use of EU cohesion and competitiveness funds allocated to a member state. Eurostat's surveillance powers and its constrained administrative capacity limited B-4 to the examination of biannual reports and annual visits to member states to identify gross errors in the interpretation of national accounts by the member states.

3b. THE GREEK STATISTICAL CRISES, 2004 and 2009

In May 2004, Eurostat reported that Greece intentionally failed to disclose and properly classify the biannual budgetary data it submitted to the Commission (Coronakis, 2013).

Eurostat then revised Greece's 2003 deficit from 1.7 percent of GDP to 3.2 percent, a level that activated the EDP. Further analysis revealed the Greek government misrepresented its 1998 deficit, claiming it stood at 1.8 percent of GDP rather than the revised figure of 3.4 percent. Greek officials acknowledged they underreported defense spending by €8.7 billion between 1997 and 2003 (Daley, 2014). Greece obtained its membership in EMU in 2000 through an active effort in statistical duplicity dating back to at least 1996 (Eurostat, 2004).

The Commission offered three proposals to address this failure in the surveillance procedure. First, in March 2005 the Commission recommended amending Council Regulation 3605/93 to grant Eurostat auditing authority and to expand its member state visitations rights to include "in-depth monitoring." Second, Eurostat would receive additional staff and budgetary resources. Third, the member states' statistical offices would gain greater administrative and political independence through a Code of Best Practices. Despite the Code, the member states rejected giving Eurostat auditing power and no additional personnel were allocated to the agency to conduct budgetary surveillance. As Walter Radermacher, Eurostat's DG, recalled, "In 2004-5, the Commission and Eurostat asked to have audit-like powers. This was the point of no acceptance by the member states. So the enhanced powers for Eurostat in 2005 were limited to statistical processes. As we have seen in the Greek case in 2009, this created a loophole where the last Greek government could cook the books and massage the figures."[1]

The member states tolerated Greek statistical misbehavior in 2004 because the solution to the problem posed by the Commission challenged their autonomy. Also, the transgression could be overlooked during a period of relative economic growth. The economic consequences stemming from the next Greek crisis proved to be more perilous, when the escalating free-rider spillover problem drove the member states to grant the Commission enhanced surveillance authority. On October 2 and 21, 2009, Greek statistical authorities submitted two different sets of EDP data to Eurostat, with the second set of revised data indicating the 1998 deficit to be 7.7 percent of GDP, versus 5.0 percent, and the planned deficit for 2009 at 12.5 percent rather than 3.7 percent. These revisions contributed to fears that Greece would be unable to manage and eventually refinance its national debt.

3c. STRENGTHENING EUROSTAT

As a result of the Greek statistical crises the Council of Ministers of Economic and Financial Affairs (ECOFIN) strengthened Eurostat's surveillance authority. New EU directives and regulations reinforced Eurostat's role as ESA's arbiter, while additional staff were provided to conduct surveillance. Where Eurostat found itself restricted to ten site visits to Greece between 2004 and 2009, the revised regulations called for a regular access through "dialogue" and "methodological" visits. In 2010, through Council Regulation 479/2009, ECOFIN granted Eurostat auditing power, while Commission Decision 2012/504/EU declared Eurostat to be responsible for setting the standards for EU statistics (European Commission, 2012). ECOFIN, however, rejected Commission proposals requiring that member states penalize their civil servants if they misreported data, viewing such sanctions as an infringement on member states' sovereignty.

In 2010, the Commission committed itself to tripling the size of Eurostat's surveillance team of fifteen to forty-five, bringing the total staff to some 850 personnel. As shown in Table 1, this increase in staffing occurred even as Eurostat's operational budget fell from € 64.6 million in 2011 to € 53.4 million in 2012 and with the overall EU budget for administration remaining relatively constant in response to member state demands for greater austerity (Kaiser and Prange-Gstohl, 2012; Waterfield, 2012).

(TABLE 1 ABOUT HERE)

Eurostat needed this augmentation, as a senior official candidly observed in 2010, “Even now, there are people still working on countries who do not have the language…This means a whole lot of potential sources of information are lost, ministry of finance documents and such that are not translated.”[2] By 2014, Eurostat’s hired more than fifty staff for the surveillance procedure, even though the DG as a whole lost personnel. Eurostat reorganized its organizational structure to accommodate these personnel, as shown in Eurostat’s organization chart.[3] The surveillance section grew from one unit of fifteen persons in B-4 to three units, two units of which consist of national accounts specialist, D-2 and D-3 respectively covering fifteen and thirteen member states, with a third unit, D-4, staffed by personal by auditors and accountants.

Finally, in October 2011, Commission President Barroso promoted Economic and Monetary Affairs Commissioner Ollie Rehn to Commission vice president, strengthening his authority, while transferring Eurostat from his portfolio to that of Commissioner Semeta’s Taxation, Customs, Audit and Anti-Fraud portfolio. This transfer enabled Rehn to focus on the euro area’s economic issues while bringing Eurostat closer into alignment with the Commission’s other investigatory DG, thus signaling Eurostat’s reinforced surveillance powers (Brand, 2011). Under this reorganization, Eurostat oversees the statistical data used in the evaluation of the eleven indicators used in the MIP to assess the member states’ economic condition.

3d. THE EUROPEAN SEMESTER AND NEW DEMANDS ON THE COMMISSION

The creation of the Semester placed new and extensive demands on the Commission. Where the responsibility for budgetary surveillance under the TFEU and SGP principally fell on DG ECFIN and Eurostat, the Semester necessitated bringing new DGs into the surveillance process. Where the TFEU and SGP were largely silent on what constituted acceptable member state fiscal and economic policies, the MIP called for an analysis of each of the member states' economies, while the Semester called for the member states to present their budget proposals to the Commission for review and make policy recommendations before they went before their parliaments for adoption. These new rules required a rigorous understanding of the member states' budgetary and economic activities. The Semester produced another significant outcome in that its six-month timetable changed the calendar by which the Commission, as well as the member states, conducted their surveillance. As shown in the following sections, these new rules produced significant changes in the Commission's administrative practices.

4a. COORDINATION BY THE CENTER: DG SECRETARIAT-GENERAL (SG)

As the Commission president's direct staff, the primary duties of the 600 members of the Secretariat-General (SG) include ensuring the coherence of the Commission's policy making activities and the adoption of these policies by other EU institutions. Although the SG certainly played an important role throughout the development of the Euro area, during the Barroso presidency and in response to the demands placed on the Commission stemming from the MIP and the Semester, the DG had come to take on a horizontal coordinating function that has placed it at the center of the Commission's budgetary convergence and surveillance processes (Kassim, *et al*., 2013).

This coordinating task is reflected in four important reforms in administrative behavior. First, the MIP and SG bring new DGs into the process whose expertise provides a broader and deeper understanding of the member states' economic activities. These new rules required the participation of DG Employment (DG EMPL) and DG Taxation (DG TAU) in the surveillance process, in addition to DG Economic and Financial Affairs (DG ECFIN) and Eurostat. As the SG declared, "The European Council underlines that closer coordination of economic policies should be focused on policy areas where positive effects on competitiveness, employment and the functioning of EMU are most prominent" (General Secretariat of the Council, 2013). Second, the SG coordinates a process where each of these DGs assesses its respective elements of the member states' economic affairs. The SG provides assessments to other DGs when appropriate and works with them to develop an overarching Commission position on a member state's budgetary and economic status. The SG chairs committees of the DGs, where the agenda may include such topics as Europe 2020, the Semester, and the economic targets identified in the MIP. Third, the SG manages the Semester for the Commission and requires the DGs to adapt to its timetable. SG engages in horizontal coordination by ensuring that each of the DGs promptly fulfills its task assignments in under the MIP and Semester. The SG also coordinates with DG Communications, which received additional staff to monitor how the rules are addressed by the press of the member states.

This coordination necessarily at times includes resolving differences in the assessments created by the DGs. "The purpose of coordination is to make sure that a common line is to be defined and found," said the official. "The DGs have to look at their angles, but they know at the end of the day there has to be a Commission line."[4] The SG is responsible for producing a harmonized set of assessments of the member states and recommendations. To fulfill these new responsibilities, the SG assigned its unit D-1, Europe 2020 Competiveness and Innovation, the task of coordinating the Commission's participation in the Semester, as shown in SG's organization chart.[5]

Fourth, in addition to internal coordination within the EC, the SG's duties include working with the member states to ensure that they comply with the Semester timetable. The timetable requires them to provide the Commission with budgetary, macroeconomic, and economic sector information in April, with the Commission submitting its member state recommendations to ECOFIN in late May. This necessitates engagement with the ministries, but, more important, Commission contact with the member states' political leadership. As an SG official explained,

> What is new is that we have real prime ministerial attention...From here, we are working with whomever is in charge in the member states. One reason is the increased political relevance of the coordination process….The excessive deficit targets are relatively straightforward, but advising member states what to do about the development of real estate prices, their pension systems, or their unemployment benefits requires a completely different kind of knowledge.[6]

In other words, the Semester may lead to policy implications that are far more politically sensitive than even those generated by the SGP and the EDP. Consequently, the Commission President must be directly involved in the new surveillance process, which requires the attention of the SG.

4b. HORIZONTAL COORDINATION AND SURVEILLANCE: DG ECONOMIC AND FINANCIAL AFFAIRS (DG ECFIN)

DG ECFIN serves as the Commission's preeminent DG responsible for the drafting, oversight, and enforcement of EMU's budgetary surveillance rules. ECFIN's presence is felt through its issuance of Broad Economic Policy Guidelines (BEPG), its economic forecasting, and the drafting of warnings and recommendations to the member states in concert with the EDP. Although ECFIN was in the best position to accommodate the administrative demands created by the MIP and Semester, adjustments still had to be made to strengthen coordination internally and with other DGs, meet the Semester's timetable, and increase the number of personnel to meet new work load requirements.

ECFIN had long experience focusing its task assignments on specific member states to assess their budgetary compliance. Since the 1990s, ECFIN organized its surveillance activities around member state country desk teams. The EU's expansion required a growing number of experts that rapidly expanded due to the euro debt crisis and the imposition of new monitoring regulations. As shown in ECFIN's organization chart, the DG's directorates F, G, and H contain ten unit country desks.[7] In 2010, the DG created DDG1, "Coordination of Country-Specific Policy Surveillance," to ensure the horizontal coordination of these desks across directorates (DG ECFIN, 2013). DDG1's functions include ensuring that each of the member states is treated equitably in the separate analyses conducted by the various country desks, and that there is homogeneity in the DG's reports submitted to the SG.

ECFIN accelerated its hiring in the mid-2000s due to the EU's expansion and especially in response to the financial crisis. Extending its expertise beyond its traditional focus on member state budgets and macroeconomic conditions, ECIN established a new directorate, L, which addressed financial matters within the EU. ECFIN also strengthened its other directorates, such as B, to mirror the tasks of the other DGs. Said one DDG1 official, "We have the economic angle on the labor market, on the product markets, which covers a lot of what DG Enterprise, DG Market, and DG Competition do. We have our units B-2, B-3, B-4, they mirror to a certain extent the DGs, which means we have the in-house capacity to have a position on labor markets issues from an ECFIN perspective."[8] The member state desks also received at least 59 additional billets, bringing total ECFIN staffing to approximately 684. This influx of new personnel required another adjustment in ECFIN practice, large-scale recruiting and then the necessary training of these recruits. Previously, new staff would learn on the job of surveillance in their respective units. Yet, ECFIN experienced significant difficulty in hiring competent economists, due to the low salaries offered by the EC and the increased technical skills required of new staff (Tims, 2011; Mahony, 2012). To compensate, the DG initiated extensive training programs for its new personnel, as the Semester continues to require accommodations by the Commission.

4c. ADJUSTING TO NEW RESPONSIBLITIES AND PROCEDURES: DG EMPLOYMENT, SOCIAL AFFAIRS, AND INCLUSION (DG EMPL) AND DG TAXATIONS AND CUSTOMS UNION (DG TAXUD)

The MIP and Semester greatly expanded the scope of the surveillance process beyond examining budgetary deficit and debt totals to a broader evaluation of the member states' economic policies. The requirements of the new procedures meant that the Commission needed to draw upon the deeper sectorial and policy expertise of DG EMPL and DG TAXUD. These two DGs, in addition to ECFIN and the SG, form the core group within the Commission managing the Semester.

In one important way, EMPL's regular tasks conducted by its staff of 583 prepared it well for its new duties. To help implement the European Social Fund the DG previously organized itself to include country desks. These desks managed the fund's allocation to the member states, but the Semester raised them to policy units that evaluate the policies of their respective member states. Thus, where the member states are often seen as adopting EU practices and values through the process of Europeanization, the MIP and Semester are producing something of a reverse effect, where the Commission gains a deeper appreciation of the politics, policies, and administrative constraints of the member states. The personnel assigned to these desks experience greater scrutiny due to the political sensitivity of their analyses. A senior DG official noted, "Our DG deals with everything related to employment and social policy. The EU competence on pension systems is rather limited, but, in the imbalance procedures, it becomes an issue."[9] EMPL evaluates the adequacy of a member state's pension system, while ECFIN evaluates its fiscal sustainability. Their evaluations would be incorporated into a single Commission recommendation to ECOFIN.

EMPL strengthened its horizontal coordination while increasing its staff in the key directorates. EMPL relies upon directorate C, Europe 2020: Employment Policies, shown in EMPL's organization chart, to manage internal and external coordination with the SG and the other key DGs.[10] This internal coordination includes networking and bringing together the country desks and the policy directorates within the DG. This unit received two or three additional personnel to carry out this function, at a time when the DG as a whole lost staff.

The surveillance process produced more internal adjustment for DG TAXUD than the other DGs. Traditionally, the 438 staff of TAXUD engages in broad horizontal policy analysis in the areas of customs, indirect taxation, and direct taxation. The Semester demanded different skills from the DG and required two structural changes, making it similar in organization to the other DGs. First, TAXUD needed to create country-specific knowledge and a new approach to analyzing tax issues. The DG established country desks that combine the expertise of Directorate C, Indirect Taxation, and Directorate D, Indirect Taxation.[11] TAXUD also designated the unit D-4 to provide horizontal coordination across directorates and with the SG and other DGs, and vertical coordination among the newly established country desks. These country desk teams would also participate in the Commission-wide country desk meetings chaired by the SG. TAXUD staffed the new country desk units with additional staff shifted from other responsibilities within the DG.

4d. DISCUSSION

The Commission is often characterized as an organization driven to change by exogenous forces. Yet, in the case with the Greek and European financial crises, we see that endogenous were also at work. ECOFIN and the Commission reacted to the Greek statistics and the economic crises by strengthening the EU's surveillance rules. The four core DGs engaged in budgetary and economic surveillance all initiated critical changes in their organizational structures and in their staffing. First, the Commission created a system of horizontal coordination across and within DGs to manage the Semester's workload, timetable, and political challenges. The SG came to play that coordinating role within the EC, identifying a newly designated coordinating unit. Each of the other DGs identified similar units. These units liaison with the SG and exercise vertical coordination with member state desks. Second, the DGs established or enhanced these member states desks to conduct the detailed analyses and evaluations required by the Semester. Vertical coordination is necessary to ensure that the member states are treated equally across the desks. These surveillance activities are of such political salience that the Commission has allocated scarce personnel to the key directorates within these DGs at a time when the EU budgetary constraints have produced reductions in the Commission's overall staffing. Significant implications stem from these changes taking place within the EC.

Most importantly, the Semester's emphasis on member state analysis and the organizational response has produced new professional expectations and training in the Commission. As a senior SG official concluded, "We see the beginning of a deep cultural change, which makes the Commission more sensitive to the diversity of situations within the member states. That is partly crisis related, but it is also related to a new way of working."[12] Although Eurostat and DG ECFIN maintained country desks, the attention these DGs gave to the member states focused on their budgetary statistics and their compliance with the TFEU's Stage II convergence process and the SGP. The BEPG generated by ECFIN addressed the member states' general economic direction. The MIP and the Semester, however, require a deeper political and technical understanding of the member states' policies, even by ECFIN. Describing that DG's new competence, the SG official responsible for coordinating the Semester process noted, "What has fundamentally changed is that ECFIN has traditionally had more of an advisory and analytical role. With the crisis and a more comprehensive policy coordination [responsibility], they have become much more of a policy development DG…and rule implementation organization."[13]

Meanwhile, DG EMPL needed to refocus the orientation of its member state desks towards policy analysis, and DG TAXUD needed to create them. "This is a positive thing," reported a senior TAXUD official, "It has allowed us to use our country-specific knowledge….With the regular country meetings with country teams organized by the Secretary General, we have more contact with other services to look at issues that arise in individual member states in more detail."[14] According to an official in EMPL, "The professionalization and economic robustness of the DG is stronger. In that sense, there has been a shift from more descriptive work to something that has become much more analytical. So you need to know the context, you need to know what's going on, but you also need to be able to assess and to have an opinion of what's happening."[15]

The influence of the MIP and Semester has spread beyond the four DGs involved in the surveillance process. "What we see in the past two or three years," said the SG official, "is that most DGs have country desks. We always had policy coordination, but what is new is that we have strengthened our capacity to look at policy issues on a country-by-country basis, basically entering into a country specific dialogue with member states."[16] According to the official, the Commission's deeper engagement with the member states in this one policy area since 2011, the first year of the Semester, some twenty-three member states have introduced pension reforms (Oksanen, 2013). By seeing and understanding the member states in a new way, through their administration and implementation of the EU's surveillance process, these DGs are contributing to European integration.

5. CONCLUSION

In response to the Greek and euro debt crises the Commission acted to strengthen its budgetary and economic surveillance procedures through the initiation of new rules and the building of its organizational capacity to implement these rules. This examination of the Commission's response reveals an institution that is more proactive than what much of the literature suggests, such that the Commission is regarded as generally losing influence, authority, initiative, and effectiveness. Even at the DG level, this study challenges the view that the euro debt crisis has had little effect on the Commission's institutional framework or changes in its institutional culture. Instead, this study finds that in response to the Greek and the euro debt crises, the Commission prioritized its surveillance activities, reorganized its institutional arrangements, reallocated scarce budgetary resources and personnel, and layered these on to its existing organizational structures and practices. As such this study emphasizes that the Commission still has a prominent role to play even if at the height of crisis management the member state governments were in the driver's seat.

In terms of P-A theory, we observed the Commission, acting as the member states' delegated agent, found the member states shirking their responsibilities, an activity made possible largely due to the rule making powers and the asymmetric information held by these principals. To increase compliance, the Commission sought rule changes, engaged in reforms that included internal reorganization, increased budgets, and reallocated staff dedicated to the surveillance process. These changes enable the Commission to strengthen its monitoring capabilities, while serving to promote horizontal and vertical coordination among and across DGs, with other EU institutions, and with the member states.

At the same time, this focus on the member states is reorienting the Commission's administrative culture, changing the professional and analytical demands placed on staff, particularly within the new DGs brought into the surveillance procedure. These findings are therefore consistent with scholars who assert that the Commission is quite capable of initiating policy and organizational change, and carrying on with the monitoring and surveillance responsibilities entrusted to it as the guardian of EU treaties (Hartlapp, *et al*., 2013; Kassim, *et al*., 2013, 292; Bauer and Becker, 2014a, 2014b). In terms of explaining why these changes occurred a principal-agent analysis offers us insights into why the role of the Commission expanded in terms of surveillance and monitoring. Such an analysis explains what the member states were doing (shirking) and how this led to enabling the Commission to be more proactive in checking. This mechanism further enhances the integration process and thus deepens European integration.

NOTES

1. Interview with Walter Radermacher, November 23, 2010.

2. Interview with Eurostat official, November 23, 2010.

3. http://ec.europa.eu/eurostat/documents/10186/758154/Organisation-chart-EN.pdf

4. Interview with DG SG official, April 4, 2013.

5. http://ec.europa.eu/dgs/secretariat_general/sg_org_chart_en.pdf

6. Interview with DG SG official, April 4, 2013.

7. http://ec.europa.eu/dgs/economy_finance/organisation/ecfin_org_chart_en.pdf

8. Interview with DG ECFIN official, April 4, 2013.

9. Interview with DG EMPL official, May 15, 2013.

10. http://ec.europa.eu/social/main.jsp?langId=en&catId=656

11. http://ec.europa.eu/taxation_customs/resources/documents/common/about/structure/organi_en.pdf

12. Interview with DG SG official, June 24, 2014.

13. Interview with DG SG official, June 24, 2014.

14. Interview with DG TAXUD official, May 23, 2013.

15. Interview with DG EMPL official, June 18, 2013.

16. Interview with DG SG official, June 24, 2014.

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Table 1: **EU BUDGET FOR ADMINISTRATION, 2008-2014 (BILLIONS OF €)**			
Year	**COM CA***	**Total CA**	**COM % of Total**
2014	€8.4	€142.6	5.9%
2013	€8.4	€150.9	5.6%
2012	€8.3	€147.6	5.6%
2011	€8.2	€142.3	5.8%
2010	€7.9	€141.1	5.6%
2009	€7.7	€113.4	6.8%
2008	€7.3	€115.7	6.3%
*Appropriations Commitments			
Source: http://ec.europa.eu/budget/figures/2014/2014_en.cfm			