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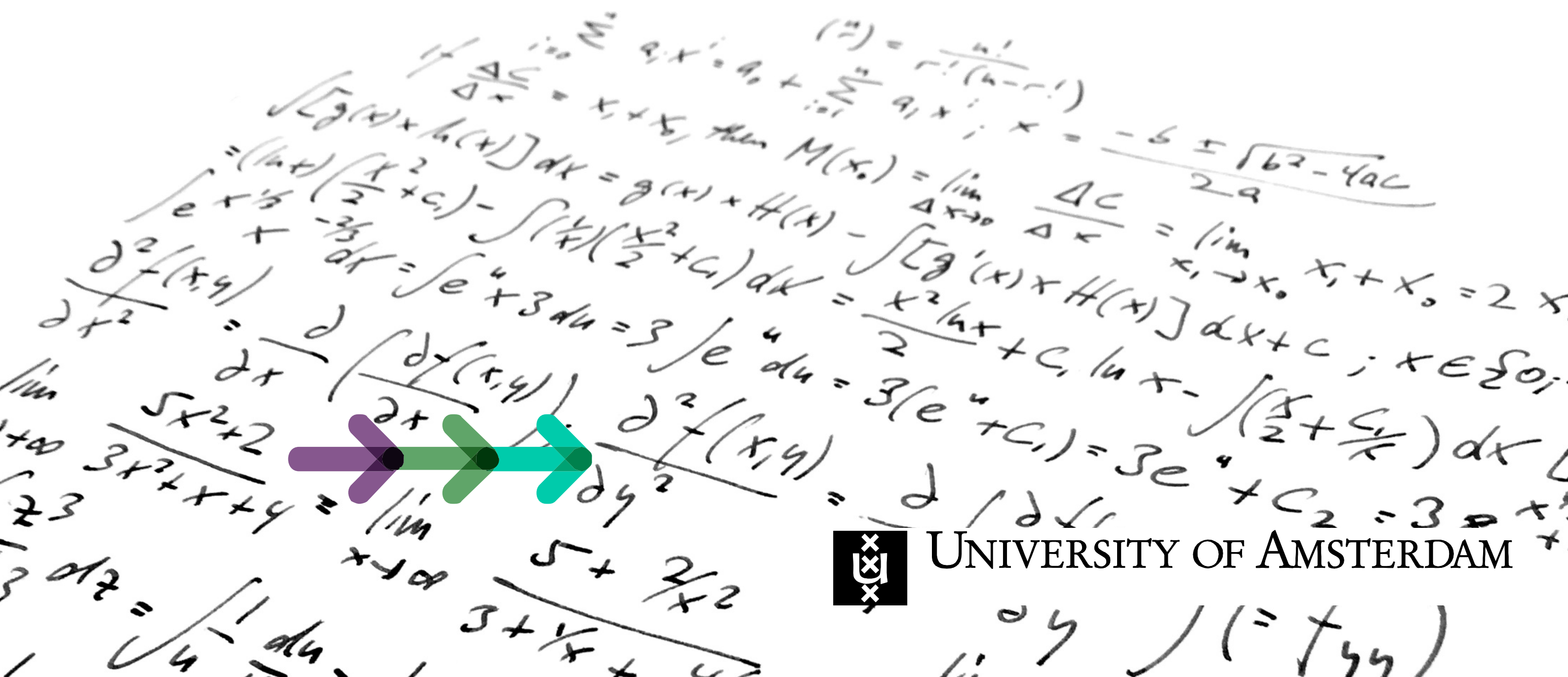

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ABSTRACT. This article reveals a neglected aspect of macroeconomic indicators – their integrative power as vehicles to deepen European integration. It focusses on the euro area fiscal stance which provides guidance on the overall direction of fiscal policy in the euro area. Debtor countries, the ECB and the European Commission argue that the spillover effects of fiscal policy are large in a monetary union and therefore some countries need to be more fiscally active than others. Creditor countries oppose the euro are fiscal stance because they fear that it is used as a 'top-down' approach to steer fiscal policy in a direction inimical to their fiscal preferences. Notwithstanding its contested nature, the euro area fiscal stance has provided proponents of deeper fiscal integration with arguments why more fiscal coordination is needed. It has done so by measuring the failure of fiscal coordination in the euro area. Having a quantitative measure of fiscal (non-)coordination is a powerful instrument to persuade actors that deeper integration is needed.

KEYWORDS. Macroeconomic indicators; fiscal policy; euro area fiscal stance; fiscal union; Economic and Monetary Union; fiscal coordination

Word count: 7.935

Introduction

The severe economic recessions that followed the global financial and the euro area crisis laid bare the design flaws of the European economic and monetary union (EMU). They highlighted the need to increase fiscal coordination among member states to achieve an appropriate fiscal-monetary mix for the euro area. Yet, member states showed little appetite to move closer towards deeper fiscal integration. How then could EU technocrats convince policymakers and mass publics that the lack of fiscal union spelled trouble for the future of the euro? A first step was to devise a measure that would capture the (non-)coordination in the fiscal realm. This led to the creation of the euro area fiscal stance (EAFS) which quantifies the discretionary part of fiscal policy. The fiscal stance is broadly defined as 'the orientation given to fiscal policy by governments' discretionary decisions on taxes and expenditures' (European Commission 2016a, 115). The EAFS aggregates the individual fiscal stances of all euro area member states. Hence, the new macroeconomic indicator enabled policymakers to assess whether the euro area fiscal stance was pro-cyclical or counter-cyclical.

Indicators, numbers and metrics are a ubiquitous phenomenon within the EU (Mügge 2016) and in global governance (Davis, Kingsbury, and Merry 2012; Hansen and Mühlen-Schulte 2012; Kelley and Simmons 2015; Cooley 2015; Bhuta, Malito, and Umbach 2018). They tend to mask distributive conflicts by collapsing complex information into a single metric (Davis, Kingsbury, and Merry 2012; Fioramonti 2014, 206-7; Lepenies 2016). Simplification depoliticizes contentious issues and helps decision-makers to exit joint-decision traps. Their appeal to technocratic actors stems from their ability to compensate for their lack of input legitimacy by creating an aura of impartiality and objectivity (Porter 1995, 8). In addition, supplying indicators contribute to building up expert authority and knowledge in areas where technocratic actors do not possess formal treaty-based competencies.

However, traditional European integration theories have largely neglected the importance of macroeconomic indicators as indirect governance instruments in the hands of supranational entrepreneurs to deepen European integration. The performativity of indicators enables them to cause a phenomenon simply by measuring it (Merry 2018, 480). For instance, measuring whether citizens identify as European might foster European identity. But indicators can also turn into governance tools by creating neo-functional pressures. Quantification directs our attention towards a certain policy failure because 'what becomes quantified is often the product of what seems to be the problem' (Rottenburg and Merry 2015, 12). Once an indicator turns into a focal point, it can steer member states towards a certain course of action, for example, towards more fiscal policy coordination. A European fiscal union has not yet been established, but an analytical toolbox with the appropriate macroeconomic indicators exists as if this was the case. The EAFS is a case in point because it precisely captures the failure of fiscal coordination in the euro area. It is a powerful instrument to persuade actors of the benefits of deeper fiscal integration.

The objective of this article is two-fold. First, it aims to demonstrate the importance of macroeconomic indicators as vehicles of deeper European integration and explores pathways how to make them compatible with existing European integration theories. Jones, Kelemen, and Meunier (2016) combine liberal intergovernmentalism and neo-functionalism to explain why we have observed a recurring cycle of incrementalism followed by policy failure and renewed reform in the EU. Macroeconomic indicators have a crucial role in this cycle by revealing and quantifying policy failure that instigates reform. Second, the article shows empirically why the EAFS as a macroeconomic indicator is contested. Rational actors form expectations about indicators and whether they produce policy recommendations that are aligned with their self-interest. Contrary to the prevalent assumption in much of the literature on macroeconomic indicators, actors are fully cognizant of the underlying distributive consequences of a given indicator. This explains why some indicators are more contested than others. Focusing on the case of the EAFS, this article shows that the European Commission, the European Central Bank and debtor countries support the indicator because it generates beneficial policy recommendations for them. They entrap creditor countries in a policy discourse about fiscal policy coordination. In doing so, they steer countries with ample fiscal space towards a more expansionary fiscal stance.

This article proceeds as follows. The subsequent section traces back the origins of the EAFS and presents the economic rationale for having it in the first place. The next section provides an overview of the role of indicators in European integration. It explores different avenues how existing theories of European integration can incorporate the increasing relevance of indicators for deepening integration. The fourth section maps different actor coalitions and explains why they support or oppose the EAFS. The fifth section discusses different methodologies how to measure the EAFS and highlights the measurement uncertainties linked to them. It reveals the underlying 'normative baggage' of the EAFS because it assumes that fiscal policy choices in the euro area are highly interdependent. Finally, the article concludes with a discussion of recent proposals to create a centralized fiscal capacity in the euro area.

The Origins of the Euro Area Fiscal Stance

The idea of an aggregate EAFS predates the creation of the euro. Close fiscal coordination at the euro area level was first mentioned in the Werner Report as a necessary step towards the creation of EMU (Werner Report 1970). In particular, the Werner Report presciently argued that 'in view of the fact that the role of the Community budget as an economic instrument will be insufficient, the Community's centre of decision must be in a position to influence the national budgets, especially as regards the level and the direction of the balances and the methods for financing the deficits or utilizing the surpluses' (Werner Report 1970, 12-3). Later, the Delors Report laid down additional recommendations for budgetary and macroeconomic coordination cementing the ideational foundation towards an aggregate EAFS (Kamps et al. 2017). Yet, fiscal policy ultimately remained an exclusive national competence.

Economists had long cautioned against the creation of a monetary union without a minimum degree of fiscal integration (da Costa Cabral 2016). A fiscal union could alleviate the burden on the public finances of a member state that is hit by a negative asymmetric shock by acting as an insurance mechanism (De Grauwe 2013, 155). Budgetary transfers would then flow from member states with a positive economic outlook to others experiencing temporary economic difficulties. In the absence of a mechanism that locks in member states' expectations of reciprocal behavior, the incentives for free riding will however persist. There is a strong tendency to under-supply policies generating positive spill-overs and to over-supply policies with negative externalities (Thirion 2017, 4). As a result, the equilibrium is an aggregate EAFS that will be pro-cyclical and often less expansionary than would be desirable.

In contrast to established fiscal federations like the US, the current EU governance framework does not contain any enforcement tools to steer the aggregate EAFS into a specific direction (European Central Bank 2016, 69). Conversely, this means that an aggregate EAFS that is countercyclical and expansionary might have come about simply by chance rather than through effective fiscal coordination. The Stability and Growth Pact (SGP) does contain a host of fiscal rules that have a significant impact on national fiscal policy, but the compliance rate remains low and various flexibility clauses dilute the rules further. Even in case of full compliance with the SGP, a member state might not produce an appropriate aggregate EAFS (European Central Bank 2016, 69).

Surplus countries that overachieve their fiscal targets are left without any guidance on how to make use of their fiscal space (Kamps et al. 2017). This is because the SGP requirements focus predominantly on sustainability rather than stabilization. The SGP was primarily designed to contain the threat of fiscal dominance, i.e. that excessive spending would lead to monetary financing by the central bank. It didn't cater for the possibility that fiscal dominance could also be exerted when increased fiscal deficit spending was needed to defeat deflationary tendencies at the zero lower bound (Buti 2020; Diessner and Lisi 2019). Then, member states can force the burden of adjustment onto the central bank's balance sheet which will have to engage in unconventional monetary policies to avoid deflation and to fulfill its mandate. In sum, the EAFS does partially address some of the design flaws of the EU governance framework by making the SGP more symmetrical.

In a deflationary scenario, it is crucial to have an instrument that urges member states to make use of their fiscal space through moral suasion. However, the EAFS is only a second-best solution to a fully-fledged fiscal union. It relies on unenforceable coordination efforts and falls short of any fiscal transfers that would put member states with constrained fiscal space in a position to respond with an adequate fiscal stimulus if they experience a negative shock. The EAFS could nevertheless encourage counter-cyclical fiscal policies to create fiscal buffers in good times to be able to spend more in bad times. Such a minimal degree of fiscal risk-sharing could propel a virtuous cycle of lower sovereign funding costs and increased fiscal space that would contribute to severing the sovereign-bank nexus (Allard et al. 2013).

While the economic rationale for the introduction of the EAFS was clear, its methodological underpinnings and legal basis were less clear. This left supranational actors significant room for discretion in developing a methodology to measure the EAFS. The European Commission and the European Central Bank currently measure the year-on-year change in the cyclically adjusted primary balance, which excludes the parts of fiscal policy not directly under the control of governments such as the business cycle component and interest payments (European Central Bank 2016, 70). A legal basis for the EAFS was introduced by the Two-Pack reform (Regulation 473/2013, Rec.23 and Art. 7.4), which stipulates that 'the Commission shall make an overall assessment of the budgetary situation and prospects in the euro area as a whole'. The Commission used the Two-Pack to empower itself to assess the aggregate EAFS much to the surprise of member states. There was no guidance enshrined in the legislation on the methodology that should be used in the calculation of the EAFS giving the Commission complete leeway in adjusting the methodology along the way.

The Five Presidents' Report gave another strong push towards the adoption of the EAFS as a macroeconomic indicator. The five presidents pointed out that an appropriate EAFS was needed to address the problem of pro-cyclical fiscal policy, especially, during protracted downturns when automatic stabilizers were insufficient to cope with a negative shock (Juncker et al. 2015, 14). To advise the European Commission on the appropriate EAFS, it created its own advisory body - the European Fiscal Board. But the Commission also continues to make its own assessment of the EAFS and its analysis feeds into the country-specific recommendations as part of the economic policy coordination cycle termed the European Semester.

The EAFS assumes that significant fiscal policy spillover effects exist within the euro area, i.e. that a euro spent in one country will have growth enhancing effects in the rest of the euro area. This provides ample room for contestation among member states. First, creditor countries fear that acceptance of the EAFS as a legitimate macroeconomic indicator would equate to accepting that fiscal policy spillover effects are significant. However, the empirical literature on the size and the direction of fiscal spillover effects has produced only inconclusive results largely depending on the chosen economic model (Bokhorst 2019, 275-8), the ECB's reaction function and the mix of public spending and tax collection (Ademmer et al. 2016, 16-7). Second, the EAFS could constrain member states in their fiscal policy choices. In addition to the SGP requirements, euro area member states would also have to consider the effects of their fiscal policies on other euro area countries. Thus, some member states are concerned that it could interfere with their budgetary sovereignty. Germany and the Netherlands oppose the EAFS because they suspect that it could function as a 'top-down' steering tool for fiscal policy coordination (Ademmer et al. 2016; Freitag and Stosberg 2018; Dutch Finance Ministry 2019). A differentiation of the national fiscal stances is ultimately necessary to target a specific EAFS. However, 'from a purely domestic perspective, countries with positive (negative) output gaps may have no incentive to enact more expansionary (contractionary) policies, even if this would contribute to a more desirable fiscal stance at the aggregate level' (Kamps et al. 2017, 128).

In sum, the aggregate EAFS is a macroeconomic indicator that incorporates the aspect of fiscal interdependence which is usually neglected by purely national indicators. It addresses a design flaw of the SGP by making it more symmetrical in its fiscal policy prescriptions. This is essential to achieve a balance fiscal-monetary policy mix for the euro area that unburdens the ECB. However, the macroeconomic indicator's policy recommendations are contested among member states that are preoccupied about a further erosion of their fiscal sovereignty. The European Commission has empowered itself to assess the aggregate EAFS.

Achieving a balanced distribution of fiscal efforts marks a first step towards paving the way to a genuine European fiscal union. Due to its significant distributional implications, the indicator only enjoys weak legitimacy among member states. But it might nevertheless function as a vehicle of deeper fiscal integration by measuring the failure of fiscal coordination efforts in the euro area.

The Neglected Role of Macroeconomic Indicators in European Integration

Traditionally, statistics have been closely intertwined with nation-building and the nation state (Starr 1989, 15-7; Desrosières 1998; Espeland and Stevens 2008, 412). The capacity to measure the economy was a precondition for the emergence of the modern tax state. Statistics usually treated the economy as a closed system within the narrow confines of the national borders (Karabell 2014, 79). As a result, national statistics mostly omit cross-border interdependencies and externalities.

The integrative power of European macroeconomic indicators lies in their ability to shift the cognitive frame of reference from the national to the European level. This grouping introduces a 'cognitive commitment' (Starr 1989, 53) and a degree of interdependence neglected by national indicators. However, the European integration literature still largely overlooks the important role that statistics and macroeconomic indicators can play in deepening integration. To the extent that European integration follows a traditional state-building process, its lessons need to be taken more seriously.

Van Heijster (2019) shows that when macroeconomic indicators such as GDP growth become embedded in an official state narrative about the economy, they can shape economic performance assessment in ways that go beyond mere symbolism. In the EU, fiscal performance indicators such as the government deficit based on the national accounts statistics became part of the economic narrative of the euro area with similar effects, namely, they have turned into control instruments at the member state level (Coyle 2017). With the deepening of European integration, the EU is likely to spin an ever more sophisticated web of indicators, which is going to increase its analytical power. It is in line with the hypothesis that 'the more extensive the scope of state authority over economic and social life, the greater the scope, detail, and volume of statistical inquiry' (Starr 1989, 16).

In general, ‘supplying an indicator can also bring political gains by ensuring immediate influence over its content and construction and often by institutionalizing and thus safeguarding the rule-making privilege of a particular set of experts (guaranteeing greater influence for a particular set of interests vis-à-vis other stakeholders)’ (Büthe 2012, 39). In addition, indicators nudge member states towards changing their behavior because they clearly communicate an expectation about the desired behavior (Büthe 2012, 44). For example, the EAFS expects member states to go beyond their national self-interest by considering how their national fiscal stance will impact the overall orientation of fiscal policy in the euro area.

Generally, ‘indicators are not neutral representations of the world, but novel epistemic objects of regulation, domination, experimentation and critique’ (Rottenburg and Merry 2015, 5). They sometimes exhibit an ‘intrinsic normative quality’ (Malito, Bhuta, and Umbach 2018, 507) that is merely hidden by their claim to neutrality. Moreover, indicators can (i) make economic narratives more persuasive (Espeland 2015), (ii) alter principal-agent relations when used as a control instrument of the agent’s performance (Van Heijster 2019), and (iii) function as policy learning tools (Hezri 2004).

However, an indicator’s acceptance and success cannot be guaranteed. Occasionally, indicators trigger dynamic processes with unintended (negative) consequences (Muller 2018, 169-71). As they take on ‘a life of their own’ feedback loops between indicators and politics can be generated (Espeland and Sauder 2012; Desrosières 2015; Coyle 2017). Finally, indicators can overcome coordination problems under incomplete information. They can mobilize dispersed groups with shared interests if they manage to trigger a tipping point that generates a new societal equilibrium (Espeland and Stevens 2008, 413-4). For instance, youth unemployment statistics contributed to the group’s transnational political mobilization during the eurozone crisis.

From an organizational perspective, indicators reinsure risk-averse bureaucrats because they can detect and caution against future crisis risks and thus insulate themselves against accusations of incompetence. Indicators also generate a degree of policy continuity even in case of high turnover rates or leadership changes. Once indicators are created, they are rarely scraped entirely but rather refined further which creates a certain path dependency. In addition, bureaucracies try to maximize the signal-to-noise ratio of an indicator. As the policy recommendations derived from an indicator travel up the hierarchical chain, noise is reduced by pushing aside potential measurement uncertainties or ambiguities related to the indicator – a process that has been termed ‘uncertainty absorption’ (March and Simon (1958), as cited in Espeland and Stevens 2008, 422). When translating the EAFS into concrete policy recommendations the Commission's bureaucratic apparatus heavily discounts uncertainty and reduces complexity. The euro area recommendations in the European Semester do not mention any measurement caveats related to the EAFS. Thus, the policy recommendations appear more authoritative and robust than they actually are. The outcome is a simple recommendation that the EAFS should be either (a) broadly neutral, (b) expansionary, or (c) restrictive/contractionary (European Commission 2016b).

'Failing forward' with macroeconomic indicators

Member states hold heterogenous preferences that often result in incomplete intergovernmental agreements. These incomplete agreements lead to policy failure, which in turn triggers further institutional reform and deeper integration (Jones, Kelemen, and Meunier 2016). This 'failing forward' mode of integration can also be applied to macroeconomic indicators. By having a quantitative measure of the failure of fiscal coordination, the European Commission can argue that more fiscal integration is needed precisely to overcome this coordination failure. Horizontal coordination of national budgetary policies has proven to be 'exceedingly difficult' (Buti 2020, 8). As a result, the Commission proposed to create a centralized fiscal capacity in order to achieve an appropriate EAFS (Giavazzi 2016).

'Failing forward' with macroeconomic indicators means that a measure can credibly point to an existing policy failure. Actors then use the indicator as empirical evidence to make policy proposals in line with their preferences. In a nutshell, macroeconomic indicators can create neo-functional pressures that might result in deeper European integration. If there is an incongruence between the makers of an indicator and its targets, then supplying an indicator turns into an 'exercise of power' (Büthe 2012, 33). It might undermine the legitimacy of the indicator and will likely result in contestation by the targets. Rather than turning into a focal point of policy debates such an indicator is likely to become a point of contention. But even an indicator with weak legitimacy can create spillover effects if it entraps actors in a policy discourse that they could otherwise avoid. The EAFS might produce policy recommendations that are at odds with the fiscal preferences of creditor countries, yet they cannot easily deny their fiscal responsibility towards the other members of the currency union.

The design stage of a macroeconomic indicator is crucial because forward-looking actors can craft indicators in ways predetermining the ensuing policy recommendations. However, macroeconomic indicators do not speak for themselves. The analysis of a macroeconomic indicator is usually delegated to an organization or committee. The European Commission has mandated the European Fiscal Board specifically with the task to assess the appropriate EAFS (Tesche 2020). This enables the Commission to steer fiscal policy discussions in a direction so that euro area-wide interests prevail. A macroeconomic indicator that entails certain distributive choices will benefit some actors over others (Mügge 2016). The level of contestation of a macroeconomic indicator will depend to a large extent on the intensity of the underlying distributional conflict.

For example, calling for a 'broadly neutral' EAFS might imply differentiated national fiscal stances and likely requires more policy action from member states that are reluctant to use their fiscal space. Accordingly, those countries would be expected to run large Keynesian stimulus packages, whereas others would have to implement restrictive fiscal policies. Such a course of action could still be in line with an overall 'broadly neutral' EAFS. The design features of the EAFS make this asymmetry in the policy recommendations recognizable. Thus, the EAFS struggles to depoliticize distributional conflict. In sum, macroeconomic indicators have a role to play in deepening European integration even if they seem to fail or merely measure policy failure rather than success.

Measuring the Euro Area Fiscal Stance

The EAFS mechanically aggregates the fiscal stances of euro area member states. The fiscal stance is usually measured as the primary structural balance (PSB). It is the general government budget balance (revenues – expenditures) corrected for business cycle fluctuations and temporary measures (so-called 'one-off measures') excluding interest rate expenditures and expenditures related to automatic stabilizers (European Commission 2016a, 125). It is generally assumed that interest expenditures are largely influenced by economic factors outside of the control of governments. Yet, they can be substantial for high-debt countries with unsustainable public finances. Excluding interest expenditures will benefit those member states with high debt servicing costs. It therefore comes as no surprise that a coalition of high-debt member states has supported the EAFS as a macroeconomic indicator, whereas fiscally hawkish member states like the Netherlands and Germany have rejected the concept of the EAFS. An alternative bottom-up methodology is the 'discretionary fiscal effort (DEF)', which incorporates adopted budgetary measures to provide a more accurate picture of revenue developments (see Carnot and de Castro 2015).

However, this so-called 'narrative approach' requires dedicated data that member states are hesitant to provide. The Output Gap Working Group (OGWG) of the Economic Policy Committee undertook efforts to improve the data quality. But revenue measures can be imprecise if they are not revised once their actual yield has been realized (Bańkowski and Ferdinandusse 2017, 18).

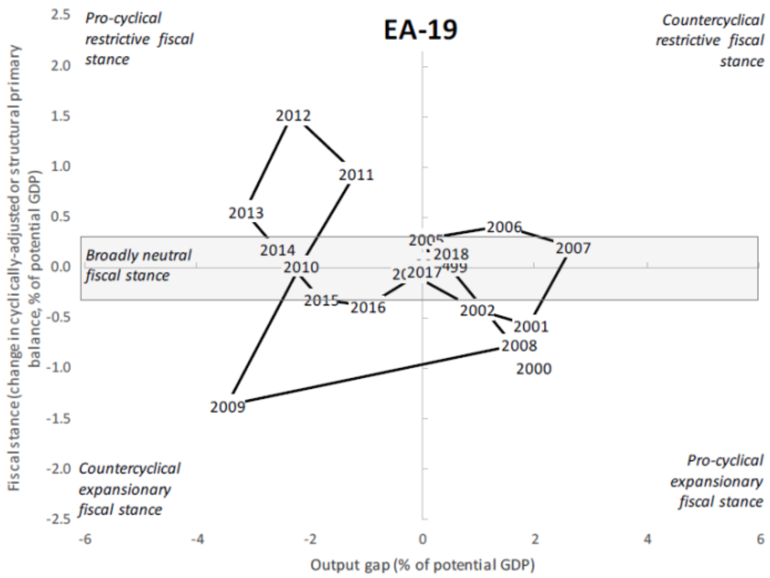
Measuring the euro area fiscal stance is not straightforward and fraud with measurement uncertainties (Bańkowski and Ferdinandusse 2017, 17-8). 'Arriving at an aggregate fiscal stance (analogous to the ECB's aggregate monetary stance) implies abstracting from the fiscal conditions and business cycle conditions in individual countries' (Ademmer et al. 2016, 13). The literature on the sociology of quantification has termed this process 'commensuration'.

> Commensuration removes information from the particularity of its context and standardizes it. It is a powerful form of simplification that vastly reduces the volume of information that people must attend to, and impose a common form on, the information that remains. [...] Commensuration transforms difference among the entities into magnitude on a metric – a matter of more or less rather than of kind (Espeland and Sauder 2012, 92).

During the aggregation process of the individual national fiscal stances important country-specific information gets lost (Ademmer et al. 2016, 13). Aggregation always implicitly assumes that substitution between the aggregated items is somehow possible (Fleurbaey and Blanchet 2013, 14). But the fiscal reality is much more complex because a euro spent in France is subject to different political constraints than a euro spent in Germany. Even if the fiscal rules would be equivalent in both countries, the budgetary decision-making process would still be different. Furthermore, one country's loss in creditworthiness cannot be restored by a higher budget surplus in another country (Ademmer et al. 2016, 13). The classification of what constitutes a 'temporary' measure requires political judgement and is not always well-defined ex ante.

Discretionary spending is a political rather than a statistical term (Rommerskirchen 2019, 48-9). For example, countries that lower the tax burden systemically during a recession to stimulate the economy would be treated differently than countries with a progressive tax system that adjusts automatically in response to a recession (Ademmer et al. 2016, 11). Rommerskirchen (2019, 49) points out that 'a change in the PSB does not necessarily point to active fiscal stimulus policies such as a tax cuts or expenditure increases. Instead the change can simply stem from passive behavior in the event of lower-than-projected underlying growth.' In other words, a year-on-year change in the PSB might not measure what it is supposed to when potential growth estimates are not accurate.

Figure 1: Fiscal stance in the euro area, 1998-2018



Source: European Fiscal Board (2019, 61)

Another source of measurement uncertainty stems from the fact that the structural budget balance relies on the output gap (i.e. the difference between the actual and potential levels of output of the economy) to determine the position of the economy in the economic cycle (Bańkowski and Ferdinandusse 2017, 17; Heimberger and Kapeller 2017). Potential output is defined as the level of output at which the factors of production are utilized at non-inflationary levels. It is an unobservable variable and real-time values of potential GDP can be subject to large ex post revisions (Orphanides and van Norden 2002). This is problematic because it can fuel procyclical fiscal policy in a performative way.

If the size of the structural deficit is overestimated due to inaccurate estimates of potential output, it can limit the fiscal space of countries that would require fiscal stimulus instead of austerity (Heimberger and Kapeller 2017). Carnot and de Castro (2015) find that the PSB underestimates the fiscal effort during recessions. In addition, if revenues do not follow economic growth according to the standard elasticities, the PSB can be distorted due to revenue windfalls or shortfalls (European Commission 2016a, 136). It has been found that 'revenue windfalls and shortfalls influence the reliability of fiscal stance measures based on cyclically adjusted indicators' (Bańkowski and Ferdinandusse 2017, 17).

The Actors and Their Interests in the Euro Area Fiscal Stance

The European Commission: building a fiscal union of indicators

The European Commission is fully aware that measuring is a source of power which can be used to pursue integrationist ends. The Eurobarometer survey data was instrumental in the creation of a 'European public opinion' to legitimate deeper integration (Aldrin 2010). The EU Justice Scoreboard - initially designed to demonstrate the importance of a functioning judicial system for economic growth and the Single Market - has gradually expanded its indicators of the quality and independence of the judicial system just as the risk of democratic backsliding in Poland and Hungary increased. The Single Market Scoreboard has also been expanded to turn into a governance tool of the single market. [1] The macroeconomic imbalance procedure (MIP) relies on a panoply of metrics to govern potential imbalances (Moschella 2014; Bokhorst 2019). Like the leading macroeconomic indicators have invented 'the economy' (Karabell 2014, 78-9), the Commission's indicators construct a framework for a European fiscal union.

The EAFS was formally introduced as a macroeconomic indicator in the two-pack reform (Regulation 473/2013, Art.7.4) during the eurozone crisis. The EAFS implicitly assumes the existence of fiscal spillover effects. Thus, the way in which the indicator is constructed implies that an expansionary fiscal policy in a certain member state will increase the GDP of another member state. The Commission can make use of the indicator in order to incentivize more fiscal coordination. Member states with fiscal space oppose the idea of fiscal spillover effects. If those Member States would accept the EAFS as a macroeconomic indicator, they would also consent to the underlying assumption that large fiscal spillovers exist. Member states understand the deeper distributive consequences of the indicator and support or oppose it depending on their own fiscal position.

[1] See European Commission website, https://ec.europa.eu/internal_market/scoreboard/index_en.htm

Even those member states that reject the policy implications of the EAFS are forced to engage with the indicator because it has been integrated into the European Semester. The European Semester is a policy coordination cycle comprising various EU governance instruments with a focus on public finances that results in the issuance of country-specific recommendations for each member state (Verdun and Zeitlin 2018). Savage and Howarth (2018, 212) describe it as 'an information-driven surveillance process that relies heavily upon fiscal and economic information collected from the member states and analyzed by the European Commission' (Savage and Howarth 2018, 212). The Commission benefitted from the introduction of the European Semester because it provides a vehicle to integrate the Commission's various indicators into a policy coordination cycle. This forces member states to engage with them even though they might have preferred to ignore them all together (coercive reactivity). Since 2013 a euro area recommendation based on the EAFS has been issued each year (with the exception of the very first European Semester cycle). Yet, it only received lukewarm support. Darvas and Leandro (2015, 3) criticized that

> the reference to the euro-area aggregate fiscal stance is not much more than empty rhetoric. How the optimal aggregate fiscal stance should be determined is not defined. The Council recommends that the aggregate fiscal stance should be in line with sustainability risks and cyclical conditions, but it does not even state what this aggregate stance is. There is no top-down approach to determine national fiscal stances that correspond with the optimal aggregate, and it is therefore accidental if the sum of country-specific fiscal stances corresponds with the optimal aggregate fiscal stance.

Measuring the EAFS enables the Commission to 'name and shame' poor performance whenever the aggregated national fiscal stance would add up to pro-cyclicality. Büthe (2012, 35) has identified the capacity to 'name and shame' as a key political driver for demanding an indicator. But measuring fiscal policy also puts the Commission in a position to praise. When some euro area member states led by France and Germany decided to undertake fiscal stimulus packages in the aftermath of the 2008 financial crisis, the Commission called this (mostly bi-lateral) fiscal policy coordination the 'European Economic Recovery Package'. The EAFS demonstrated analytically that this was the only period during which fiscal policy was counter-cyclical (see Figure 1). In other words, the Commission used the indicator to monopolize accidental developments in the euro area to highlight the benefits of intensified fiscal policy coordination.

The ECB and the EAFS: fulfilling its mandate through fiscal policy coordination?

The ECB has been a key actor during the euro area crisis that has significantly expanded its formal and informal authority (Henning 2016). However, the ECB's high level of independence turned from a blessing into a curse when the economic circumstances required more cooperation with fiscal authorities (Mabbett and Schelkle 2019). Despite the ECB's multiple constraints, it managed to transform itself into a strategic political player (Torres 2013). Yet, the ECB is not a recognized actor in fiscal governance because it does not possess any formal authority to enforce fiscal discipline. The promotion of macroeconomic indicators and concepts enables technocratic actors to surpass potential veto players. In effect, this strategy shifts the political debate into a field where technocratic actors are at an advantage due to their superior analytical capacity. It follows a trend whereby the public debate is crowded out by 'the efficiency of numbers as cognitive devices' that tend to empower experts and technocrats (Fioramonti 2014, 207).

The ECB can affect the measurement methodology of macroeconomic indicators with its published research. In doing so, it can wield power beyond its formal authority and make existing power relations more complex (cf. Davis, Kingsbury, and Merry 2012, 81). The ECB has been a strong advocate of the EAFS (European Central Bank 2016; Draghi 2014). It can derive crucial information from an assessment of the EAFS for its monetary policy decision-making (Kamps et al. 2017). Anticipating the likely support that will come from the individual national fiscal stances is important for conducting a forward-looking monetary policy. At the central bankers' annual retreat in Jackson Hole, former ECB President Draghi acknowledged the usefulness of discussing the aggregate EAFS because 'stronger coordination among the different national fiscal stances should in principle allow us to achieve a more growth-friendly overall fiscal stance for the euro area' (Draghi 2014).

The ECB's focus on the fiscal policy stance can be explained by its desire to orchestrate the right monetary-fiscal policy mix that will help it to achieve its inflation target. During the period 2010-14 the ECB's communication on fiscal policy has significantly intensified, which has been interpreted as a sign of governments' fiscal inaction (Diessner and Lisi 2019). Recently, the ECB's calls for fiscal activism have grown louder again. Before handing over the baton to the new ECB President Lagarde, Mario Draghi demanded again more support from national fiscal policies (Arnold 2019). The ECB has been running out of monetary policy tools because HICP in the euro area did not pick up sufficiently. With the interest rate at the zero lower bound and sluggish growth rates, fiscal policy can be an effective tool to get the inflation rate up to target. Unburdening monetary policy by shifting the blame for low inflation to fiscal policy became an attractive option for the ECB. The ECB promoted the EAFS because it prefers fiscal risk sharing via the governments' balance sheets rather than its own.

Member states and the EAFS: indicator contestation

The Netherlands have raised concerns that the macroeconomic indicator will be used as a 'top-down' coordination tool for national fiscal policy (Dutch Finance Ministry 2019). Similar concerns have also been expressed by the German finance ministry (Freitag and Stosberg 2018). This would enable the Commission to pressure member states into making use of their available fiscal space in the interest of the euro area (Freitag and Stosberg 2018). However, if these countries operate already at full capacity utilization levels, an additional stimulus would likely lead to an overheating of the economy creating welfare losses due to pro-cyclical spending (Ademmer et al. 2016, 15). Consequently, it could have destabilizing effects at the individual country level. An overheating would also exacerbate the cyclical divergences within the euro area (Ademmer et al. 2016, 15). This could generate frictions within the existing EU fiscal rule framework.

Any analysis of the euro area fiscal stance will likely produce results that bolster the argument in favor of a centralized fiscal capacity. For example, Giavazzi (2016, 16) has pointed out that 'in the absence of a fiscal capacity at the euro area level, the aggregate fiscal stance can only be controlled by moving the stance of individual Member States'. As a result, the European Fiscal Board has turned into a strong advocate of a central fiscal capacity.

Conclusion

Macroeconomic indicators such as the euro area fiscal stance are governance tools that can be deliberately used to pursue integrationist ends. They appeal to supranational actors because they are perceived as neutral technologies that impartially measure the object of interest. Any measurement uncertainty and methodological baggage surrounding an indicator is absorbed in the policy process. The policy recommendations derived from them become part of the European Semester. As a result, member states are entrapped to engage with the indicator's recommendations. Contestation can be triggered if the indicator's policy recommendations are contrary to the preferences of member states. But the nature of contestation only to a limited extent grounded in concerns about the underlying methodology. Predominantly, member states question the underlying assumptions of the indicator. In the case of the EAFS, Germany and the Netherlands cast doubt on the impact of the size of the spillover effects of a domestic fiscal stimulus on other members of the euro area. Their line of defense is based on the treaty provisions that focus on sustainability rather than stabilization. They are concerned that the indicator is used as a 'top-down' fiscal policy coordination tool (Ademmer et al. 2016; Freitag and Stosberg 2018). It has been argued that the EAFS is only useful to the extent that it provides guidance to individual member states on the orientation of their national fiscal stances, otherwise an optimal EAFS is only achieved by coincidence (Darvas and Leandro 2015). Even though the EAFS is contested and there is no empirical evidence that it has indeed enhanced fiscal coordination in the eurozone, it has directed attention towards a policy problem that the Commission and the ECB desperately want to tackle. Its failure thus provides additional ammunition in the supranational drive towards the creation of a centralized fiscal capacity.

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