Who Calls the Shots and Why?

The role of actors and institutions in the response to the sovereign debt crisis in the euro area

Philip Drauz

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Abstract

The research provides an actor-centred institutionalist analysis of the EU's response to the sovereign debt crisis in the years 2010-2012 with the aim to understand what were the most important factors that shaped the EU's policies and who were the most important actors. The crisis that originated in Greece seemed to spiral out of control and could only be contained by the European Central Bank. This raises fundamental questions what went wrong with the policy response by the euro area executive given the political, institutional and economic importance of the euro project for European integration. The research analyses two different cases: the establishment of financial assistance mechanisms and the reform of the economic governance framework. For each of the two case studies, empirical evidence is gathered to examine the propositions and answer the research question. The analysis employs a mixed methods approach to show which factors mattered the most. The lead methodology is qualitative based on interviews, documents and a database, which is complemented by a survey with the aim to provide the empirical evidence.

The main assumption is that actors' preferences and their specific bargaining power are important factors in shaping the crisis response. The convergence of preferences is seen to be based on material interests that have enabled a common response to the crisis. A second assumption is that the specific design of the policies has been determined by the bargaining power of the actors. In line with these assumptions the research sets out corresponding propositions to help answer the research question. The role of the institutional framework and of the policy environment in the crisis response is also examined.

The findings show that a multitude of factors played a role in shaping the policy response. They confirm the validity of the leading key propositions. The convergence on preserving material interests permitted a common policy response at EU level. Hence, the material interests of the actors were more important than their ideational preferences on economic policy. The specific design of the polices has been determined by the actors' capabilities. Here, classic power factors such as size and GDP played less of a role than the economic and financial soundness of the actors. The empirical evidence also shows that domestic political constraints could increase an actors' influence in shaping the policy response. Beyond the validation of the initial propositions and the demonstration that the institutional framework was conducive to finding an agreement, the findings also show that individual actors as well as financial markets were important factors in shaping the policy response of the EU to the sovereign debt crisis. Ultimately, it was mainly two actors that 'called the shots': France on a conceptual level and Germany on the operational level of the crisis response.

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Undertaking a PhD is often described as a long and lonely journey. In my case, it certainly has been a very long one. Perhaps this is the nature of embarking on such an adventure while working full-time. Perhaps this is just due to the fact that you never really know what life is throwing at you. However, it never has been a lonely journey, thanks to many wonderful people, who have been part of this project in one way or the other.

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1. Chapter One: Introduction

1.1. Introduction

In 2010, Europe's currency union plunged into the most severe crisis since its launch little more than a decade ago. The financial crisis starting in August 2007 and the outbreak of the sovereign debt crisis in early 2010 both severely stress tested Economic and Monetary Union (EMU). Moreover, the sovereign debt crisis called the very survival of the euro area into question. It exposed the weaknesses in the institutional framework of EMU with regard to crisis prevention as well as its capability to mitigate and resolve crisis. What has been conceived in Maastricht and codified by the corresponding Treaty in 1992 as Economic and Monetary Union is, however, little more than a currency union. Economic and fiscal policy had been left to individual countries embedded in an intergovernmental system of economic policy coordination. Sound fiscal policies should be guaranteed by the Stability and Growth Pact (SGP), which sets limits for government debt and deficits and potentially threatens with financial sanctions in case of non-compliance. Economic convergence and reform should come through soft coordination under the Broad Economic Policy Guidelines (BEPG). The 'no bail-out' clause (Article 125 TFEU) should ensure market discipline through the pricing in of sovereign risk by markets on governments' macroeconomic policies. All in all, the common currency relied on each individual country to run sound fiscal and economic policies to sustain the common currency. This system, however, could not prevent that euro area member states built-up large fiscal and macroeconomic imbalances. What has been a conscious political choice in the construction of EMU, sharing a common monetary policy but leaving fiscal and economic policy in the hands of individual countries, not only failed in crisis prevention but also severely hampered the euro area's crisis response. Markets continuously doubted not only the institutional capacity to properly respond to the crisis but also the political will. Markets, for example, priced in higher risks for euro area Member States with sounder fiscal data than EU countries outside monetary union.[1] Perceived as sometimes too little, sometimes too late and sometimes too little too late, the improvised nature of crisis response often driven by domestic political interests or a lack of institutional capacity did not inspire confidence, which could be observed by rocketing sovereign bond spreads all over the euro area. Sovereign debt crises are nothing new and since the breakdown of the Bretton Woods system most countries have experienced financial crisis of one kind or another (Reinhart and Rogoff, 2009). The debate, however, how governments' policy responses

[1] Spain vs UK (De Grauwe, 2011)

are determined, is still ongoing (Claessens et al., 2014; Alesina and Giavazzi, 2013; Blanchard et al., 2012). Economists (Daianu et al., 2014; Sinn, 2014; Lapavitsas, 2012) tend to view policy response to financial crisis from a "market fundamentalist" perspective. Policies are determined by market dynamics, not the opposite. Government responses are adjusted to the level of intensity and nature of the crisis and devised accordingly. In political science institutions and domestic politics are seen as important factors that determine fiscal and monetary policy (Tsebelis, 2002, 1995; MacIntyre, 2002). This view considers among others the institutional set-up, the decision-making framework, elections, party affiliation and government composition as playing a major role in determining policy choices.

The EMU has been criticised from the start underpinned by both economic and political arguments (Tobin 1998; Feldstein 1997; Friedman; 1997) but how could it happen that the sovereign debt crisis originating in Greece spilled-over to other euro area countries? It seemed to spiral out of control until the statement by ECB President Mario Draghi in July 2012 that "the ECB is ready to do whatever it takes to preserve the euro".[2] Given the political, institutional and economic importance of the euro project for European integration such an obvious policy making failure by the euro area executive raises fundamental questions about the causes for the specific policy response.

It is surprising why the policy response was not more determined or entailed radical policy change when the euro area was threatened with its break up. A pure political economy perspective does not seem to be able to fully explain this phenomenon. Therefore, this research will use a political science approach, which should enable us to look beyond markets and turn to politics to understand the policy response to the sovereign debt crisis. It aims to explore how euro area Member States and EU institutions responded to the sovereign debt crisis, what influenced the decisions on the policy response, who the important actors were and what role the institutional environment played in shaping the policies.

[2] Speech by Mario Draghi at the Global Investment Conference, London, 26 July 2012.

1.2. The EU's response to the sovereign debt crisis: a brief overview

This research examines the policy response to the sovereign debt crisis in the euro area. The following section will briefly explain what it defines as crisis and provide an overview of the policy response.

Scholarship in political science but also political economists often see crises as moments of critical junctures that trigger specific policy and institutional change or innovation (see Acemoglu and Robinson, 2012; Pierson, 2004). Change or innovation is attributed to crises, which constitute an exogenous shock (Höing and Kunstein, 2019; Schimmelfennig, 2018; Burns et al., 2017). Other accounts conceive crises as constructed and discursive in nature (Kutter, 2020; Hay, 1996). Crises are endogenous, they are constituted when there is a perception that core values are under imminent threat and a growing sense of uncertainty (Boin et al., 2005). Besides these definitions of events as crises, there is also the political process in and through which certain events come to be framed as constitutive of a moment of crisis (Voltolini et al., 2020: 613). This research defines crisis as a period of instability, which puts pressure on existing structures requiring decisive action, which may lead to institutional change. According to this definition the events taking place in the Eurozone starting in late 2009 can be described as a crisis of sovereign debt. It started with a crisis of confidence in financial markets in the viability of national public finances causing significant political and financial distress in euro area member states. This challenged the existing structures and triggered a policy reaction leading to change in the institutional fabric of EMU.

In response to the sovereign debt crisis the European Union and the Euro area in particular implemented reforms with regard to the economic governance of the euro, established mechanisms to financially assistance Member States experiencing financial difficulties, and started to create a European framework for financial supervision. When Greece was cut off from refinancing itself on capital markets in May 2010, the euro area did not dispose of any institutionalised crisis resolution mechanism to come to the rescue of one of its members. However, market panic and potential negative spill over effects to the rest of the euro area warranted immediate policy action. The result was the so-called Greek Loan Facility (GLF), a rescue package of bilateral loans worth € 80 billion to stabilise the Greek economy. This decision could not calm markets and lead to the creation of the European Financial Stability Facility (EFSF), a temporary rescue mechanism with a firepower of € 440 billion intended to provide loans to all euro area countries

in financial difficulties over a three-year period.[3] Its temporary nature and limited financial capacity did not convince investors that it could sufficiently address the fiscal and banking sector problems in the euro area in the envisaged three-year time period. The consequence was that euro area governments were forced to establish a permanent rescue mechanism, the European Stability Mechanism (ESM). The ESM, based on an intergovernmental treaty signed by 18 euro area member states on 11 July 2011, disposes of a lending capacity of € 700 billion of which € 80 billion are directly paid-in and € 600 billion callable capital.[4]

In parallel to the financial stabilisation policies, the EU also addressed the shortcomings in its fiscal and macroeconomic surveillance frameworks, which proved to be insufficient in preventing the crisis. The European Parliament and the Council agreed in October 2011 the so-called "Six-Pack", a set of laws reforming economic governance.[5] It foresees the strengthening of the fiscal surveillance framework, the Stability and Growth Pact, and introduced a procedure to survey and, if necessary, correct macroeconomic imbalances in euro area member states. These new provisions were embedded in a more formal annual cycle of economic policy coordination called the European Semester (see Verdun and Zeitlin, 2018). The reform holds three key innovations. First, the new provisions transfer decision-making powers from the Council to the Commission by making Commission sanction proposals semi-automatic through the introduction of the so-called reverse qualified majority voting rule. This means the Council does not actively need to adopt a Commission recommendation to sanction a Member State in breach of the deficit rule[6] but needs a qualified majority of Member States to block these sanctions. This move reinforces the supranational governance elements of the euro. Second, despite the focus on public deficits,

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[3] ECOFIN, 2010, Council conclusions, Brussels, 9/10 May, https://www.consilium.europa.eu/uedocs/cmsUpload/Conclusions_Extraordinary_meeting_May2010-EN.pdf

[4] https://www.esm.europa.eu/sites/default/files/20150203_-_esm_treaty_-_en.pdf

[5] Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, *OJ L 306, 23.11.2011;* Regulation (EU) No 1173/2011 of the European Parliament and of the Council of 16 November 2011 on the effective enforcement of budgetary surveillance in the euro area, *OJ L 306, 23.11.2011;* Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States, *OJ L 306, 23.11.2011;* Council Regulation (EU) No 1177/2011 of 8 November 2011 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure, *OJ L 306, 23.11.2011;* Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances, *OJ L 306, 23.11.2011;* Regulation (EU) No 1174/2011 of the European Parliament and of the Council of 16 November 2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area, OJ L 306, 23.11.2011.

[6] The revised SGP also introduced the excessive deficit procedure for public debt.

public debt levels above 60 % of GDP can now also be part of an excessive deficit procedure in case they are not reduced by 5 % per year on a three-year average. Moreover, the reform strengthens not only the corrective arm of the SGP but also the preventive one by growth related, clearly defined country specific medium-term budgetary objectives (MTOs) to avoid excessive deficits early on. The introduction of an expenditure benchmark complementing the structural balance approach will help assessing potential growth by taking into consideration discretionary policy measures. Third, the reforms introduce a new macroeconomic surveillance procedure, which can enforce the correction of macroeconomic imbalances in a Member State mirroring the procedures in the SGP.

Subsequently Member States complemented the "Six-Pack" by the Treaty on Stability, Coordination and Governance (TSCG), better known as "Fiscal Compact", which they signed on 2 March 2012.[7] The TSCG requests signatories to have a binding balanced budget rule in their constitution or an equally obliging national legal provision. Annual structural government deficits shall not exceed 0.5 % of GDP and a deviation should be corrected through an automatic mechanism. Compliance is overseen by the ECJ, which could also impose financial sanctions. Moreover, the Fiscal Compact makes the link with the ESM by prescribing that compliance with its provisions is necessary for receiving financial assistance from the ESM. The last step in the reinforcement of the fiscal surveillance framework is the so-called "Two-Pack", which entered into force on 30 May 2013.[8] Its two regulations based on article 136 TFEU and therefore only applicable to euro area countries foresee two key measures. First, the streamlining and coordination of national budgetary procedures in the euro area. This yearly process allows the Commission to examine the national budgetary plan and demand changes before it is adopted by national parliaments. Second, enhanced reporting requirements for member states that are in the EDP.

In addition to the policies concerning financial assistance, fiscal and economic surveillance, the EU also created a system for financial supervision. Following the recommendations of the so-called "de Larosière report", Member States agreed to set up a new framework for macro- and micro-prudential

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[7] http://www.consilium.europa.eu/en/history/20120301-tscg-euro-summit/

[8] Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area, *OJ L 140, 27.5.2013;* Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability, *OJ L 140, 27.5.2013.*

supervision in June 2009.[9] This was the beginning of what later became to be known as the "Banking Union".[10] The European Parliament and the Council agreed in to set up a system of financial supervision consisting of the three European supervisory authorities (ESAs),the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA), the European Insurance and Occupational Pensions Authority (EIOPA) based in Frankfurt) the European Systemic Risk Board (ESRB), the Joint Committee of the ESAs, and the national competent or supervisory authorities of each Member State.[11] The system foresees that national supervisory authorities remain in charge of supervising individual financial institutions and that the ESAs should ensure that European regulation and supervision is applied consistently and being harmonised throughout the EU by establishing a so-called single rulebook. The ESRB task is to carry out macro-prudential oversight of financial markets to prevent and mitigate systemic risk in the EU in the light of macro-economic developments. When it became clear that simple coordination of supervision would not be sufficient to prevent further fragmentation of the single financial market and to „break the vicious circle between banks and sovereigns" Member States agreed to open the way for establishing a single supervisory mechanism (SSM) for banks in the euro area.[12] The SSM transfers micro-prudential supervision of all euro area banks to the ECB.[13] It supervises directly through the newly created Supervisory Board the 124 most significant banks.[14] Since the SSM is operating, the ESM can also provide financial assistance directly to banks – bypassing the state's balance sheet - under the condition that the state cannot provide capital without putting its fiscal stability at risk, that private investors have been bailed-in, and that the

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[9] High-level Group on Financial Supervision. 2009. Report. Brussels, 25 February 2009. European Council. Conclusion. 18/19 June 2009.
https://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/108622.pdf

[10] European Commission (2012a), *Actions for stability, growth and jobs,* COM(2012) 299, May 30

[11] Regulation (EU) No 1093/2010 establishing a European Supervisory Authority (European Banking Authority), OJ L 331, 15.12.2010; Regulation (EU) No 1094/2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), OJ L 331, 15.12.2010; Regulation (EU) No 1095/2010 establishing a European Supervisory Authority (European Securities and Markets Authority), OJ L 331, 15.12.2010.

[12] European Council. 2012. Conclusions. Brussels, 29 June 2012; Euro area summit statement. Brussels, 29 June 2012,
https://www.bankingsupervision.europa.eu/about/milestones/shared/pdf/2012-06-29_euro_area_summit_statement_en.pdf

[13] Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions, *OJ L 287, 29.10.2013*

[14] As of 1 April 2017. The list of significant entities to be supervised by the ECB is constantly updated:
https://www.bankingsupervision.europa.eu/ecb/pub/pdf/list_of_supervised_entities_201704.en.pdf?cf307b8bc923b7869e40e0effffeb712

Single Resolution Fund contributes as well (see Merler, 2014).[15] The latter is part of the second pillar of banking union, the Single Resolution Mechanism (SRM), which became fully operational on 19 August 2016, and deals with banks that need to be resolved.[16] The third pillar of banking union, a common European Deposit Insurance Scheme, has been proposed by the European Commission on 24 November 2015.[17]

The actions of the EU executive and legislative branches in response to the sovereign debt crisis were flanked by measures by the European Central Bank (see Chang, 2020). In 2010, the ECB launched the Securities and Markets Programme (SMP) to release pressure in the sovereign bond market by purchasing government debt on the secondary market.[18] At the end of December 2011, it made loans available to banks of up to € 489 billion to allow them to refinance themselves at one per cent interest rate, the so-called LTRO (long term refinancing operation). It did so again in February 2012, for a volume of € 530 billion (LTRO II). In summer 2012, the ECB introduced a programme of unlimited purchase of sovereign bonds, the so-called OMP (Outright Monetary Transaction). A programme that is meant to buy unlimited quantities of short-term national debt on the request of a Member State based on conditionality (see Verdun, 2020).

1.3. Research question

A determining factor for policy-making in EMU is the institutional framework and more specifically the provisions in the Treaties. They provide for a sharing of competencies between the EU and the national level, which means governing the euro is neither an exclusive competence for the EU nor the Member States. It has been a conscious and fundamental political choice not to create a fully-fledged economic union to accompany monetary union, thus creating a fundamental asymmetry in the institutional structure (Salines et al., 2011). However, the fact that euro area Member States share a common monetary policy while fiscal and economic policy remain at the national level leads to a situation where policy-making is a complex process involving many

[15] ESM. Press release. 08/12/2014. https://www.esm.europa.eu/press-releases/esm-direct-bank-recapitalisation-instrument-adopted

[16] Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010, OJ L 225, 30.7.2014.

[17] Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 806/2014 in order to establish a European Deposit Insurance Scheme - COM/2015/0586 final - 2015/0270 (COD).

[18] Article 123 TFEU prohibits the ECB to directly purchase sovereign bonds.

national and supra-national actors with often competing political, economic and institutional interests or where, for example, economic interests conflict with political ones, necessitating the balancing and mediating thereof to reach consensus or agreement. Thus, policies are the outcome of this process of actors, their preferences, capabilities, strategies, and interaction in the institutional framework.

The sovereign debt crisis in EMU has been addressed by euro area governments and EU institutions by firming up the rules governing public finances, introducing a framework to oversee macroeconomic imbalances, establishing facilities for financial assistance to other Member States and starting to create a banking union. The policy response to the sovereign debt crisis has received, and is still receiving, considerable criticism. This begs the question what precisely happened, why it happened and what this might imply for the future (see Yiangou et al., 2013). The literature mainly looks at the economics of the crisis response (see Bénassy-Quéré et al., 2018; DeGrauwe and Ji, 2018; Corsetti, 2016; Baldwin and Giavizzi, 2015). These approaches conclude that the euro area needs to integrate further and as long as it is not an optimal currency area it requires new institutional features such as a fiscal union, banking union, safe asset and greater transfers (see DeGrauwe, 2013; Lane, 2012; Pisani-Ferry, 2012). Few authors discuss the politics behind the policies (see Brunnermeier et al., 2016; Blyth, 2013; Krotz and Schild, 2013). While the first is a good starting point to highlight the structural deficiencies of the euro area in responding to crisis, the latter provides a more realistic appraisal of what policies aimed at resolving the crisis are politically feasible (see Copelovitch et al., 2016). Policy, by definition, is the intentional action by actors who are most interested in achieving specific outcomes (Scharpf, 1997: 36). This research seeks to address this empirical deficit by understanding and providing an analysis of the policies that were devised to respond to the sovereign debt crisis. Its main argument is that the specific crisis response has been shaped by a convergence of preferences on economic policy and in combination with a power political constellation has determined its specific design. With this objective in mind the main research question is the following:

> *What factors shaped the policy response of actors to the sovereign debt crisis in EMU at the EU level?*

The research is explanatory, aimed at understanding what influenced the EU's policy response to the sovereign debt crisis given the asymmetric institutional set-up of EMU and Member States' governments diverging preferences.

It will draw on the theories of new institutionalism (see Pollack, 2009; Hall and Taylor, 1996) and combine two explanatory variables to analyse what shaped the policy response. First, it assumes that there was an important role

of specific orientations on the economy or on economic policy, which were held by the relevant actors and which influenced the actors preferences for a specific policy response to the sovereign debt crisis. However, not the ideational preferences but those on material interest were determining the choice of policy instruments. Second, it assumes that those preferences together with a supporting power-political constellation, hence the combination of both, shaped the specific outcome.

The research will use an actor-centred, institutionalist approach to explain how ideas and interests came to shape the preferences of the actors and how the constellation and interaction of actors then produced the specific outcome. Therefore, it will rely on the heuristic framework of actor-centred institutionalism as framework for the analysis[19] (Mayntz & Scharpf, 1995: 39; Scharpf, 1997). This approach has been conceived to analyse public policy-making drawing on neo-institutionalism (see Hall & Taylor, 1996; March & Olsen, 1984; North, 1990). It understands institutions as stimulating, enabling or restraining by establishing formal and informal rules, which have an impact on political actors and processes (Mayntz & Scharpf, 1995: 43). ACI makes, however, clear, that 'actors and their interactive choices, rather than institutions, (are) the proximate causes of policy responses, whereas institutional conditions to the extent that they are able to influence actors' choices are conceptualised as remote causes (Scharpf, 2000: 764). Actors although embedded in the institutional context are the principal agents in the policy-making process, characterised by specific preference orientations and capabilities.

To answer the main research question, the research will proceed in three distinct analytical steps. First, it will aim to understand how policy-makers have responded to the crisis. Second, it will explain why they have responded in a specific way. Third, it will further break down the main research question to see what we can learn from the analysis for the level of influence of the identified factors. Following this approach, it will use the following sub research questions to explain what shaped the policy response:

- How did the EU respond to the sovereign debt crisis and what were its objectives?
- Who were the main actors' and what were their preferences?
- What were the actors' capabilities and what was their impact in shaping the policy response?

[19] The framework of analysis will be further developed in a subsequent chapter.

- What were the conditions that supported the specific policy response?
- What influence did the various factors have in shaping the policy response.

The research will examine two cases based on the EU's two-fold objectives of avoiding sovereign defaults and restoring market actors' trust, the establishment of euro area financial assistance mechanisms and the reform of the economic governance framework, to provide answers to the research question.

1.4. Structure of the dissertation

This section presents the outline of the thesis. It is designed to be read in a linear manner with each chapter building on the previous one and its conclusions. It starts with this introductory chapter, which introduces the subject of the study, sets out the research question, shows the relevance of the research project and explains the structure of the thesis.

Chapter 2 deals with the theoretical framework of the research. It outlines the framework of analysis by examining the key theories and concepts underpinning the study. It then operationalises the framework for analysis for this research and completes it by developing propositions to constitute the explanatory model of the dissertation. The operationalisation of the theoretical framework is followed by a review of the literature relevant to the area of the research.

Chapter 3 presents the research design and the methodology. It discusses the research design, including the criteria for case selection, which is followed by a description of the cases. The next section describes the research methods and techniques implemented in this dissertation. This includes the data collection process, a discussion of primary and secondary data as well as the interview method. The last section concludes by summarising the methodological approach and discussing its limitations.

Chapter 4 and chapter 5 deal with the case studies. Chapter 4 examines the setting up of financial assistance mechanisms. It looks at the mechanisms that have been set up to financially support euro area member states in financial distress. Chapter 5 deals with the reform of the economic governance framework. It looks at how fiscal rules and how economic policy coordination has been transformed after the outbreak of the crisis. Both chapters start with a reconstruction of the policy-making process through the chronology of events to inform the subsequent analysis in light of the propositions. They conclude by identifying the factors that were the most influential in shaping

the policy response with regard to financial assistance and reforming economic governance respectively.

Chapter 6 discusses the findings of the research by way of comparison of the analysis of the two case studies and aims at answering the research question. It offers a discussion of the theoretical perspectives and updates the theoretical framework.

Chapter 7 chapter provides the general conclusion. It discusses the contribution to the literature and concludes by reflecting on the implications of the study for future research.

2. Chapter Two: Literature review and analytical framework

This chapter will outline the main literature that has informed the research approach and the propositions. It will also sketch the framework of analysis of the research and the main anchors that will be used to answer the research question 'what are the factors that shape the policy response of actors at EU level?' At a conceptual level the research identifies the factors that play a role in the policy response and, explains how and why policy decisions are made by actors at EU level. The policy response is taking place within the institutional framework of the EU. Therefore, the research will first conduct a literature review of the broad policy area under examination: economic and monetary union, the response by the EU and its ideological foundations. It will lay out what we know so far about the causes and the consequences of the sovereign debt crisis. Then, the research moves on to the analytical framework to examine the main theories that explain policy action in the EU institutional framework and then identify the framework that will guide the analysis: actor-centred institutionalism. This framework is then being explored and made operational for this research.

2.1. Literature review

The section above identified and operationalised the framework for analysis for this research. The following sub-section takes elements of the framework of ACI and, explores the relevant insights form the literature on EMU and on the response to the sovereign debt crisis. It will first examine the assessment of the general institutional framework of EMU and then turn to the literature on the response to the crisis with a focus on the role of actors' preferences.

2.1.1. Economic and Monetary Union

Even before the introduction of the euro as a single currency in 1999, Economic and Monetary Union (EMU) sparked debate among scholars and policy-makers alike (Tsoukalis, 1977, Goodman, 1992; Thatcher, 1993; Eichengreen and von Hagen, 1996; Feldstein, 1997; Gros and Thygesen, 1998; McNamara, 1998; Dyson and Featherstone, 1999). At the core of the debate was the asymmetric institutional architecture of EMU imposed by the Maastricht Treaty that fell short of creating an economic union by transferring monetary policy to the EU level and leaving fiscal and structural polices with national governments. The key question was whether a monetary union of highly economic heterogeneous participating countries (non-fulfilment of the 'optimum currency area' criteria: Mundell 1961; Eichengreen 1993) could be successful without political union (Verdun, 1996; Padoa-Schioppa, 2004).

Other points of criticism were the absence of a lender of last resort function in EMU, the lack of a central authority supervising the financial system, weak democratic control (accountability) of the ECB, unclear and inconsistent policy directives for the ECB and the absence of central coordination of fiscal policy within EMU combined with unduly strict criteria for domestic debt and deficits as set out in the Maastricht criteria and the Stability and Growth Pact in the face of asymmetric shocks (Bordo and Jonung, 1999).

While the view in the academic world before the launch of the euro was rather sceptical (Hodson 2010) and euro zone break-up has been debated (Feldstein 1997; Tobin 1998), the assessment of the first ten years of EMU was largely positive (Bergsten 2005; Posen and Pisani-Ferry, 2009; Chang, 2009). The few dissenting voices were more concerned with the low growth environment in the Euro area than with the institutional framework (De Grauwe, 2003). There were, however, some scholars who argued that stronger EU institutions or even an economic government are needed to bind the commitment of Member States to EMU, especially given their diversity and possibly to spread the costs and benefits more evenly across EMU (see Crouch, 2000; Begg, 2002; Verdun, 2003; De Grauwe, 2006; Chang, 2009). But in general, it was found that EMU has coped rather well with an asymmetric framework (Enderlein and Verdun, 2009). The financial crisis that started in 2007 did not change the appraisal. On the contrary, the euro had been hailed as having passed the test of global financial crisis (Martens and Zuleeg, 2008; Jaillet and Pisani-Ferry 2010).

2.1.2. The response to the sovereign debt crisis

When the financial crisis turned into a sovereign debt crisis in 2010, the initial debate about the feasibility of the institutional set-up of EMU was brought back on the table. Several academic journals published special dedicated issues on the topic (Journal of European Public Policy, 2015; Journal of European Integration, 2014, 2013). In hindsight the first ten years of the euro in which good growth performance and a benign financial environment masked the accumulation of an array of macroeconomic, financial and fiscal vulnerabilities (Lane 2012, 51; Caruana & Adjiev, 2012, 71 ff.). By closing the inflation channel, monetary union leaves a country with only three ways out of a situation of excessive debt: severe and harmful fiscal retrenchment, default, and being bailed out by the other members of the monetary union (Gianviti et al., 2010). The latter being in principle ruled out in EMU due to the so-called 'no bail-out clause' in Art. 125 TFEU. As the sovereign debt crisis

revealed deep flaws in the EMU governance regime and showed that it is incomplete with regard to avoiding and resolving crises, a new debate about the crisis management capabilities and the asymmetries of EMU has started (Pisani-Ferry, 2010; Lane, 2012; Howarth and Verdun, 2020; Hodson, 2020; Schild, 2020). The second decade shaped by the sovereign debt crisis has given rise to another asymmetry, those between member states that were accustomed to low interest rates, the so-called core countries, and those that significantly benefitted from low interest rates and refinancing conditions, the so-called periphery (Howarth and Verdun, 2020). The latter were significantly harder hit by the crisis. The first country to be shut out of bond markets was Greece in May 2010, Ireland and Portugal followed in November 2010 and April 2011 respectively. Spain and Cyprus also tabbed the rescue funds. The asymmetric shock also reinforced the power relations between core states such as Germany, France and the Netherlands, and the periphery, namely Greece, Ireland, Italy, Portugal and Spain. This turned into what colloquially is now called the 'North-South' division, creditors versus debtors (Posen and Ubide, 2014).

Another asymmetry arose due to the disagreements among actors how to respond to the crisis. On the one hand there was a difference in analysis of the sovereign debt crisis. Some believed the Member States in financial difficulties faced a short-term funding problem, while others believed they are unable to service their debt indefinitely. In most of the literature, this distinction is typically described as the difference between "illiquidity and insolvency" (Reinhart and Rogoff, 2009). Reinhart and Rogoff (2009: 61) point out that the danger is that it is not always easy to distinguish between a default that was inevitable – in the sense that a country is so highly leveraged and so badly managed that it takes very little to force it into default – and one that was not – in the sense that a country fundamentally sound but is having difficulties sustaining confidence because of a very temporary and easily solvable liquidity. In the heat of the crisis, it is all too tempting for would-be rescuers to persuade themselves that they are facing a confidence problem that can be solved with short-term bridge loans, when in fact they are confronting a much more deeply rooted crisis of solvency and willingness to pay. Public finance is said to be unsustainable if, on the basis of the current economic policy and of available forecasts, the expected development of the public debt leads inevitably to a situation of insolvency (Bénassy et al., 2010, 196).

On the other hand, there was a big difference in policy-makers views on economic policy making with regard to the crisis. In the literature this has been called the "battle of ideas" (Brunnermeier et al., 2016; Krotz and Schild, 2013). Economic policy does not directly derive from economic theory though. Nonetheless, the notorious debate between "austerity" versus

"stimulus" in relation to the short-term measures to respond to the crisis can be traced back to neo-classical (or new classical)[20] and neo-Keynesian approaches (Baimbridge & Whyman, 2015). 'Neo-Keynesians' believe that output gaps caused by deleveraging, which depresses both public and private demand, need to be closed by government intervention (see e.g. Blanchard and Kiyotaki, 1987 Mankiw, 1985; Taylor, 1979). This can be done by fiscal stimulus and, preferably, monetary expansion. The objective is to spur growth and to attain full employment to support debt reduction. 'Neo-classicists' argue that state intervention is harmful and distorting market outcomes (see Friedman, 1957; Fisher, 1930). Given constant labour supply, output can only increase through higher capital or exogenous technological progress (see Solow, 1956). Prices and wages will adjust swiftly so that there is a swift adjustment in demand and excess supply will diminish. In case this mechanism would not function, they would argue it is due to regulatory barriers. Hence the case for structural reforms to remove these obstacles (Gomes et al., 2013; Varga et al., 2013). Moreover, they view high public debt burden as a drag on growth (Reinhart and Rogoff, 2010). Hence, their argument for fiscal consolidation to reduce the debt levels and restore confidence among investors, which will spur investment and lead to growth. Neo-Keynesians have argued the opposite, namely that fiscal consolidation is a drag on demand and growth (Blanchard, 2012). Moreover, they also argue that structural reforms become counter-productive, namely contractionary, in the short- to medium-term if monetary policy is constrained at the zero-lower-bound (ZLB) and, hence, unable to accommodate supply expansion by the standard means of lowering interest rates (Eggertson et al., 2014).[21] This has been challenged by recent studies arguing that structural reforms are no impediment to economic recovery. Vogel (2014) argues that there is no evidence that postponing reforms to post-ZLB periods is better than implementation at the ZLB when assessed in terms of economic activity. Moreover, advocates of the so-called "new normal" argue that countries, especially advanced economies, where consumers needed to deleverage extensively lower output and employment growth is to be expected post-crisis as the "new normal" for a longer period than in more common cyclical recovery (Candelon et al., 2016; El-Erian, 2009). The disagreement between the neo-Keynesian and neo-classicist camps persists also with regard to the longer-term oriented measures to address the crisis and the short-comings in the institutional set-up of EMU. This debate is often labelled as 'rules versus

[20] In contrast to the original neo-classical works, New Classical Economics has a stronger emphasis on rational expectations and hence on the efficiency of financial markets.

[21] The long term positive effects of structural reforms on economic activity and debt sustainability are undisputed.

discretion' (Wyplosz, 2005).[22] Views range from a fully depoliticised scheme of rules and technocratic agencies on one side and complete political discretion on the other (Heipertz, 2003). Neo-Keynesians argue that market failures need to be responded to by credible government intervention. Institutions or rules should not hamper the discretion of fiscal policy (Pisani-Ferry, 1998; DeGrauwe, 1998). They need to be designed in a way to ensure the right mix of growth enhancing policies by allowing for discretion and the active application of fiscal and monetary policies, such as fiscal expansion and monetary reflation during a recession. Neo-classicists argue that fiscal policy should be governed by strict rules due to the deficit bias driven by time inconsistency whereby the long-term discipline objective is systematically overlooked when short-term discretion is used by policymakers (Alesina and Perotti, 1995; Rogoff, 1985). Hence, the 'Lucas Critique' to the application of economic models based on rational expectation to policy-makers (Lucas, 1976). Moreover, the debate on Ricardian equivalence has made it clear that much depends on how economic agents perceive fiscal policy actions (Barro, 1974). Economic agents adjust their behaviour insofar as they have rational expectations that fiscal action will lead to higher taxes and, hence adjust their saving behaviour, which crowds out private investment (see Wyplosz, 2005). Fiscal discipline is also advocated for by the ‚Fiscal Theory of the Price Level', which contrary to Barro does not assume fiscal policy as 'irrelevant' but promotes the existence of a non-Ricardian regime (Woodford, 2001, 1994; Leith and Wren-Lewis, 2000). Hence, the need for rules in the short run to target nominal deficits, which are consistent with price stability and exclude self-fulfilling spirals because they constrain fiscal expectations (Woodford, 2001). The literature is, however, close to consensus between rules versus discretion, which can be described as 'rule-bound discretion' (see Buti and van den Noord, 2004; Heipertz, 2003). The design of such rules is still the topic of heated discussions though.[23] Fiscal arrangements, which have been settled during the European integration process, undoubtedly constitute the most criticized part of the EMU (Candelon et al, 2010). The main neo-Keynesian criticism has been that the rules are too constraining and do not allow for automatic stabilizers to work efficiently (Canzoneri and Diba, 2001; Andersen and Dognowski, 1999; Eichengreen 1996; Eichengreen et al. 1998; Eichengreen and Wyplosz 1998; Buiter et al., 1993). This assumption has been challenged by other contributions producing estimates that, starting from a position close to balance or in surplus, the automatic stabilisers were fully available and sufficient to deal with mots possible shocks (Beetsma and Bovenberg, 2001; Artis and Buti, 2000). A more extreme neo-classicist view goes further and criticises the too discretionary nature of the EU fiscal rules. They argue for

[22] There literature has almost reached consensus that some sort of rules are needed to preserve sound public finances, particularly in monetary unions (see Wyplosz, 2013; Bénassy-Quéré et al., DeGrauwe, 2009; 2004; Buti, 2004, Thygesen, 1999). For a different view see e.g. Deubner, 2001.
[23] See Morris et al. (2006) and Wyplosz (2005) for examples of the different designs of fiscal rules.

more automaticity in the correction of deficits and the application of sanctions (Stark, 2001). This would strengthen the incentives long before financial assistance was necessary (Schuknecht et al., 2011). The latter view is quite often associated in the recent literature with a specific blend of neo-classical economics, namely ordo-liberalism (see Brunnermeier et al. 2016; Schieder, 2014; Blyth, 2013; Dullien, 2013, 2008). Ordo-liberalism is different to other schools of liberalism as it argues a strong state is needed to form the basis for functioning market relations by ensuring undistorted competitive markets (see Bonefeld 2012, 638–639).[24] It is, however, opposed to intervene in markets for other purposes than to avoid cartels and monopolies, particularly by deficit spending. Thus, when it comes to policy responses in the midst of an economic crisis, ordo-liberalism rejects the use of expansionary fiscal policy to counter the business cycle in a recession. In this sense, ordo-liberalism is anti- Keynesian (Harjuniemi and Ojala, 2014; Dullien & Guerot 2012). The debate and differentiation between neo-Keynesians, neo-classicists and ordo-liberals with regard to the response to the sovereign debt crisis is not clear cut. Neo-classicists would disagree with neo-Keynesians that a centralised entity at European level should dispose of a budget that can be used for counter-cyclical spending purposes, while ordo-liberals would agree with the establishment of a European body but rather with the purpose of reigning in national budgets, an objective neo-classical economists would support.

Ultimately the EU institutions and the Member States drew on a mix of theoretical insights about optimal policy solutions whilst being forced to be practical about what was attainable (Howarth and Verdun, 2020: 291). They leveraged bargaining power and (mostly self-serving) ideas in the process (Bulmer, 2014). Debtors and creditors have jockeyed for position in this difficult bargaining interaction (Schimmelfennig, 2015). There has been some limited debt restructuring in Greece and Cyprus but what is the most common response in a sovereign debt crisis has almost been ignored by the Eurozone (Frieden and Walter, 2017). Despite insistence by creditor countries that adjustment of debtor countries should take the form of structural reforms, adjustment mainly happen through fiscal consolidation (Copelovitch and Enderlein, 2014; Frieden and Walter, 2017). However, a great deal of accelerated innovation and policy learning took place which made the euro area institutional architecture more robust (Gocaj and Meunier, 2013; Verdun, 2015; Pagoulatas, 2020).

While my research was in progress the response to the euro crisis has continued to attract the attention of academics spanning from perspectives of

[24] In contrast to the Austrian or Chicago schools.

political philosophy to those of economics. Political scientists have increasingly tried to explain the response to the euro crisis by analysing the new treaties and regulations (Gocaj and Meunier, 2013; De Witte, 2015), by focusing on specific events such as the Greek bail-out (Pappas, 2014; Pelagidis and Mitsopoulos, 2017), or by looking through the lens of individual actors such as the European Commission (Bauer and Becker, 2014), the European Central Bank (Verdun, 2017; Irwin, 2013; Torres, 2013) or single countries (Art, 2015; Krotz and Schild, 2013). The objective of this research is to contribute to this debate by providing a different perspective by analysing a combination of various factors.

2.2. Analytical framework

2.2.1. Institutionalism and EU integration

Jupille and Caporaso (1999) argue that since the 1980's institutionalism has emerged as a powerful approach to study European economic institutions because it has managed to create a successful theoretical synthesis by combining elements of political interaction, economic performance and organisational structure. Institutionalism looks at the institutional organisation of the polity or political economy as the main factor structuring collective behaviour and generating distinctive outcomes (Hall and Taylor, 1996).

The two predominant theories of EU integration, neo-functionalism and intergovernmentalism drew more and more criticism in the 1990s as they fell short of explaining the expanding EU project. The criticism was mainly directed towards the fact that, first, both theories have difficulties in explaining the telling reality of European integration, as intergovernmentalism neglects the fact of proper EU governance and neo-functionalism failed to explain the EU in the 1970s, second, both look at EU integration through the state-centric IR lens such as the simple zero-sum game between Member States, and third, both have their "scientific "limitations, being ambitious to provide a general theory for the whole integration project (Rosamond, 2010: 106-109). Risse-Kappen (1996: 55-57) sums up their explanatory weaknesses the following way: first, both assume that the driving force behind European integration are self-interested actors "whereby the utility functions are defined in economic terms", as a result neo-functionalism has no account for "the transition from utility maximizing self-interest to integration based on collective understandings about common interest", while intergovernmentalism (represented by LI) fails to examine

whether EU institutions and the integration process influence actors' interests and preference formation. Second, both differentiate between "high" and "low" politics believing that "low" economic policies can be easier integrated than "high" foreign policies. Neo-functionalists claim that economic policies are depoliticized through Europeanization (neo-functionalism) and intergovernmental view the nation state strengthened through the transfer of competencies to the supranational level in foreign policy as they increase executive control. Third, both follow the Weberian notion of the state as a hierarchical structure of authoritative decision-making enjoying external and internal sovereignty. Fourth, both do not make a distinction "between domestic structures, i.e. the nature of political institutions of society and of state-society relations". The debates on these predominant theories gave rise to new theories and approaches, which apart from EU integration, also focused on EU governance (see Lelieveldt and Princen, 2011: 41).

New institutionalist research on the EU was born out of the classic neo-functionalist-intergovernmentalist debate and is believed to have overcome the impasse of such a dichotomy by offering new insights into the EU (Pollack, 1996: 430). Pollack (2009: 141) states that the new institutionalisms (rational choice, sociological and historical 'have arguably become the dominant approaches to the study of European integration'. New institutionalism investigates the extent to which and the ways in which institutions shape, channel and constrain the rational choices of political actors (see Mayntz and Scharpf, 1995; Nugent 2006: 573). It puts the behaviour of individual and composite actors in relation to institutions and assumes that actor behaviour is guided by institutions. New institutionalist approaches make different use of the notion of institutions giving various possibilities for autonomous actor behaviour. Following Hall and Taylor (1996) three institutionalist approaches can be distinguished: rational choice, historical and sociological institutionalism.

Rational choice institutionalism, which is different to classical rational choice approaches, attributes institutions an influence on the behaviour of the individual. It assumes that there are existing, exogenous preferences, which are being filtered by institutions (Windhoff-Héritier, 1991). Rational choice institutionalism predominantly looks at EU decision-making through the lens of the principal agent model where power has been delegated to supranational agents, the EU institutions, and examines "how agents exploit uncertainty which results from the imperfect division of power between competing European actors" (Aspinwall and Schneider, 2001: 7). This demonstrates the proximity to neo-functionalist approaches. Rational choice institutionalist approaches to EU studies have been used to explain legislative procedures (Héritier and Reh, 2012; Naurin and Wallace, 2008; Tsebelis, 1997, 1994), the implementation of rules, measures and policies (Moury and

Hérétier, 2012; Hix, 2007; Moravcsik, 1998), the role of the ECJ in relation to national governments and national courts (Conant, 2007, 2002; Garrett and Weingast, 1993), the effects of information asymmetry (Schneider and Cederman, 1994), the influence of EU bureaucrats on policy making (Dijkstra, 2012, 2010; Fägersten, 2010) and intergovernmental decision-making (Tallberg, 2010).

Sociological institutionalism does not regard institutions as mere instruments but attributes them an active role due to their inherent culture. Institutions are defined more broadly, not only including formal rules, procedures and norms but also the symbol system, cognitive scripts and moral templates that provide the 'frames of meaning' guiding human action (see Scott, 1994). It assumes that actor behaviour is endogenous, restrained by institutions leaving limited space for autonomous decisions by actors (March and Olsen, 1989). Sociological institutionalism is in a way the other side of the coin to rational choice institutionalism as it puts the homo sociologicus, not the homo oeconomicus, as *Leitfigur*. If rational choice theorists often posit a world of individuals or organizations seeking to maximize their material well-being, sociologists frequently posit a world of individuals or organizations seeking to define and express their identity in socially appropriate ways (Hall and Taylor, 1996). Sociological institutionalism looks at the EU with a view of understanding how state behaviour is shaped or constrained and partly how identity is constructed and influence exerted (Aspinwall and Schneider, 2001: 12). Aspinwall and Schneider (2001, 12-14) point out two features of sociological institutionalism: first, it looks at the concepts that rationalists have taken for granted such as norms and identity construction as well as effects of discursive practices, second, it tends examines "the impact of values, beliefs and identities on actors' responses to integrative challenges".

Historical institutionalism (HI) assumes that institutions are the result of complex historical processes and that actors condition their behaviour on institutions being relevant to them. Institutional change is assumed to be costly, which leads to path dependency (North, 1992: 83 f; Pierson, 1996). Historical institutionalism studies on the EU can be close to the rational choice school when they view institutions as being power-neutral and take culture into discount, and can also be close to the sociological school when they stress cultural factors and institutional implications to social groups, moreover HI approaches have also been applied to the Member State level highlighting the influence of national unique economic and political traditions on states' responses to internal and external challenges (Aspinwall and Schneider, 2001: 11-12).

More recently the existing research on new institutionalism has been supplemented by the emergence of what is labelled 'discursive institutionalism' (Campbell and Pedersen, 2001; Schmidt, 2008, 2010, 2014). DI builds on the work of Foucault (1971) and Connolly (1983). Schmidt (2015) describes it as an umbrella concept that encompasses a wide range of approaches that focus on ideas (e.g. Habermas, 1998; Haas, 1992; Sabatier, 1993; Blyth, 1997, 2002; Dryzek, 2000; Hay, 2010; Hajer, 2003). Contrary to the three older new institutionalisms which see institutions as static, given and constraining, and change being the result of exogenous shocks, DI views institutional change endogenously by looking to explain the origins of or shifts in interest-based preferences, historical paths or cultural frames (Schmidt, 2010). Schmidt distinguishes between coordinative and communicative discourse. Coordinative discourse involves the interaction between epistemic communities (Haas 1992) "at the center of policy construction who are involved in the creation, elaboration, and justification of policy and programmatic ideas (2008: 310). Communicative discourse is primarily conducted in the realm of politics whereby political actors seek to legitimise policy preferences and 'sell' them to the public/electorate (2009: 310).

Table 2.2.1 New institutionalisms

	Rational Choice Institutionalism	**Historical Institutionalism**	**Sociological Institutionalism**	**Discursive Institutionalism**
Object of Explanation	Behaviour of Rational Actors	Structures and Practices	Norms and Culture of Social Agents	Ideas and Discourse of Sentient Agents
Logic of Explanation	Calculation	Path-dependency	Appropriateness	Communication
Definition of Institutions	Incentive Structures	Macro-historical Structures and Regularities	Cultural Norms and Frames	Meaning Structures and Constructs
Approach to Change	Static: Continuity thru fixed preferences, stable institutions	Static: Continuity thru path dependency interrupted by critical junctures	Static: Continuity thru Cultural norms and rules	Dynamic: Change (and continuity) thru ideas & discursive interaction

Explanation of change	Exogenous shock	Exogenous shock	Exogenous shock	Endogenous process thru background ideational & foreground discursive abilities
Recent innovations to explain change	Endogenous ascription of interest shifts thru RI political coalitions or HI self-reinforcing or self-undermining processes	Endogenous description of incremental change thru layering, drift, conversion	Endogenous construction (merge with DI)	Endogenous construction thru reframing, recasting collective memories & narratives thru epistemic communities, advocacy coalitions, communicative action, deliberative democracy

Source: Vivien Schmidt, 2010

Rational choice, sociological and historical institutionalism all treat institutions as given structures in which actors act, either in incentive structures (RI) or cultural norms (SI), or as continuing structures (HI). Hence, for them institutions are external to the actors and change follows either a rules-based, norm-based or path dependence logic. While discursive institutionalism also sees institutions as given, it sees them as well as contingent. They are internal to the actors. Change is a process based on how agents create and maintain institutions based on their background ideational and foreground discursive abilities. Overall, all four new institutionalisms can be seen more as complementing than competing theoretical approaches to help explain a complex and complicated political reality.

2.2.2. New institutionalisms and the euro crisis

New institutionalists explanations of the sovereign debt crisis in the euro area mainly fall within rational choice, historical or discursive institutionalism.[25] Rational choice institutionalist accounts of the crisis have focused on the role of Member States with political leaders being the key actors. They analyse their rational calculations based on their political or economic interests in interstate bargaining. Schimmelfennig (2015), who puts his analysis in a 'liberal intergovernmentalist' framework, calls the response to the euro zone crisis a 'game of chicken' where hard bargaining and brinkmanship took place to prevent the break-up of the euro area. This 'game' was not so much about whether to cooperate but about who should bear the costs. The policy response mainly reflected the preferences of a German-led coalition, who was less threatened by the crisis and believed that the countries hardest hit by the crisis should mainly bear the costs of adjustment. Tsebelis (2016), who focuses solely on Greece, describes the crisis as a stand-off between the Greek government and the brinkmanship of the Eurogroup finance ministers. Others (e.g. Scharpf, 2012; Schimmelfennig, 2014) emphasise the institutional structure, including decision-making procedures, of the euro as favouring certain Member States over others, which made it possible for Germany and its allies to impose their preferences on the other Member States.

Numerous authors have analysed the response to the crisis through the lens of HI (Verdun, 2015; Gocaj and Meunier, 2013; Yiangou et al., 2013; Salines et al., 2011). Most of HI analysis draw on the typology developed by Streeck and Thelen (2005) and Mahoney and Thelen (2010), the four ideal types of institutional change: 'layering', 'displacement', 'drifting' and 'conversion'. Hence, how the previous institutional structure has influenced the policy response. Verdun (2015: 222) finds that 'the notion of path dependence is instrumental for an understanding of the EU response to the EA financial crisis'. Agreements such as the Six-Pack, Two-Pack and the Fiscal Compact, all intended to strengthen the existing Stability and Growth Pact, can be explained by the notion of path dependency (Verdun, 2015; Gocaj and Meunier, 2013). Verdun (2015) introduced the concept of 'copying' as an additional type of institutional change to describe the establishment of the EFSF, which was modelled around older institutions.

[25] See Schmidt (2016).

We can also find a combination of RI and HI explanations to crisis response. Jones et al. (2015) use the concept of 'failing forward' where they employ the dynamics of historical intuitionalism to capture how intergovernmental bargaining repeatedly led to short-comings in agreements that produced incomplete reforms necessitating further bargaining that led to further EU integration but without producing a policy response that would solve the crisis in the euro area.

Discursive institutionalist approaches to explain the response to the euro crisis have tried to elucidate agents' own ideas about their interests and values that may be embedded in policy ideas and programs that emerge from deep philosophies and not only their political or economic self-interest (Schmidt, 2016). Blyth (2013) and Howarth and Rommerskirchen (2013) show EU actors' ideas are embedded in policy programs that reflect economic philosophies such as Germany's 'stability culture' or ordo-liberal economic philosophy focused on price stability and the rule of law. Mathjis (2015) even argues that ideas are so powerful that they may go against the (economic) self-interest of Member States as is the case with German ordo-liberal ideas in the response to the euro crisis. Discursive institutionalists also do not see the (European) Council as a ring of hard intergovernmental bargaining but a forum in which Member States try to come to consensus-based agreements through a process of persuasion and deliberation (Bickerton, 2015; Puetter, 2014). It is mainly through agents' ideas and discourse that we can explain that countries, such as Germany, which initially resisted policy change, accepted more flexibility in the SGP rules or a broader interpretation of the mandate of the ECB (Schmidt, 2016; Dehousse, 2015; Bauer and Becker, 2014).

Rather absent from explaining the response to the euro crisis are sociological institutionalist accounts so far. The fact that according to SI political agents are guided by a 'logic of appropriateness' based on shared cultural norms, believes, values and identities should not be neglected with regard to the policy response to the euro crisis though. In weekly working group meetings and regular Council sessions EU policy makers could indeed develop a sense of common belonging. The socialisation effects that derive from regular interaction, shared experiences, information exchange, mutual learning and the development of trust contradict simplistic rational choice assumptions by helping to explain why national preferences remain to find common, consensual solutions (James, 2010).

The various NI approaches all add pieces to the explanatory puzzle with regard to what shaped the policy response to the sovereign debt crisis. Approaches looking through the rationalist lens give as a good view on how to analyse the negotiations aiming at agreeing on a policy response to the crisis. Rationalist institutionalism gives a good account for the constellation

of the actors, their (national) preferences and how their bargaining power leads to a specific design of the policy response. The rationalist view, however, is blind on one eye assuming that preferences are only exogenous. It does not account for the decision-making process within the EMU institutional set-up where actors are socialised and which creates pressure on actors' to find common solutions. As stated above, RI has difficulties in explaining why Germany, for example, accepted a softer approach to the application of the SGP rules, the establishment of not only temporary but also permanent and increased in volume rescue mechanisms and the ECB's continuous extensive interpretation of its mandate. A sociological intuitionalist account of the response to the euro crisis would be stronger in this respect. By focusing on the frequent interaction in the different institutional fora of EMU one could explain how preferences are shaped and peer-pressure exercised. This approach, however, would neglect that the dominant preference of the German-led coalition, namely that the response to the crisis should be mainly national, not European, by adjustment in the countries hardest hit largely prevailed. Discursive institutionalism adds to solving the explanatory puzzle by showing how ideas on economic policy play a role in influential the crisis response policy, for example by shaping the preferences of the actors. This seems to be particularly relevant with regard to actors, who regularly meet in Council Working Groups or similar fora, where discursive abilities play a major role. However, DI has difficulties in explaining how the preferences of Heads of State or Government and their ministers change. Its overreliance on ideas and language neglects the bargaining power of actors such as the role of the decision-making procedure or the structural capabilities they use in influencing the policy response. The dominance of certain Member States' preferences in the policy response are difficult to explain by merely looking through the DI endogenous lens. HI's 'layering' explains well the evolution of the reform in economic governance with regard to the Six-Pack and the Two Pack, which have been added on top of the SGP and existing Treaty provisions. Furthermore, in both instances the EU's ordinary procedure, the community method has been used. When it comes to the TSCG (Fiscal Compact) the explanation runs into slight difficulties. The TSCG only partly builds on the existing provisions. Moreover, as an intergovernmental treaty it is legally completely separate. HI finds itself in a similar dilemma with regard to explaining the creation of the financial assistance mechanisms. While the ESM has an institutional structure similar to its predecessor the EFSF, the EFSF was a completely new institution, which resembled no other body (Verdun (2015, 226). Verdun (2015) concludes that 'the four ideal types did not fit well' (2015, 232). While a large part of the institutional changes in the context of the crisis in the euro area can be explained by HI, it has its limitations with regard to institutions that are emerging and are similar to existing ones but different in content. She suggests that for these emerging institutions the logic of earlier HI scholars should be complemented by a new category of "copying" similar to the fifth category "exhaustion" (Streeck and Thelen, 2005, 29) for institutions in decline (Verdun, 2015: 227).

2.2.3. Summary

The discussion shows that NI approaches are powerful tools to explain the response to the euro crisis, each in their own regard. However, for the purpose of analysing what shapes the crisis response it does not seem perfectly practicable to choose from either an exogenous or endogenous approach. The EU institutional framework has certainly influenced how actors perceived the crisis, viewed their policy options, decided on their preferences and set their objectives to respond to the sovereign debt crisis but it has not had a fully determining influence. The actors still retained scope for policy choices. In specific cases they altered the constraints due to interpretative or strategic acts. Moreover, their preferences and objectives changed due to their interaction and also the influence of the policy environment. Hence, this research believes that the puzzle to explain the response to the euro crisis can only be solved by marrying, or better 'partnering', endogenous and exogenous approaches. But instead of combining one of the approaches above, the research will opt for a more holistic solution and turn to actor-centred institutionalism to explain the response to the euro area crisis as even though institutions influence actors, it is actors that make policy. ACI encourages scholars to cast deeper theoretical and empirical attention to factors that are actor related as explanatory variables (Pancaldi, 2012). This approach corresponds better to the outset research question. It also contributes to closing the gap in the literature.

2.2.4. Actor-centred institutionalism

Actor-centred institutionalism, a theoretical approach developed by Mayntz and Scharpf (1995), draws on historical institutionalism and uses specific political constructs as institutions to explain actor behaviour. It tries to overcome the separation between endogenous and exogenous preferences by taking into consideration the conditioning function of institutions as well as actor behaviour. ACI has been developed to explain the behaviour and interaction of actors within an institutional set-up and the influence of the institutional set-up on the actors' choice of policies. However, ACI is not a variant of the four institutionalisms in political science (rational choice, historical, sociological and discursive, see Hall and Taylor, 1996; Schmidt, 2008). It offers a framework how to proceed with empirical studies (Scharpf, 1997). Thus, we will first explain the framework and then operationalise it for this research project.

2.2.4.1. Unpacking Actor-Centred Institutionalism

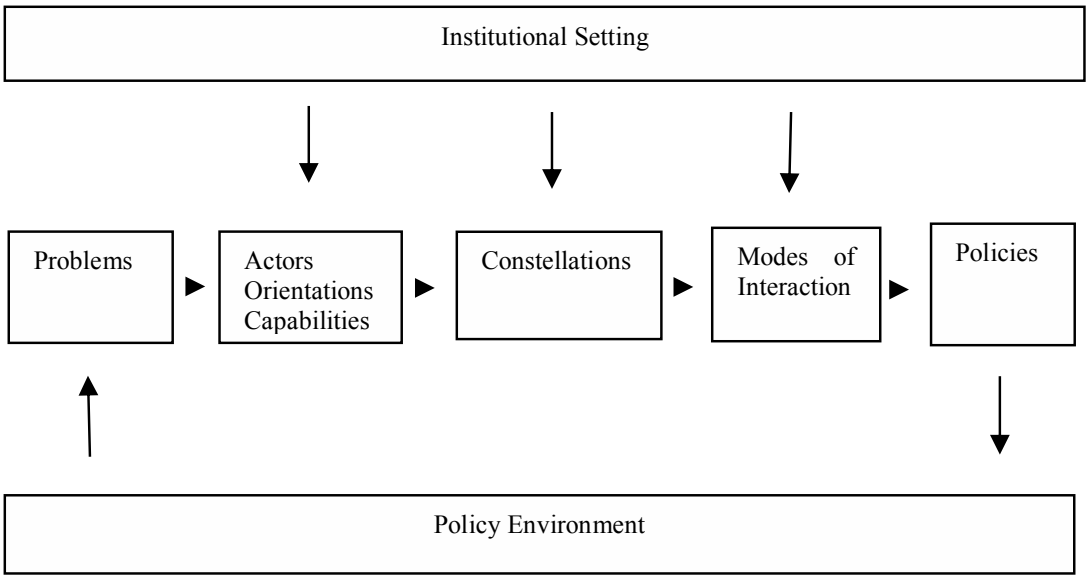
The main assumption of ACI is that social phenomena should be explained as the outcome of interactions among intentional actors. Intentional actors do not only act on the basis of objective needs but also on the basis of preferences reflecting their subjectively defined interests and valuations and their normative convictions of how it is right or good or appropriate to act under the circumstances (Scharpf, 1997). The interactions among intentional actors are structured and their outcomes are shaped by the characteristics of the institutional settings in which they take place (Scharpf, 1997). Thus, it is the action and interaction of actors within a given institutional set-up that matters. An analysis solely of institutions will not deliver satisfying results if the actors are not included in the analysis and vice versa. As pointed out by Mayntz and Scharpf (1995: 46): an analysis of structures without reference to actors is as handicapped as an analysis of actor's behaviour without reference to structures. Instead of assuming a dominant role for either institutions or actors, the sharp distinction between institutions and observable actions in actor-centred institutionalism tries to integrate both action-theoretic or rational choice and institutionalist or structuralist perspectives (Mayntz & Scharpf, 1995: 46; Scharpf, 1997: 36) This approach classifies as new institutionalist and understands institutions as stimulating, enabling or constraining (Mayntz and Scharpf, 1995: 43). Scharpf (1997: 38) defines institutions as system of formal and informal rules that structure the courses of actions that a set of actors may choose. Formal institutions are legal-verbal procedures reflecting official 'rules of the game'. Informal institutions are non-verbal, non-official current practices developed by players during the game, including political norms, conventions and expectations.

Mayntz and Scharpf (1995: 45) point out two important consequences of this approach to institutions: first, this way institutions are not simply treated as the given result of a previous evolutionary development, but as things that can be intentionally created and changed through the actions of specific actors; second, restricting the definition of institutions to specific regulatory aspects is an important step in realizing the premise that the institutional context enables and restricts, but not fully determines behaviour. Actors can act outside the institutional structures. Rules can be breached, power abused and informal interaction can happen. Thus, actor behaviour is influenced, but not determined, by the institutional structure.

Actors have specific capabilities and action orientations (Scharpf, 1997: 43). Under capabilities we understand all action resources that allow an actor to influence an outcome in certain respects and to a certain degree (Scharpf, 1997: 43). This includes physical endowments, human and social capital, informational access, technological know-how, and political power as defined by the institutional structure (Schmidt, 2003). By orientations we mean the

perceptions and preferences that are characteristic of an actor. They are shaped by the specific institutional setting in which actors interact. They can be stable or change during the process (Scharpf, 1997). They are treated as being distinct from the institutional setting within which the interactions take place, being influenced, but not determined by the framework (Scharpf, 2000a, 770-771). By perceptions we understand the cognitive orientations of an actor, their subjective perception of reality (Witte, 2006: 69). Preferences derive from individual or organisational interests, normative notions and interaction orientations. As individuals will not always act on their own behalf, but often in a representative capacity for or from the perspective of a group, it is important to relate individual behaviour to the appropriate unit of reference on whose behalf action is undertaken and from whose perspective intentional choices can be explained (Scharpf, 1997: 61). Orientations and capabilities make strategies viable or impracticable. When different actors are involved and their strategies are interdependent then the constellation of actors effects options, choices and preferences (Scharpf, 1997: 44-45). Any given actor constellation can correspond with a variety of modes of interaction (Scharpf 1997: 45-47). The institutional context constitutes actors and actor constellations, structures actors' disposal of capabilities, influences their orientations, and shapes important aspects of situations that confront individual actors (Mayntz & Scharpf, 1995: 49). ACI views institutions not as deterministic. Explanations within the framework of ACI are based on actor behaviour as 'proximate cause' while the institutional structure constitutes the 'remote cause' (Mayntz & Scharpf, 1995: 46). Institutions are not the only 'remote cause. Actors and preferences are also influenced by the wider policy environment meaning among others political, economic, ideological, cultural and technological aspects.

Figure 2.2.4.1 The domain of interaction-oriented policy research



Source: Scharpf, 1997

2.2.4.2 Applying Actor-Centred Institutionalism

Actors' capabilities and policy choices depend largely on the surrounding institutional set-up, which in turn may be bound to change over time. None of the EU institutions can entirely control the development or indeed the substance of the policy issue at stake. The following section will describe the formal and informal institutions as well as the actors being part of crisis management in Economic and Monetary Union.

2.2.4.2.1 Formal institutions

Formal institutions are legal-verbal procedures reflecting official 'rules of the game' (de Jong, 1999; North, 1992). In EMU we need to distinguish between several formal institutionalised procedures for policy making all of which derive from the EU Treaties and secondary law setting out the competences of the EU institutions and defining their scope of action. There is voting, which applies to intra-European Parliament, and –Council decision making, and there is the interaction between the European Commission, the European Parliament and the Council to pass legislation. Another set of formal institutions for policy making not within the EU legal framework but impacting on EMU is the interaction between Member States to conclude international agreements under international law. Voting in the Council of Ministers is either by unanimity or qualified majority. The Council, however, uses its entire means to arrive at a satisfactory conclusion for those Member States opposing a measure (Tsebelis and Yatagans, 2002). Decisions in the Council of Ministers are prepared in specialised Working Groups where discussions continue until consensus is possible. Unresolved issues are being dealt with by the Committee of Permanent Representatives (Coreper) composed of EU ambassadors. Coreper only sends those items to the Council of Ministers where no agreement can be reached among permanent representatives.

The Treaty Lisbon introduced new formal institutions specific to EMU. It established the Economic and Financial Committee (EFC)[26] to support the work of the Council, especially in EMU matters. Furthermore, it codified the Eurogroup, which is the Council formation of Member States whose currency is the euro.[27]

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[26] Article 134 TFEU.
[27] Article 137 TEFU, Protocol 14.

The Eurogroup is assisted by a permanent group of Member States' officials from national finance ministries, the Euro Working Group (EWG). The EWG also includes representatives from the European Commission and the ECB. It has a permanent chair, which is a high-ranking official of a euro area Member States, assists and prepares decisions of the Eurogroup. Given the technical nature of decisions to be taken by the ministers in the Eurogroup, the EWG wields significant influence.

Another formal institutional procedure is the legislative procedure, which lays down rules between Commission, Council and Parliament for the passing of laws (regulations and directives). Since the Treaty of Lisbon passing laws primarily happens in the ordinary legislative procedure: The Commission makes a proposal for a legislative act and Council and Parliament decide on an equal footing. The proposal is drafted within the Commission by the responsible Directorate General (DG) by not only coordinating horizontally with other relevant DGs but also by consulting with national and external sectorial experts. The final proposal needs to be adopted by the College of Commissioners by simple majority. Consequently, individual Commissioners must seek majorities within the College. Council reaches its position for negotiating with Parliament as described above. Parliament votes its position in plenary. The plenary vote is prepared by the exchanges of views and a vote in the responsible parliamentary committee as well as discussions within the different political groups, which reach a position by vote or consensus. Often several other committees are involved in the process and give an opinion to the responsible lead committee, which is non-binding unless there is enhanced cooperation between two committees that have a shared competence on a subject matter of the proposal. The majorities in committee and plenary are the result of negotiations between the different political groups. The key player in this process is the MEP taking the legislation through parliament, the so-called rapporteur. If other committees are associated to the process, the MEP preparing the opinion has considerable influence as well. The key agents in this process in the EP are the political groups who aggregate interests.

The EP adopts texts with a simple majority (of all MEPs present) in first and with an absolute majority (of all sitting MEPs) in second reading. The Council adopts texts by qualified majority. In cases where the Commission voices a negative opinion on amendments unanimity is required in the Council to adopt these amendments. In case that Parliament and Council do not reach an agreement in either first or second reading, a conciliation committee is being set up. It is composed of representatives of the two co-legislators, EP and Council, and the Commission with the aim of reaching a joint text to be adopted.

Parliament and Council may also decide to directly negotiate a common text after Council has reached a common position ("General Approach") and Parliament's competent committee has adopted its text. This due to its similar

set-up to the conciliation committee but with fewer people called informal trilogue procedure with the aim of reaching a first-reading agreement between the co-legislators has become the predominant procedure for passing EU laws since the entry into force of the Lisbon Treaty. Significant parts of EU laws are being adopted that way (Brandsma, 2018; de Ruiter and Neuhold, 2012). Previously, these trilogues would have featured rather as an informal institution as they are not foreseen in the treaties, its rules have been more and more formalised culminating in an annex to the rules of procedure of the European Parliament. Besides co-decision there is also the consultation procedure where the Commission proposes and the Council decides while the EP has a merely advisory role. Since the Treaty of Lisbon this procedure applies only in a limited number of cases though.

In addition to the above mentioned formal institutions and besides Commission proposals for regulations and directives, which constitute the legislative process as described above, there are also policy instruments such as decisions, recommendations and opinions. Recommendations and opinions are not legally binding, and decisions only to their addressees. While EU institutions are not entirely free in the choice of policy instruments and options as they have to act within the remits of and the powers conferred to them by the Treaties and secondary law, EU Member States can conclude international agreements with other Member States. These are contracts between sovereign states. Such an agreement is concluded when all contracting parties agree and sign up to it. However, while Member States are free to conclude such agreements with each other, they are obliged by the Treaties to respect EU law meaning that such an international agreement shall not contravene EU law.

2.2.4.2.2 Informal institutions

Informal institutions are non-verbal, non-official current practices developed by players during the game, including political and social norms, conventions and expectations that actors are likely to respect as their violation can lead to loss of reputation, social disapproval, or withdrawal of cooperation and rewards (Scharpf, 1997: 38). Informal institutions can either support formal institutions in the policy process or act counter to them (Stacey and Rittberger, 2003: 858-860). Formal procedures tend to be complex and inflexible. This makes possible a role for informal institutions. The most important informal institutions in Economic and Monetary Union policy-making are the mediating and brokering roles of the European Commission, the Presidents of the European Commission, the Eurogroup, the European Council, the Council and the European Central Bank, the Chair of the EFC and EWG, and the consensus norm. In addition to these informal institutions specific to EMU there is also the Franco-German relationship, whose special role in European integration also comes to the forefront in EMU (Krotz and Schild, 2013, 183).

Despite the European Parliament, all EU institutions share a strong commitment to strive for a decision by consensus meaning by unanimity. This gives a strong brokering role to the Presidents of the different formations to act as mediator. Often, they would put forward a 'compromise from the chair' to overcome a deadlock in the negotiations (Mattila, 2004: 34). In the EU institutional context Presidents or Presidencies are expected to be impartial and honest mediators between the different actors. The biggest broker in EU policy-making, however, is the European Commission. It mediates between the Member States in the European Council, the Council and the Eurogroup, and in the legislative procedure between the European Parliament and the Council. It uses its entire arsenal to assume this role. This stretches from setting up expert groups, circulating working documents, facilitating exchange between Member States and the co-legislators to putting forward compromises in the Council working groups, the Council meetings, the conciliation committee and the informal trialogue. When the Commission is perceived as an honest guardian of the Treaties it is supposed to be then its influence increases for brokering solutions.

Furthermore, there was an additional forum for preparing and brokering deals, the bilateral Franco-German meetings. The importance of the Franco-German 'engine' in European integration and particular with regard to establishing a common currency is widely recognized (see James, 2012; Cole, 2010; Marsh, 2009; Dyson & Featherstone, 1999). It represents a subset of negotiations at EU level. Its most important function is a radical reduction of the number of negotiators involved which increases the likelihood of finding a compromise solution (Heipertz & Verdun, 2004). Franco-German agreement can be described as a necessary condition for substantial policy change in the EU (Mourlon-Druol, 2017). Other Member States were lukewarm to Franco-German deal-making but did not discard it when the two shared a strategic goal but "started from quite diverging points when it came to sketching the road toward this common goal" (Fabbrini, 2015; Schild, 2010: 1380).

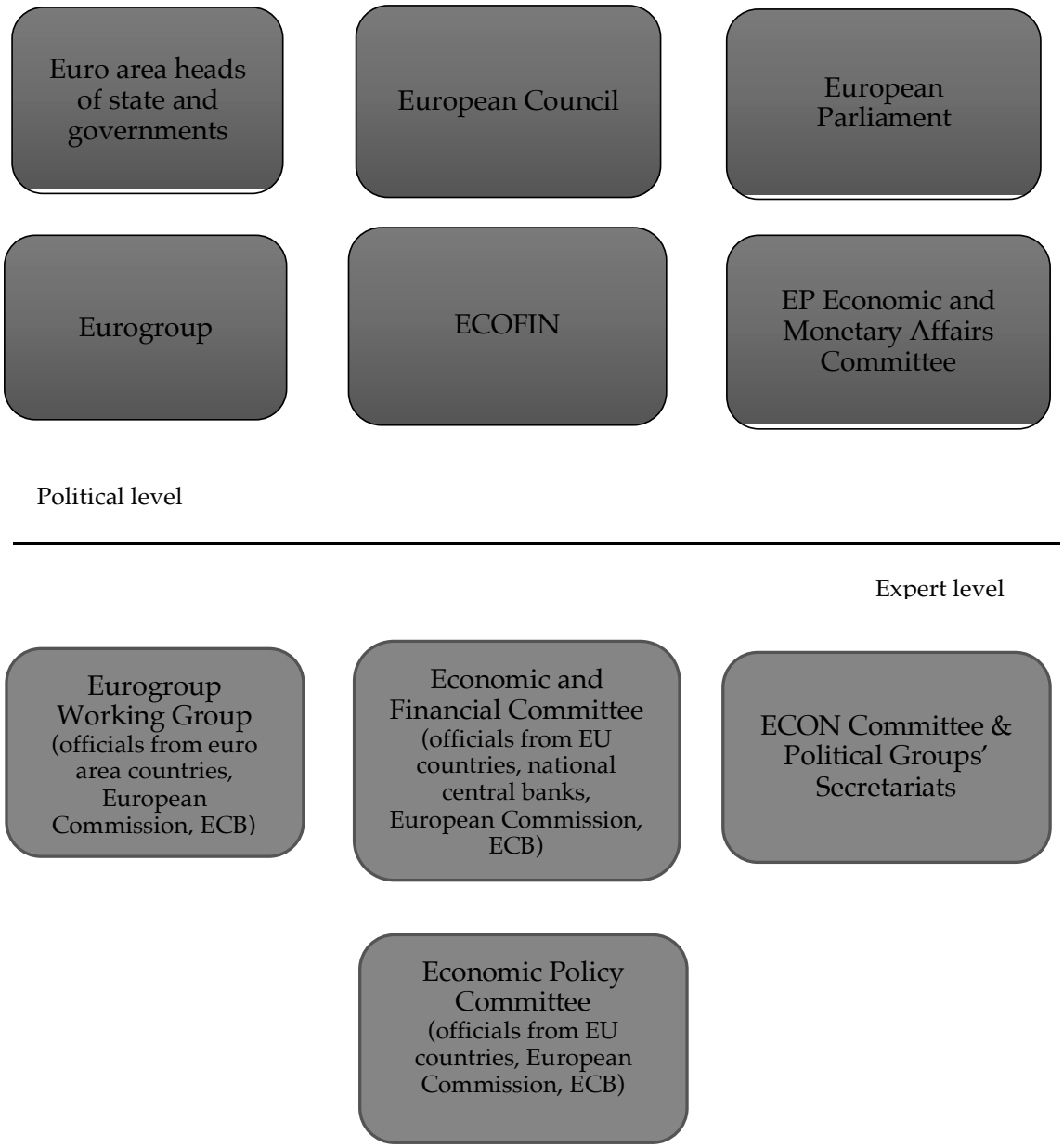
2.2.4.2.3 Actors involved in EMU policy-making

Actors can be defined as players or agents shaping policies. In this section we describe the principal actors that were involved shaping the policy response. Actors can be identified based on empirical evidence through their participation in the formal and informal institutions of the institutional set-up. Their participation is documented in official records, media reports and policy documents, or obtained through interviews. Moreover, public records, media reports and inside information such as through interviews and operative documents also allow us to empirically map actors' perceptions and preferences, and generate an accurate overview of their orientations.

The actors are corporate actors. These are actors composed of individuals that have a high degree of autonomy from the ultimate beneficiaries of their action and whose activities are carried out by staff members whose own private preferences are supposed to be neutralised by employment contracts (Scharpf, 1997: 54). Corporate actors are typically "top-down" organizations under the control of an "owner" or of a hierarchical leadership representing the owners or beneficiaries (Scharpf, 1997: 56). The choice of including actors in the analysis is not based on specific criteria but based on empirical evidence of their participation in the policy-making process in EMU. Hence, the actors in this research are formal European policy actors: the European Commission, the European Council, the Council of Ministers (ECOFIN), the Eurogroup and the European Parliament.

Empirical observation also shows that actors are being assisted in policy-making by experts, a so-called "epistemic community" (Haas, 1992). Officials in Ministries, the Council, central banks, the European Commission and the IMF held specific views on economic policy-making and interacted in specialised working groups such as the Eurogroup Working Group, the Economic and Financial Committee, the Economic Policy Committee. Haas (1992: 3) defines the existence of an epistemic community when four criteria are met. First, they shared beliefs in a value-based rationale of social action. Second, they shared causal beliefs, which are derived from their analysis of problems, which then serve as the basis for understanding the linkages between policy actions and desired outcomes. Third, they have shared notions of validity meaning intersubjective understandings that help them to weigh ideas within their area of competence. Fourth, they have a common policy enterprise and common practices associated with a set of problems to which competence is directed. The experts in the various working groups associated to the policy-making process in EMU qualify for these criteria. The literature on epistemic communities indeed suggests that a group of experts is often called upon when national governments are divided (see Heipertz and Verdun, 2004: 772). Thus, we will include these experts in our analysis as well.

Figure 2.2.4.2.3 *Key actors in EMU policy-making*

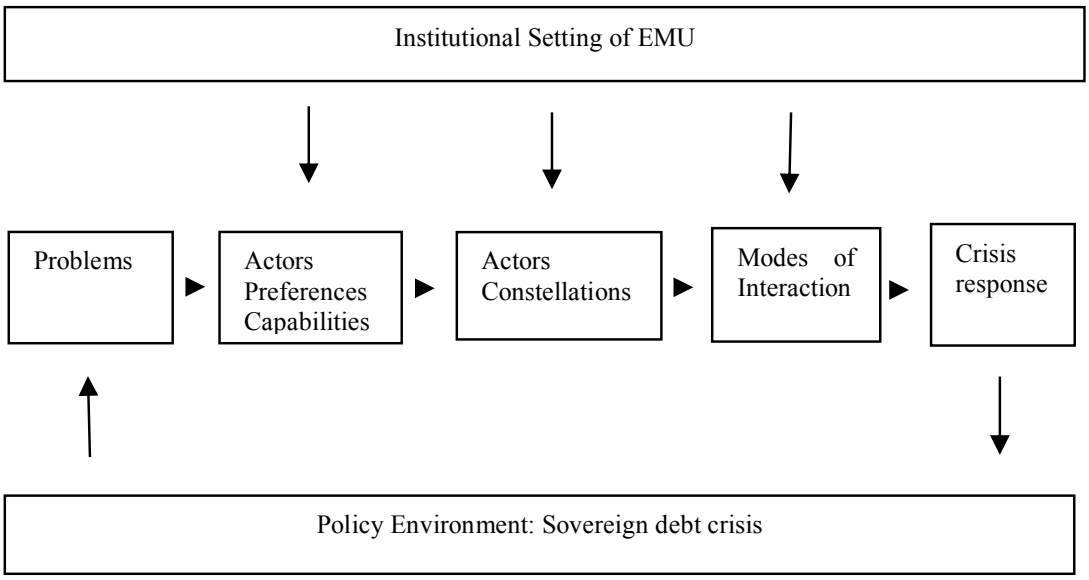


Source: Author's own design

2.2.4.4. Summary

To take stock, we have now explained how the ACI framework will be applied to our research explaining the response to the sovereign debt crisis, which is also illustrated in figure 2.2.4.4.

Figure 2.2.4.4 ACI adapted to our research



Source: Author's own design based on Scharpf, 1997.

2.2.5. Complete theoretical framework and hypotheses

To recapitulate, starting with a discussion of the different new institutionalist approaches, we have concluded that partnering endogenous and exogenous approaches as conceptualised in ACI is the most appropriate approach to finding answers to our research question. Furthermore, we have explained and operationalised ACI for our research. Figure ("above") summarises the complete theoretical framework in this chapter.

We use the theoretical framework to address the research question in three basic ways:
(1) to guide the two case studies, (2) to support the analysis of the findings, and (3) to shed light on a selected number of specific causal relationships by means of propositions.

2.2.5.1. Propositions

Hypotheses, or in our case propositions, need to relate to certain selected aspects of the theoretical framework. Key aspects of ACI as outlined in a previous section are actors' orientations, actors' capabilities and (formal or informal) institutions. Actor-centred institutionalism argues that neither actors nor institutions have a dominant role in shaping policy outcomes (Mayntz & Scharpf, 1995: 46; Scharpf, 1997: 36). Actors' orientations and capabilities have an important role to play in the policy formulation process. While being conditioned by the institutional set-up, whether formal or informal, they also contribute to institutional change. However, it also considers actors as proximate cause. They are embedded in an institutional context. ACI makes a distinction between actors' orientations (preferences and perceptions) and actors' capabilities. While orientations circumscribe an actor's position towards a certain policy issue, capabilities determine the scope for realising this position (Witte, 2006: 68; Scharpf, 1997: 43). ACI differentiates these three aspects but it is important to point out that there are interdependent. Hence, we will develop propositions that relate to these three elements of the theoretical framework and be tested for each of the case studies. The first proposition refers to what we assume is the fundamental factor influencing policy response. The other propositions are more related to the mechanisms leading to the specific outcome of the policy response. All of them reflect our explanatory variables and the causal relationship we attribute to (1) actors' preferences and the convergence of these preferences, (2) a power political constellation based on actors' capabilities embedded in (3) the institutional context to explain the policy response.

2.2.5.2. Proposition 1: Actors' preferences

Actor preferences are closely linked to an actor's policy position. It is not uncommon for actors to change their preferences during the process, stepping back from their initial position (Eising, 2000: 4). Scharpf (1997) acknowledges that intentional actors do not only act on the basis of objective needs but also on the basis of preferences reflecting their subjectively defined interests and valuations and their normative convictions of how it is right or good or appropriate to act under the circumstances. Hence, we argue that preferences based on material interests are the main driving force of actors' behaviour but that ideas inform the initial preference formation. In this respect we borrow from rational institutionalism, which claims that ideas come before interests acting as 'roadmaps for individual actors to clarify their goals or limit the strategies to be taken' (Goldstein and Keohane, 1993).

We argue that the preferences of the actors for certain policy options are defined by specific ideas about economic policy. Blyth (2002: 11) hints at that

economic ideas serve as simplifying blueprints that tell actors what to do. Hence, preferences cannot be taken for a blue-sky product but are rooted in the way policy-makers have been economically socialised. According to Rodrik (2014: 192-193), policy-makers operate under certain working assumptions about how the world works. Their worldviews shape their perceptions of the consequences of their and other's actions in both economic and political domains. The impact of ideas on the EMU negotiations is widely recognised (McNamara, 1998; Dyson and Featherstone, 1999; Jabko, 2006; Bonatti and Fracasso, 2013).

In addition to ideational informed preferences, actors have preferences based on material interests. They have policy preferences and institutional preferences. They prefer those institutional settings that are most promising in delivering preferable distributive outcomes. The relationship between distributive or policy and institutional preferences depends largely on actors' time horizon. The longer the actor's time horizon the more dominant the institutional preferences. Moreover, if the current institutional setting disadvantages the actor it has a strong interest in altering it (see Hix, 2002; Knight, 1992). In the setting of a sovereign debt crisis in a monetary union distributive or institutional preferences are often linked to material preferences because of the financial implications. More solvent countries try to limit their own financial commitment but to strengthen the credibility of the highly-indebted countries' commitment to fiscal discipline. The highly-indebted countries try to limit their commitment to fiscal discipline and to strengthen the commitment of more solvent countries to support them and the monetary union with their financial fire power (see Schimmelfennig, 2015). Hence, in this context material interests are defined as interests linked to the financial, economic and institutional preferences of an actor.

Turning to the institutional context of EMU we believe that the initial policy preferences of actors have been influenced by ideas and material interests. However, what permitted the diverging preferences to convergence on the policy response were the material interests of the actors, which came to the forefront in the negotiations on the policy response.

P1: In a sovereign debt crisis actors' preferences based on material interests have a greater influence in shaping the policy response than preferences based on ideas.

Hence, in a first step, we will map ideas on the economy or economic policy with relation to the policy response to the sovereign debt crisis in EMU held by the different actors to determine where they position themselves.
Then, in a second step, we will analyse whether the policy response is more influenced by material interests than ideas. In a third step, we will analyse whether these material interests were necessary for converging on the policy response.

However, we believe that the consensus achieved on the policy response through converging preferences was not the only determinant in shaping the specific outcome but that structural factors in the form of bargaining power and the institutional set-up need to be considered as well to explain why the policy response was closer to the preferences of certain actors.

2.2.5.3. Proposition 2: Actors' capabilities

The second proposition refers to the specific design of the policy response. It deals with the influence of an actor on the specific policy response. While the convergence of actors' preferences may explain why there is a policy response, it does not explain why a policy response is closer to the preferences of one actor than another. Actor-centred institutionalism argues that actors' capabilities determine the likelihood of realising their position (Scharpf, 1997: 43). Such capabilities are all action resources an actor has at hand to influence the policy (see Scharpf, 1997: 18). We assume that actors, who have greater capabilities in form of bargaining power, have greater influence on the policy response. Hence, the policy response would be located closer to the preferences of those actors. We suggest that the influence of actors to shape the policy response is based on three main structural factors (see Dür and Mateo, 2010: 565): (1) the overall power resources of an actor, (2) the best alternative to negotiated agreement (BATNA), and (3) the constraints imposed upon actors by domestic actors.

Aggregate structural power is a source of bargaining power in negotiations (Habeeb, 1988). In the EU the distribution of voting power and the decision-making procedure is an important power resource. Voting power usually derives from size. Among Member States an indicator of size is population, which is reflected in the distribution of power in the EU institutions, for example the vote shares in the Council of Ministers, which corresponds to political power. Hence, it can be assumed that larger countries dispose of greater political power than smaller countries (Dür and Mateo, 2010: 565). In the European Parliament the size of the political groups matter, which directly translate into voting power. In the specific context of a sovereign debt crisis one can also assume that actors with greater economic or financial power resources have a greater influence. Economic power resources can stem from financial stability aspects or the availability of funds. Hence, we assume that actors with greater power resources have a greater influence on the policy response.

Another factor, which supports an actor's influence on the policy response is whether outside options are available, the BATNA, which make it less costly for an actor if negotiations break down (Fisher and Ury, 1981). In the case of the policy response to the sovereign debt crisis, a breakdown of negotiations would have meant that highly indebted Member States alone could have been

unable to avoid default or a potential exit from the euro. However, a country leaving the euro or a breakdown of the euro area would have also meant that financially and economically stronger countries would have to face another financial shock and have seen an appreciation of their currency adversely affecting their economic performance. Moreover, the linkages between banks and sovereigns left banks in France and Germany exposed to the risks originating from the Southern periphery threating governments to have to bail them out (Schimmelfennig, 2015). A breakdown of the euro area caused by a defaulting or exiting country was perceived the worst-case scenario by all Member States, which also the more solid Member States had an interest in avoiding. While on the one hand it was clear that some Member States could not escape possible default unilaterally, the assistance of other Member States was indispensable to them. On the other hand, solid Member States did not really seem to have a credible alternative if they didn't want to harm their own economies. However, the threat was less immediate and severe for countries not being threatened with bankruptcy. Thus, we assume that economic and financially more solid Member States had a stronger position in shaping the policy response.

A third factor, and adopting a two-level game perspective (Putnam, 1988), is whether actors face domestic parliamentary or judicial scrutiny, or a critical general public. Thus, we assume that actors who face a difficult parliamentary ratification or judicial procedure, or critical public opinion linked to the policy response have more influence in shaping the policy response. This is based on the idea that having one's hands tied in negotiations may be a source of bargaining power (Schelling, 1960). With regard to the policy response we can make three assumptions. Parliamentary approval limits the government's *marge de manoeuvre*. If the agreement at EU level is far away from the majority view in the parliament, it risks being rejected leading to the breakdown of negotiations. Hence, the extent to which the majority position in the parliament is aligned with the position of the government strengthens or weakens the government's position in (international) negotiations. This works in a similar way if a decision at EU level faces judicial scrutiny by national courts. The more the (legal) view of the court is aligned with the (legal) position of the government, the more the government has an influence in shaping the policy response. Moreover, if an actor faces position is closely aligned with critical public opinion its influence increases on the policy choice increases as well. Meaning the more critical public opinion is towards a specific policy choice the less problematic it is for the government if negotiations break down. Critical public opinion can for example manifest itself in elections, polls, through parliamentary representation and by initiating judicial procedures.

To test the proposition, we will see which country foresees formal scrutiny procedures for commitments at EU level and to which extent it played a role in the negotiations of the policy response. We will identify whether there are judicial obstacles to hinder an actor's agreement on specific policy responses.

We will also see whether the general public is critical too specific policy choices, which can be measured by looking at polls. We will then see whether the policy response is closer to the preferences of actors facing constraints than to those where these constraints are absent. In sum, we assume the following related to actors' capabilities:

P2: Actors' with greater bargaining power have more influence on the policy response

As outlined above, the influence of actors is based on three main structural factors. Hence, proposition 2 will be broken down into the following three sub-propositions:

> *P2.1.: Actors with greater power resources have more influence on the policy response.*
> *P2.2.: Actors with a BATNA have more influence on the policy response.*
> *P2.3.: Actors that face domestic political constraints such as a formal parliamentary approval, judicial scrutiny or critical public opinion of the policies they agree to at EU level have a greater influence in shaping the policy response than actors where these constraints are absent.*

Table 2.2.5.4 Propositions

Theoretical framework	Main arguments/authors	Proposition
Actors orientations	Ideas on the economy matter in negotiations (McNamara, 1998; Dyson and Featherstone, 1999; Blyth, 2002, Jabko, 2006; Bonatti and Fracasso, 2013; Rodrik, 2014). Actors have a strong interest in altering the current institutional setting if it disadvantages them (see Hix, 2002; Knight, 1992).	P1: In a sovereign debt crisis actors' preferences based on material interests have a greater influence in shaping the policy response than preferences based on ideas.
Actors capabilities	Actors' capabilities determine the likelihood of realising their position (Scharpf, 1997: 43). Such capabilities are all action resources an actor has at hand to influence the	P2: Actors' with greater bargaining power have more influence on the policy response

	policy (see Scharpf, 1997: 18).	
	Aggregate structural power is a source of bargaining power in negotiations (Habeeb, 1988) larger countries dispose of greater political power than smaller countries (Dür and Mateo, 2007: 565).	P2.1.: Actors with greater power resources have more influence on the policy response.
	An actor's influence in negotiations is very much determined whether outside options are available. The so-called best alternative to a negotiated agreement (BATNA), which make it less costly for an actor if negotiations break down (Fisher and Ury, 1981).	P2.2.: Actors with a BATNA have more influence on the policy response.
	Based on the idea that having one's hands tied in negotiations may be a source of bargaining power (Schelling, 1960). Two-level game perspective (Putnam, 1988): actors face domestic parliamentary or judicial scrutiny, or a critical general public.	P2.3.: Actors that face domestic political constraints such as a formal parliamentary approval, judicial scrutiny or critical public opinion of the policies they agree to at EU level have a greater influence in shaping the policy response than actors where these constraints are absent.

Source: Author's own design

Hence, we test the proposition by looking at the three sub-propositions whether the agreed policy response is closer to the position of actors' that possess greater bargaining power. Given that policy-making takes place in different institutional settings we expect that depending on the specific

institutional setting the bargaining power of actors may increase or decrease, and therefore alter its influence on the policy response.

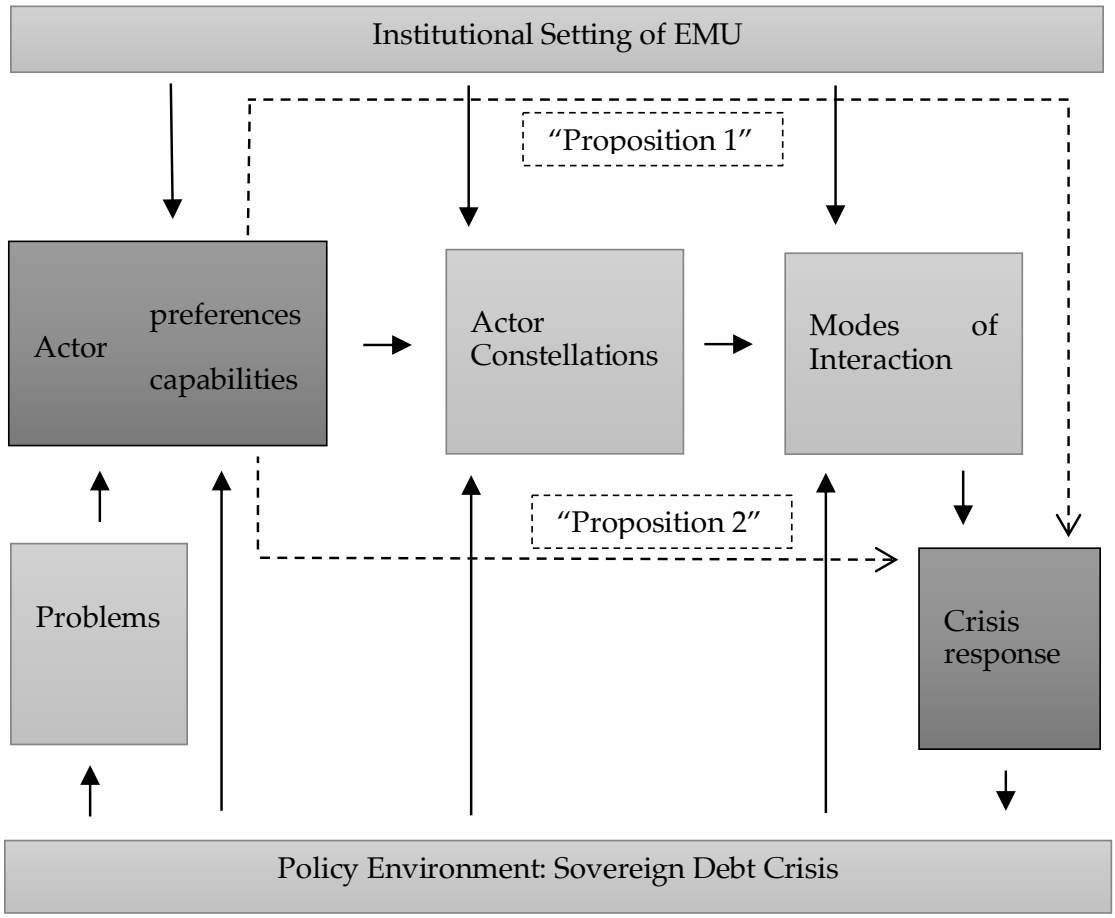
2.2.5.4. Proposition: Institutions

While preferences and structural factors played a significant role in shaping the policy response, it is also important to acknowledge the role of the broader institutional context. Mayntz and Scharpf (1995: 49) argue that the institutional context structures actors' disposal of capabilities, influences their preferences, and shapes important aspects of situations that confront individual actors. With this in mind we believe that the following important processes had an influence on how policies were shaped: (1) the Franco-German axis, which represents a subset of negotiations at EU level, (2) the fact that the European Council seconded the process in the specialised Council formations in ECOFIN and the Eurogroup, (3) the Eurogroup Working Group, which prepared the Eurogroup meetings, (4) the provisions of the Treaty, (5) the informal trilogue procedure, and (7) the role of financial markets, which is highlighted in the fact that important political decisions often followed a hike in interest rates on sovereign bonds. ACI sees institutions as proximate or remote causes but not as determining outcomes. Hence, formulating propositions on these numerous processes would divert our attention from the determining factors shaping the policy response. We will, however, revisit the role of institutions at the end of the analysis. I recapitulate the propositions developed on the main aspects of the theoretical framework in the box and the table below.

P1: In a sovereign debt crisis actors' preferences based on material interests have a greater influence in shaping the policy response than preferences based on ideas.
P2: Actors' with greater bargaining power have more influence on the policy response
P2.1.: Actors with greater power resources have more influence on the policy response.
P2.2.: Actors with a BATNA have more influence on the policy response.
P2.3.: Actors that face domestic political constraints such as a formal parliamentary approval, judicial scrutiny or critical public opinion of the policies they agree to at EU level have a greater influence in shaping the policy response than actors where these constraints are absent.

The propositions complete the explanatory framework to constitute the explanatory model of the dissertation as outlined in the following figure.

Figure 2.2.5.4 Explanatory model



Source: Author's own design

2.3. Summary

At the beginning of this chapter, I outlined the aims of the chapter: to explore the relevant literature review of the broad policy area under examination: economic and monetary union, the response by the EU and its ideological foundations; to examine the main theories that explain policy action in the EU institutional framework; to identify the framework that will guide the analysis; to explore the framework, actor-centred institutionalism, and to make it operational for this research; and to formulate propositions to guide the research. After having explored the relevant literature and developed the framework for analysis, the research now turns to the research design and methodology.

Chapter 3: Research design and methodology

3.1 Introduction

This chapter focuses on the research design and the methodology of the dissertation. It consists of three sections. The first section discusses the research design, including the criteria for case selection. This is followed by a description of the cases. The second section describes the research methods and techniques implemented in this dissertation. This includes the data collection process, a discussion of primary and secondary data as well as the interview method. The third section concludes by summarising the methodological approach and discussing its limitations.

3.2 Research design

The analysis of this research is carried out based on a case study approach to answer the research question. The following section presents the research design and discusses the criteria for the case selection.

3.2.1 Case study

The main objective of this research is to develop a deeper understanding of what shaped the policy-making process in response to the sovereign debt crisis in EMU. This event has no precedent but as a repetition cannot be excluded, it is a pertinent, new policy area to investigate. With this in mind, a case study would be the most appropriate research design for this project.

A case study is suited to "understand complex social phenomena" (Yin, 2003: 2). It can be used to generate an in-depth understanding of a specific topic, programme, policy, organisation, institution or system (Simmons, 2010: 21). It is the study of the unique and unusual and its primary purpose is to explore that particularity and uniqueness (Simmons, 2010: 3). A case study is the "intensive study of a single case where the purpose of that study is - at least in part - to shed light on a larger class of cases" (Gerring, 2007: 20). For facilitating that generalisation, the design of the case study needs to be representative (Yin, 2009; Gerring, 2007). The findings are generalised to theoretical expectations rather than to groups or populations (Yin, 2009).

3.2.2 Case selection

Crisis response can be defined in many ways but, put simply, it has two-sides: policy making, which comprises among others agenda-setting and decision-making, and policy implementation. While it would be interesting to know whether a specific policy measure has been effective in addressing the sovereign debt crisis, this research is interested in the process how such a measure has been conceived and, more precisely, what factors influenced the policy response at EU level. Its focus therefore is on the policy-making process. In line with the theoretical framework for analysis, namely actor-centred institutionalism, it is actors, their preferences, capabilities and behaviour, who are at the core of this process. As in most plays acting is framed by a script. Therefore, the research is also interested in the impact of the institutional set-up and the wider policy environment on the policy-making process. With this in mind and taking into consideration all EMU reforms induced by the crisis, it seems to be meaningful to set the following criteria for selecting the cases to be studied: firstly, the policy-making process should happen in a similar or, preferably, the same, institutional framework, secondly, they should include the same main actors, and thirdly, the policy-making process needs to be politically conflictual to offer meaningful insights into actors' behaviour, which means actors need to have diverging preferences.

The overarching set of policies implemented in response to the sovereign debt crisis at EU level can be grouped as follows: (1) granting financial assistance, (2) reforming the economic governance framework of EMU, and (3) creating a so-called banking union (Micossi and Peirce, 2020; Baldwin and Giavazzi, 2016; Chang, 2016; Pisani-Ferry, 2015; Lane, 2012). Arguably other policy domains in the EU have been affected by the crisis as well but these three are the most directly related to the response to the sovereign debt crisis due to their fiscal, economic and monetary policy nature. Moreover, these three policy areas are highly interrelated and interdependent. This is true with regard to the failure to prevent the crisis but also with regard to addressing the crisis. While all three would in principle qualify with the set criteria for selecting cases, we will only study the first two. In the case of financial assistance as well as in the case of reforming economic governance, the envisaged policies to respond to the crisis have been implemented. Hence, these two represent complete cases.[28] In the case of banking union, only two out of the three envisaged policies to respond to the crisis, namely supervision and resolution, have been implemented. The last part of the reform, which is also the politically most controversial, the so-called European Deposit

[28] Arguably, Economic and Monetary Union as a whole remains unfinished business.

Insurance Scheme, is stuck in its infancy in the legislative process for half a decade now and due to its very contested nature unlikely to be adopted any time soon. Therefore, banking union does not represent a complete case comparable to the other two. Moreover, banking union is a case, which has been well studied on its own right already (Howarth and Schild, 2020; Howarth and Quaglia, 2016; Spendzharova, 2014).

Before looking at the two cases in greater detail, it is important to describe how they relate to the criteria and why they have been chosen. First, both cases concern aspects of the response to the sovereign debt crisis. Reforming economic governance had as an objective to restore trust on financial markets while granting financial assistance was aimed at avoiding sovereign default. This links them directly to the sovereign debt crisis. Second, policy-making took place in a similar, but not always the same, institutional environment. While discussions took place in the same institutional fora of EMU, decision-making happened under the Community method as well as on an intergovernmental basis. This applied to both cases. Third, the two policy areas feature the same actors, albeit with different involvement, and thereby similar dynamics. In both cases distributional issues with regard to the public finances of EU Member States are at stake. The distributional effects depend on the specific design of the policies and, hence, leads to different behaviour and strategies of the actors leading to conflict among them. Fourth, the two cases are interdependent, trust of markets (reform of economic governance) and preventing sovereign default (financial assistance mechanisms) are closely interrelated. Lastly, in both cases we can examine a policy-making process in which actors perform but whose actions are framed by the institutional set-up and the impact of the wider policy environment in line with the chosen analytical framework.

To explain in more detail the two cases selected for the analysis, the first case to be studied is the setting-up of financial assistance mechanisms in the euro area. The objective was to avoid sovereign default within the euro area. Since the outbreak of the crisis four such mechanisms have been established, the Greek Loan Facility, the European Financial Stabilisation Mechanism (EFSM) and the European Financial Stability Facility (EFSF) in 2010, and the European Stability Mechanism (ESM) in 2011. The objective of the four was to provide financial assistance to Member States in financial difficulties to avoid sovereign default. While all four of these mechanisms share the same basic logic and functioning, the institutional features differ. GLF, EFSM and EFSF are all temporary institutions, the ESM is a permanent one. The EFSM is governed by Community law, the EFSF by private law, the GLF by bilateral agreements and the ESM based on an international treaty. Lending capacity and private sector involvement vary as well. Financial assistance and its institutional features have been disputed among Member States and caused a clash of political interests and economic policy preferences, particularly between preferences of market discipline (national adjustment) and of more risk-sharing (shared management). Ultimately, Member States decided to

provide financial assistance to countries severely hit by the crisis despite the explicit no-bail out clause in the EU Treaties.

The second case concerns the reform of the economic governance framework, namely the so-called Six- and Two-Pack legislation, which essentially is the reform of the Stability and Growth Pact and the introduction of the Macro-economic Imbalance Procedure, and the Fiscal Compact[29]. The main objective was to restore market trust. It addresses improvements in the existing governance framework to avoid future crises by preventing and correcting unsustainable national fiscal and economic policies. The reform as such was not conflictual but the institutional design itself caused conflict between diverging political interests, particularly among advocates of more automaticity (stronger rules) and those of more discretionary decision-making processes, and economic policy preferences between fiscal discipline and flexibility.[30]

The selection of two cases only allows for an in-depth study of the dynamics and factors influencing the policy response. Additionally, the selected cases are sufficiently broad in themselves to not only allow a very detailed study but to also provide an adequate amount of data for comparison and analysis.

3.3 Research methods

This section discusses the methodological approach. Bardach (2009: 69) explains that "in policy research, almost all likely sources of information, data and ideas fall into two general types: documents and people". This research does not employ one single research method. It relies on qualitative and quantitative methods and can therefore be categorised as a mix-methods approach. The following sections discuss the mixed methods approach, and introduce the qualitative and quantitative methods. The qualitative method is based on documents, a database and interviews. It is complemented by a survey. The last section discusses how the different methods are used to address the research question.

[29] Treaty on Stability, Coordination and Governance (TSCG).
[30] see Chapter I 1.3.3.

3.3.1. Mixed methods

By using qualitative and quantitative approaches, mixed methods can be considered a "third methodological movement" (Creswell and Plano Clark, 2011; Tashakkori and Teddlie, 2003). Compared to the use of single methods such approaches have essential benefits (Robson, 2002; Tashakkori & Teddlie, 1998; Greene et al., 1989). Mixed methods research consists of the collection, analysis and integration of qualitative as well as quantitative data in several stages of the research process of one study, which can happen either concurrently or subsequently (Creswell2003: 12). One of the main advantages of mixed method approaches is the possibility to answer questions that cannot be tackled by a single method. Moreover, it also provides the opportunity to present a greater diversity of viewpoints (Teddlie and Tashakkori, 2003:15). Greene (2007: 20) argues that it is particularly suited to the inquiry of social processes because it allows 'multiple ways of seeing and hearing, and making sense of the social world'.

The master methodological framework in this dissertation is qualitative. It makes, however, use of both, qualitative and quantitative data. This leads to the possibility of methodological triangulation of findings (Babbie, 2004; Tashakori and Teddlie, 1998; Greene et al., 1989). Methodological triangulation in the social sciences concerns the use of two (or more) methods to examine potential connection between different variables (Robson, 2002). By applying and combining several research methods to the same phenomenon, triangulation facilitates the validation of research through cross-verification from two or more sources (Greene et al., 1989).

A mixed methods research design allows for a more comprehensive approach. It allows to present a broader perspective on the factors that influenced the policy-making process. Moreover, the mixed methods approach allows for cross-validation or triangulation of the results by different methods to avoid biased evidence from any individual data sources increasing the confidence of the results.

3.3.2. Data sources

The following section presents the different data sources used for the research and shows how the data is being used for the study of the two cases.

3.3.2.1. Document analysis

The starting point of the research was a process of tracing and thick description to develop a detailed narrative account that describes the causal chains in devising policies to respond to the crisis and focus in particular on critical decision-making points (see Bernauer, 2008: 19). This is important to reconstruct the policy-making process to be analysed and to gauge, who were the main actors in the negotiations. The empirical material used in this process comprises all publicly accessible data from primary and secondary sources. Primary sources include in particular the relevant EU documents, which includes Commission proposals, Commission communications, (European) Council conclusions, European Parliament resolutions, Eurogroup statements, speeches, press releases, and, if available, meeting minutes, policy and position papers. Such documents provide important information when analysing policy-making processes as they have "a great potential to reveal information about policy positions of their authors: texts can be analysed as many times as one wishes and they provide information about policy positions at a specific point in time" (Klüver, 2009: 536). The information in these documents need to be carefully evaluated by bearing in mind "who is speaking to whom, for what purpose and under what circumstances" (George & Bennet, 2005: 100). Most of these documents are publicly available on the website of each institution. Some publicly not available documents could be obtained through privileged access of the researcher to the relevant institution. The secondary sources used for the data analysis include a review of the major, relevant media outlets such as the Financial Times, the Guardian, Le Monde, Le Figaro, Frankfurter Allgemeine Zeitung, Der Spiegel, Agence Europe and Reuters Newswire. This allows for a very detailed reconstruction of the policy-making process.

Despite the beforementioned secondary data, the research can draw on already existing material for its analysis that gives a reliable and accurate reconstruction of the euro crisis (Brunnermeier et al., 2016; Peet and La Guardia, 2014; Irwin, 2013; Bastasin, 2012). Moreover, some media outlets are very close to decision making in the EU by their journalists having their sources very deep inside the policy-making process. This allowed them to offer very accurate reconstruction and analysis of the euro crisis including exposing the strategic behaviour of the actors (e.g. "Brussels blog" by Peter Spiegel from the Financial Times; "Coulisses des Bruxelles" by Jean Quatremer from "Liberation" and "Charlemagne" blog by The Economist)[31].

[31] The blogs can be found under htttp://blogs.ft.com/brusselsblog; http://bruxelles.blogs.liberation.fr/coulisses; http://www.economist.com/blogs/charlemagne

These accounts have helped to identify the key actors and to analyse their preferences and strategic behaviour, which are sometimes difficult to detect in official documents.

3.3.2.2. Interviews

The textual analysis is being complemented by interviews. This is important to increase the level of empirical observation to fulfil the test for validity as well as to triangulate the data obtained through the document analysis as it can be incomplete or misleading (Tansey, 2007). Moreover, interviews give "access to information about developments that are undocumented and are generally lacking transparency" and thereby shed light on policy processes, which involve informal interaction and practices by policy actors (Christiansen and Neuhold, 2012: 8). Hence, in-depths interviews provide necessary information for empirical research on policy making processes that cannot be found in documents.

The interviews took place in the period of May 2018 and July 2018. This period was preceded by an exploratory interview phase in September 2017. Based on the document analysis and the trial interviews the main interview partners could be identified and belong to the realm of EU public finance. They are politicians and high-level officials that can be found in the Ministries of Finance, the Permanent Representations, the national central banks, the European Commission, the European Council, the European Central Bank and the European Parliament. In total 22 persons have been interviewed. They rank from Minister to Head of Unit level. They come from 12 different EU Member States (Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Portugal, Slovakia and Spain). All persons have been directly involved in the negotiations, none of them performed mere back-office tasks. They are policy-makers with decision-making powers. They are the first-hand participants of the policy-making process under investigation and accordingly, it is possible to obtain accounts from direct witnesses to the events in question through elite interviews (Tansey, 2007). Such interviews provide information that cannot be obtained elsewhere helping to explain the outcome of events (Richards, 1996: 200). More than 85 % of participants were male.

In the cases where the relevant person has not been available a written questionnaire has been sent out. Initially it was planned to include representatives of the IMF in the interviews but due to the lack of positive replies no interview was conducted. However, the vast majority of interviewed persons stated that the IMF only had a very limited role in the two cases studied in this research.

The majority of interviews took place in Brussels at the European Commission, the European Council and the European Parliament. The author travelled to Frankfurt for interviews with the European Central Bank as well as to some EU Member States to speak to people at the national ministries or in case the relevant interviewee had moved on to a different position. Almost all interviews were conducted in person, mainly at the place of work of the interviewee. One interview was done via Skype. The interviews lasted between 30 minutes and 1h. All interviews have been tape recorded with the permission of the interviewees. They were sent a full transcript of the interview on request. Fully transcribing the interview allowed to use exact quotes of the respondents.

The interviews were conduct in a semi-structured fashion based on an 'interview guide' (Weiss, 1994: 48). This type of interviews offers a combination of flexibility and structure that "can provide detail, depth, and an insider's perspective, while at the same time allowing hypothesis testing" (Leech, 2002: 665). The questions that guided the structured interviews can be found in the annex (annex XY). They were formulated in advance, so that every interviewee was subject to the same set of questions.

The questions were formulated around the following main themes: (1) actors' preferences, (2) actors' behaviour and capabilities, (3) the influence of the institutional set-up, and (4) the role of the wider policy environment. During the interview, the interviewees were asked the questions as formulated in the interview guide and, where necessary, a number of follow-up questions to allow for clarifications, some of which had been formulated in advance. Attention has been paid not to lead the interviewee in any particular direction.

Due to the political partly sensitive context and to ensure that interviewees did not feel restricted in speaking freely or in any other way felt inhibited by the tape-recording device, the interviews have been conducted under the premise of anonymity. Therefore, their names and exact positions are not mentioned in the research. In case interviewees are quoted, the quote has been attributed a number as identifier. However, they can be traced in the recordings and notes of the researcher. To pass the test of replicability, a publicly available source that supports the interview statement has been found whenever possible. In case there is more than one respondent per Member State or institution, this will allow for cross-checking. In a limited number of cases this has not been possible as the researcher had privileged access to information and otherwise the material would not exist. The data also needs to be reliable, which means that if you apply the same procedure for measuring something, you will end up with the same result if nothing else has changed that could influence that (King et al., 1994: 25).

The analysis of the interviews is done via structural coding. Structural coding is particularly suitable for interview transcripts and also appropriate for those

employing multiple participants, standardised or semi-structured data-gathering protocols, hypothesis testing, or exploratory investigations to gather topics lists or indexes of major categories or themes (Saldana, 2013). It is based on the specific research questions or themes that are used to frame the interviews. In the first step of structural coding, a list of codes is developed before analysing the transcripts to harmonise with the analytical framework and to enable an analysis that directly answers the research questions and goals (Saldana, 2013). The different building blocks of our theoretical framework, namely actor-centred institutionalism, were used as the main codes (actors' preferences, actors' capabilities, institutions and wider policy environment). In the actors' preferences block, 'ideas' and 'material interests' have been used as the sub-codes. The second step consisted of judiciously reading the transcripts and segmenting the data. The final step was to collect the segmented data under each code for a more detailed coding (e.g., "actors' preferences", "material interests", "financial losses") and further analysis. The coding was done manually.

3.3.2.3. Questionnaire

The qualitative data has been complemented by a survey among policy makers. The reasons to use a questionnaire as one of the methods of data collection were two-fold. First, it should be sent out to persons, who for one or the other reason could not participate in the interview to increase the sample. Second, it allows for a quantitative "element" to deal with the bias of evaluating the interviews.

The survey consists of 23 questions: 18 questions are multiple-choice and one is open-ended. The last four of these questions relate to personal information of the respondent (former and current position and organisation, country of origin). Participation was estimated to take no more than 10 minutes to attain the largest possible response rate given the busy work schedule of the participants. All questions were 'voluntary' to avoid respondents not to continue the survey in case they were unable or unwilling to answer a specific question. The questions are organised around the same themes as the questions in the interview guide: (1) actors' preferences and ideas, (2) actors' capabilities and influence, (3) the role of the institutional set-up, (4) the role of financial markets, and (5) a question on identifying the most important factor shaping the crisis response.

Respondents were asked to rate each item on a scale ranging from 1 (strongly disagree, strongly against or not very influential) to 5 (strongly agree, strongly in favour or very influential). Two questions were related to rating the influence of two specific institutional features and one question was open to identify the most important factor of the crisis response. 60 persons have been contacted. They were approached by email introducing the research project

and leading them to the survey via link. The survey has been done with the help of "Survey Monkey" an online survey site. Participation was under the premise of anonymity and that the information provided will be aggregated and analysed in non-personalised way. The overall response rate to the questionnaire was 14 during a period of six months and three rounds of contact. This is a response rate of 23,33 %. The response rate can be explained by the fact that the actors contacted have been or are still in the frontlines of policy-making and simply have neither the time nor the will to complete an online survey. In order to have a larger population for the survey and an additional control group, the questionnaire subsequently has been sent out to people in the greater realm of EU economic governance, not only first-hand participants. Despite three reminders, this approach, however, did not generate a much higher response rate either, although 80 people have been contacted. Most people contacted did not reply at all. The few that did argued that they are not sufficiently familiar with the decision-making process as they were "too far away" from the actual decisions. The few positive responses have not been included in the data for analysis as it would have blurred the sample of first-hand participants.

3.3.2.4. Strategic communication

While the above-mentioned methods all have their own merits, they are less suitable to capture the actors' preferences. This is why the research will be complemented by an analysis of actors' strategic communication. By strategic communication, we mean the communicative discourse of European elites towards the response to the euro crisis as a means of publicly communicating policy preferences.
The research uses the data acquired through quotes from Reuters newswires using Factiva's global news database by employing the terms "euro", "crisis", "said" and the name of the relevant office holder. [32] For this purpose, we have identified as relevant office holders the Heads of State or Government and Finance Ministers in the euro area Member States,[33] the Presidents of the European Council, the Eurogroup, the European Commission, the European Parliament and the European Central Bank, and the largest political groups in the European Parliament. This makes a total of 83 office holders.[34] We have

[32] https://www.dowjones.com/products/factiva/ . This approach is inspired by Papadimitriou et al. (2016).
[33] Until the end of 2012 the euro area was made up of 17 countries (Latvia joined in 2014 and Lithuania in 2015).
[34] See annex 3.6.

recovered a total of 29096 articles in the period from 2010 until 2012. We have filtered the most pertinent quotes per actor.[35]

The strategy has been to identify key events to which the debate is linked and which are components of our two case studies. This takes into consideration 'critical moments' and 'critical junctures' at which debates are held and decisions are taken that determine the policy preferences of the actors. 'Critical moments' are those periods in which there is a significant increase in actors' communication in news articles around a specific event dealing with the response to the euro crisis. 'Critical junctures' are defined as points in time where a significant shift of preferences in an actor's communication can be observed. We are aware that 'critical moments' and 'critical junctures', and the relevant strategic communication does not necessarily coincide exactly but rather prior to such a moment or after the actual shift in policy preferences has taken place.

The key events were easy to identify as they coincide with the specific policy responses in the two case studies. In the case of financial assistance, the key events are the negotiations on (1) bilateral loans to Greece (GLF), (2) the EFSF/EFSM and (3) the ESM. In the case of economic governance reform, the key events are the negotiations on the (1) Six-Pack, (2) Fiscal Compact and (3) Two-Pack. We will trace the quotes of the actors in the run up to and right after each of the key decisions that form part of our case studies and then compare the actors' preferences with the actual outcome, the design of the policy response. Each quote or policy documented statement is attributed a value on a continuous scale between -2 and 2.

In both cases the dissertation will map the preferences of the actors to see to which extent they were in favour of a common management for either financial assistance or economic governance[36]. The value +2 will be attributed for quotes that are in favour of the highest level of common management in the EU, the Community method. We will attribute +1 to quotes that favour the Community management but are open to a potential mixed form of management. 0 will be attributed to a neutral stance or neglect. The value of -1 will be attributed to quotes that favour common management but outside the EU framework on an intergovernmental level. The value of -2 will be attributed when actors are against common management and in favour of solution at the national level.

Besides the preferences for the management, preferences also relate to the design of the policy response. Here the debate is predominantly about the

[35] See annex 3.6
[36] See annex 3.7

design of the rules. With regard to financial assistance the value -2 is attributed to quotes falling in the category of having a very negative attitude towards financially assisting Member States. Quotes falling in this category favour national adjustment and are along the lines of "get own house in order", "do one's homework" or "clean ones' own stable". Quotes in this category usually believe that the difficulties countries are in are created by domestic factors and therefore should be solved domestically. The value -1 would be attributed to quotes that fall in the category that countries that cannot solve their difficulties on their own could be assisted but only under strict conditions. These quotes usually make reference to "strict conditionality" or "strong disincentives", often underpinned by the argument to involve the IMF, which is seen as a guarantor for strong conditionality, and the request to avoid moral hazard. Financial assistance is seen as a short-term solution while the countries conduct necessary structural reforms. The value 0 is attributed to neutrality. This value is attributed to actors, which don't seem to have a specific position but refer to the future outcome of the discussions or do not want to interfere in the opinion-building or decision-making process. The value +1 is attributed to a favourable view on financially assisting Member States. Quotes in this category refer to "burden-sharing" and "(European) solidarity". They mention the risk of spill over effects in the euro area, argue for a role of the ECB or the pooling of sovereign debt. Representative of this category are in principle against debt restructuring and IMF involvement but accept some form of soft, non-punitive conditionality such as "reasonable interest rates" or "paying a fee". The value +2 is attributed to a view that advocates for greater burden-sharing or opposes conditionality. Quotes in this category mention greater fiscal transfers among euro area countries or the (unconditional) mutualisation of sovereign debt. This view usually refutes conditionality or moral hazard issues.

With regard to the reform of economic governance the value of +2 is attributed to quotes that are against strict rules on government finances and for a great degree of national discretion. These views are against supranational control of their fiscal or economic policy. "Fiscal stimulus" or "growing out of debt" are seen as key to overcome the crisis while structural reforms usually have a negative connotation. The value +1 is attributed to views that are supportive of a fiscal surveillance framework but object to a technocratic system or a transfer of powers to the supranational level. Quotes in this category are usually along the lines of "politics must stay in control" or "governments must have overriding say". They would also call for "more balanced adjustment" including deficit and surplus countries. The value of 0 is again attributed to neutrality. The value of -1 is attributed to quotes that fall in the category, which are supportive of the fiscal surveillance framework and argue for a strengthening of its rules. Quotes that fall in this category would be along the lines of "reinforce compliance", "prevent bad behaviour", or "clear deficit and debt limits". Advocates of this view are also supporters for structural reforms. -2 is attributed to views supporting very strict rules on budgetary policies, an automatic and tough sanctioning mechanism, or a

European veto over national budgets. These views have a strong preference for adjustment only by 'deficit' countries through structural reforms and internal devaluation. Typical quotes in this category are linked to the "loss of voting rights in the Council", the "withdrawal of EU funds" or "no political discretion". Advocates of this view would also argue for Treaty change to enshrine stricter budgetary rules.

The coding of the quotes and the attribution of a single value requires a significant room for discretion. This is especially the case if quotes do not fall sharply into one category. A certain error margin has to be taken into account. Hence, it is necessary to analyse the quote in the given context and, if possible, compare it with official documented positions. This should help to correct the error margin. Moreover, we will compare actors' quotes with one another to aim to assign them the appropriate position on the scale, which may not fall sharply on one of the values.[37]

The document analysis and the interviews showed that the most relevant actors on the side of Member States were France and Germany. The two countries dominated the negotiations and quite often had opposing views. The other countries would then align themselves with one of the two. Their position would be determined by their interests and could be classified according to the principles of 'balancing' and 'bandwagoning' (see Walt, 2000). Thus, it seems to be justified to focus on statements from actors from these two countries in addition to those of the EU institutions. However, where a meaningful number of quotes exists, actors from other countries are included as well.

3.3.2.5 Drawing conclusions on the influence of different factors

The research aims to identify the factors that shaped the EU's policy response. It can be expected that a number of factors will be identified. It can also be expected that their impact on the policy response will have been to varying degrees. While it makes sense to focus in the conclusions on the most important factors, the research does not want to make a specific selection of factors in the beginning as it may risk to overlook some factors that play an important role. Such a selection can only be made once the empirical material has been assessed. Therefore, we will assign a level of influence to each of the identified factors in the conclusions after having analysed the empirical material. The following levels of influence and definitions will be used:

[37] See annex 3.6

Factors that have been assigned a level of influence as "low" are those that played a negligible role on the decision or on the specific design of the policy or the course of the negotiations. In the absence of these factors the policy response would not have significantly changed. A "medium" level of influence corresponds to factors that had an impact on the policy response or the course of the negotiations. These factors were not decisive but, in their absence, the policy response would have been different. Factors with a high level of influence were those that had a decisive role to play for the policy response to happen or its specific design or the course of negotiations. In absence of these are factors the policy response would have been significantly different.

3.4. Summary and limitations

The research strategy, which is partly based on interviews, necessarily has its limitations. The gathering of primary data through interviews on politically sensitive and partly still on-going processes where interview partners still hold an official function or may fear reputational repercussions is not evident. Moreover, they wish their provided material to be treated confidentially. It will be impossible to test all statement on their soundness and objectivity. They need to be understood in the meaning of the concept of bounded rationality (Simon, 1979). Another problem with interviews is of course the interpretation bias. Interviewees may have reasons not to reveal the full truth about certain topics. The accounts of the interviewees may also be incomplete due to the default of remembering the exact course of events that date back some time. While this cannot be completely avoided, it should not be overlooked. The author has sought to address the issue by discussing the interpretation of the interviews with other researchers and interviewees, and by cross-checking the information provided against the primary and secondary sources. Another limitation is the relatively small number of actors directly involved in the decision-making process and, hence, the potential interview partners. This has been tried to address by also making use of a questionnaire. Moreover, the questionnaire adds a quantitative element, which is a useful addition to the in-depths interviews.

The research also cannot study all actors involved in EMU policy-making. As is the case with other sectorial EU policies EMU also sees an involvement of among others chancelleries, and foreign ministries. Two correctives help to deal with this situation: firstly, we research the policy-making in EMU. Therefore, it makes sense to reduce actors to those formally involved as foreseen by the specific institutional framework. Secondly, the interview partners will help in further identifying relevant important actors to avoid excluding relevant actors. The research also specifies that we deal with actors at EU level, which means action at national level is excluded.

The research may also be limited with regard to generating hypotheses. This is due to the fact that the macro-case is the sovereign debt crisis and therefore encounters the n=1 problem. Thus, the research will rather make propositions and while further progressing will explore, however, if purposeful hypotheses emerge based on the empirical findings. Moreover, the limitation to two cases may at first sight appear restrictive implying that more cases would deliver more data and therefore add to our understanding of the response to the sovereign debt crisis. However, the subject of the study so far is a unique event and the selected cases actually cover the large majority of policy responses at the EU level. Arguably, the establishment of the so-called Banking Union could have been considered as well as a relevant case. Its policy objectives and the level of conflict among actors would qualify for our case selection scheme. But conflict surrounded the same themes with the same actors taking the same standpoints. Moreover, the Banking Union project is still unfinished with one of its main and most controversial pillars, a common European deposit insurance, still under discussion. Another potential case study would be the policies by the ECB. The ECB, however, is as an independent institution, whose realm of action is confined by a mandate given by lawmakers. It is not a policy-maker in the strict sense. The ECB will nevertheless be included in the analysis as an expert actor. We will also take into consideration the two programmes implemented by the ECB with regard to granting financial assistance to Member States, namely the Securities and Markets Programme (SMP) and the Outright Monetary Transactions (OMT). This research doesn't claim completeness with regard to all EU policy responses and more cases would enhance our understanding. The selected cases, however, raise sufficient questions about the actors' preferences, their capabilities and the impact of structural factors such as the institutional framework and the wider policy environment on the policy-making process.

Chapter Four: Case study on financial assistance mechanisms

4.1. Introduction

The institutional framework of EMU initially did not foresee financial assistance mechanisms to euro area Member States.[38] As outlined in a previous chapter, it is national governments that ensure the sustainability of their own public debt. This is reflected in the Treaty by two central provisions, Article 123 TFEU, which prohibits the ECB of monetising a government's debt and Article 125 TFEU, which precludes fiscal transfers from one euro area Member State to another, the so-called "no-bailout"-clause. However, when the first crisis wave hit Greece Member States in the Eurogroup decided on 2 May 2010 to establish the so-called Greek Loan Facility (GLF), a set of pooled bilateral loans worth € 80 billion that were coordinated and administered by the Commission with the objective to stabilise the Greek economy.[39] [40] The financial assistance agreed by Member States was part of a € 110 billion bailout package for Greece to which the IMF contributed € 30 billion. Immediately afterwards, on 9 and 11 May 2010, the EU and the euro area established two additional rescue funds, the European Financial Stability Facility (EFSF) and the European Financial Stabilisation Mechanism (EFSM). The EFSM, which essentially replicates the existing Balance of Payments Regulation for non-euro area Member States for the EU-28, enables the European Commission to borrow up to a total of € 60 billion in financial markets on behalf of the EU under an implicit EU budget guarantee to provide financial assistance to Member States based on the emergency clause of Article 122(2) TFEU.[41] The EFSF is a special purpose vehicle under Luxembourg law with total guarantees of € 780 billion and a lending capacity of € 440 billion intended to provide temporary financial support to euro area Member States.[42]

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[38] Article 143 TFEU, however, foresees financial assistance to non-euro area Member States experiencing a balance of payments crisis. See Council Regulation (EC) No 332/2002 of 18 February 2002: http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:32002R0332.

[39] https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/financial-assistance-eu/which-eu-countries-have-received-assistance/financial-assistance-greece_en#first-programme-for-greece .

[40] This amount was eventually reduced by €2.7 billion, because Slovakia decided not to participate in the Greek Loan Facility Agreement while Ireland and Portugal stepped down from the facility as they requested financial assistance themselves) and ultimately lowered to € 52.9 billion.

[41] Council Regulation 407/2010, 2010 O.J. (L118): Council Regulation (EU) No 407/2010 of 11 May 2010 establishing a European financial stabilisation mechanism.

[42] The rules governing the EFSF are laid down in a framework agreement between the euro area Member States: http://www.efsf.europa.eu/about/legal-documents/index.htm.

These rescue mechanisms provided financial assistance to Greece, Ireland, Portugal and Spain.[43] When it became apparent that temporary arrangements would not be sufficient to guarantee financial stability and that a more structural reinforcement of EMU was needed, the European Council concluded at its meeting of 28-29 October 2010 that a permanent crisis mechanism to safeguard financial stability of the euro area as a whole should be established. It invited the President of the European Council to undertake consultations with the members of the European Council on a limited treaty change required to that effect, not modifying Article 125 TFEU ("no-bailout" clause).[44] Following the consultation and on a proposal by the Belgian Council Presidency the European Council decided at its meeting of 16-17 December 2010 to launch a simplified Treaty revision procedure according to Article 48(6) TEU to amend Article 136 TFEU to that respect.[45] After affirmative opinions of the European Parliament, the European Commission and the European Central bank, the European Council adopted Decision 2011/199 on 25 March 2011 amending Article 136 TFEU.[46] While the ratification procedure concerning the amendment to the Treaty was ongoing, euro area Member States negotiated an international treaty to establish a permanent crisis mechanism, the European Stability Mechanism (ESM), which was signed on 2 February 2011.[47] The ESM has been set up as an international institution outside the EU Treaties governed by public international law with its seat in Luxembourg and a firepower of € 500 billion, which it can use to provide financial assistance under strict conditionality.[48] Although it had been foreseen that the Treaty enters into force in July 2012, it only did so on 27 September 2012.

The path from granting financial assistance to Greece to finally establishing a permanent rescue mechanism was full of stumbling blocks as not only actors had diverging preferences but also the institutional set-up and the wider policy environment played a role. However, in the end there was agreement on the policy responses. What influenced the policy response and what

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[43] Financial assistance to Spain for its banking sector had been granted by the Eurogroup on 20 July 2012 but later on had been transferred to the ESM on 29 November 2012.
[44] European Council conclusions, No. 25/1 REV 1 of 28-29 October 2010, para 2 https://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/117496.pdf
[45] European Council conclusions, No 30/1 REV 1 of 16-17 December 2010, para 2 http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/118578.pdf
[46] European Council Decision 2011/199, 2011 O.J. (L 91). The new third paragraph of Article 136 TFEU reads as follows: « The Member States whose currency is the euro may establish a stability mechanism to be activated if indispensable to safeguard the stability of the euro area as a whole. The granting of any required financial assistance under the mechanism will be made subject to strict conditionality."
[47] Treaty Establishing the European Stability Mechanism (ESM), 2 February 2012: http://www.esm.europa.eu/about/legal-documents/ESM%20Treaty.htm
[48] ESM Treaty Art. 3, 12(1), 13(3), recital 6.

changed actors' preferences? How did the institutional set-up impact on the policy response and what other factors played a role?
We will first explain the economic and political rational behind financial assistance as this is important for the overall understanding. Then we will describe the negotiating process, which will set the stage for the analysis of the orientations of the actors and the constellation of the actors in the specific institutional setting. Finally, we draw some conclusions what the most important factors were shaping the policy response.

4.2. The reasoning behind financial assistance in EMU

4.2.1. The economic reasoning

We outlined above that the institutional framework of EMU is particular, featuring a centralised monetary policy but leaving fiscal policies largely in the hands of individual Member States, which are solely responsible for the sustainability of their government debt. In the run up to the sovereign debt crisis the EMU framework was entirely based on crisis prevention tools such as the Stability and Growth Pact and a lose form of economic policy coordination. There was no mechanism at euro area level foreseen to provide financial assistance in times of economic distress. As many commentators have stated though, an effective crisis management framework must rest on the three pillars of crisis prevention, crisis mitigation and crisis resolution (Gianviti et al., 2010; Kapoor, 2010). The main economic reasons for a financial assistance mechanism can be grouped into (1) large exogenous shocks cannot be ruled out, (2) possible financial market failures, and (3) the overall credibility and predictability of the crisis management framework.[49]

First, regardless of any crisis prevention tools there is always the possibility that one or several euro area member states may be hit by a large exogenous shock having severe negative implications on the countries' economies. This risks creating a crisis of confidence and limiting access to market financing. Such a shock may spill over to other members of the currency union and in the absence of a central fiscal capacity destabilise the whole euro area (De Santis, 2012).

Second, financial markets – as any other markets – always bear the possibility of market failure, including in the market for sovereign debt. The fact that the EMU framework heavily relies on market discipline makes it fragile to such

[49] ECB, The European Stability Mechanism, ECB Monthly Bulletin, July 2011.

failures. This has been shown in late 2008 when negative trends in financial markets started to spill over to euro area government debt. After the introduction of the euro, spreads in euro area member states' government bonds had been almost eliminated. The structural disparities in macroeconomic fundamentals of the different countries had not been fully priced in (Attinasi et al, 2009). The under-pricing of sovereign risk gave way to a sudden re-pricing, which (again) not in all cases took full account of the underlying economic and financial positions (De Grauwe, Ji, 2012; Barrios et al., 2009). This made it severely more difficult for certain countries to conduct their re-financing operations and risked to turn into a systemic liquidity crisis in EMU.

Third, credibility and predictability are key features of crisis management. A crisis management framework needs to steer market expectations by providing a clear framework of what rules apply to creditors and debtors not only with regard to crisis prevention but also in case of its failure (see Gianviti et al., 2010). The experience with the sovereign debt crisis has shown that in the absence of such "what happens next"- rules or indeed their predictability market sentiment can shift abruptly and spiral out of control (Chang and Leblond, 2015).

4.2.2. The political reasoning

The framework of EMU is incomplete as far as crisis mitigation and resolution tools are concerned. The framework only catered for crisis prevention measures. Once they had failed and the sovereign debt crisis intensified, EMU has been left toothless in managing the crisis. Theoretically there were two options: the first would be to leave crisis response entirely to be addressed at the national level believing or hoping that individual governments would on their own implement the necessary measures to restore trust on markets. The second option was to provide financial assistance to euro area countries in financial difficulties to implement measures to restore fiscal sustainability, competitiveness and financial stability in the medium term. The latter would go beyond what is foreseen by the Treaties. This option has deliberately been ruled out when the rules governing EMU have been conceived. Particularly the Germans and the Dutch advocated for a rules-based system that would rely on markets enforcing budgetary discipline and rule out fiscal transfers (see Yiangou et al., 2013). The fear was that with the possibility of receiving financial assistance and in the absence of market discipline EMU would suffer from a moral hazard and free-riding problem. Hence, it was not much of a surprise when the same countries were very hesitant when it came to a renewed discussion on financial assistance and the possibility of fiscal transfers to countries experiencing financial difficulties.

However, when it became clear that certain individual countries would not be able to overcome their economic distress without major political consequences such as the possibility of abandoning the euro, which would have entailed incalculable economic but also political costs fundamental opposition in Germany and the Netherlands to establishing financial assistance mechanisms eased. Moreover, the euro is the flagship of deeper EU integration. A significant amount of political capital had been invested in creating it. The euro is more than a currency, it is a symbol of European integration. The EU Treaties also include the principle of solidarity with Member States in difficulties. Risking the euro was putting the whole of EU integration on the line. Thus, politically governments felt compelled to save it.

In sum, there were good economic and political reasons to establish a financial assistance mechanism to complement the governance framework of the euro. The economic rational behind a financial assistance mechanism is that EMU is characterised by a high degree of economic and financial integration among its members, which in normal times is beneficial to all while in times of crisis close financial integration means that unsustainable developments in one member state can easily spread to others.[50] In the absence of a financial assistance mechanism crisis management is left empty handed when prevention fails as exogenous shocks cannot be ruled out, markets are imperfect instruments in disciplining government spending and unpredictable rules of the game cause further uncertainty threatening the stability of the euro area as a whole. The political rational was that a melt-down of the euro area was simply perceived as politically too costly not only to individual governments but also to the EU project as such.[51]

4.3. Negotiating financial assistance

This part explores the important steps in the establishment of the various financial assistance mechanisms and the various policy options that have been under consideration by the different actors. The idea of financial assistance in European monetary union had already been discussed in the conceptualisation of the euro. The Werner report of 1970 referred to a fund for financial aid albeit only at the margins.[52] The McDougall report of 1977

[50] ECB, The European Stability Mechanism, ECB Monthly Bulletin, July 2011.
[51] I acknowledge that one could also make the argument that « the European project is too important to be sacrificed on the cross of the euro » (Stiglitz, 2016, The Euro).
[52] Werner Report, Report to the European Council and the commission on the realisation by stages of Economic and Monetary Union in the Community, 8 October 1970, Luxembourg, p. 25.

addressed the issue in more detail referring to the interdependence of national economies sharing the same currency and the need to absorb external shocks but not without mentioning that while the idea had a logical appeal it seemed politically not opportune as Member States had already difficulties in keeping Keynesian deficit financing under control.[53] The final Maastricht Treaty, ratified in 1992, did not feature any crisis resolution mechanism though. On the contrary, it contained an explicit no-bail out clause in Article 125 TFEU (formerly Art. 104b).

4.3.1 Financial assistance to Greece

As outlined before, when the sovereign debt crisis unfolded in Greece in Spring 2010, the EMU 'toolbox was empty' (Van Rompuy, 2011)[54]. The absence of any rules guiding market expectations about how the EU would respond to a debt crisis contributed to the volatility of financial markets (Gianviti et al., 2010). A Greek default became a possibility, which would pose a serious risk to the entire EMU given the integrated nature of the banking sector in the EU. German and French banks were exposed with approx. $ 119 billion to Greek banks and had a combined exposure to Greece, Ireland, Portugal and Spain of approx. $ 900 billion in February 2010 (Fuhrmans and Moffett, 2010). Financial markets started to speculate who could withstand the losses in case of a Greek default and who would be next triggering the first, timid statement by European leaders on 11 February 2010 declared that they would take coordinated measures to secure financial stability in the euro area.[55] Another statement by the Eurozone leaders followed on 25 March 2010, which stated that they are willing to contribute, in cooperation with the International Monetary Fund (IMF), to a rescue package in the form of coordinated bilateral loans to Greece to ensure financial stability and safeguard the single currency.[56] The statement left out any details on how much money Euro area governments were prepared to put on the table to achieve their objectives in case Greece was to request financial assistance, which lead to continued market speculation. This forced the Eurogroup to announce on 11 April 2010 that a sum of €110 billion, of which Eurozone countries will provide up to €80bn and the IMF up to €30 billion, would be made available over a period

[53] McDougall Report, Report of the Study Group on the Role of Public Finance in European Integration, Vol. I: General Report, Brussels, April 1977, p. 56-59.
[54] Speech by Herman Van Rompuy at the European Parliament, 16 November 2011.
[55] European Council. 2010b. Statement by the Heads of State and Government of the European Union, 11 February 2010.
[56] European Council. 2010c. Statement by the Heads of State and Government of the Euro area, 25 March 2010.

of three years in order to maintain Greece's solvency.[57] While markets were still pondering whether this was sufficient to avoid a Greek default, the Greek government started preparatory talks with the European Commission, IMF and ECB on a possible assistance programme further reinforcing market scepticism. Ultimately, on 23 April 2010 the Greek government officially requested financial assistance (Armingeon and Baccaro, 2011).[58] On 2 May 2010, the finance ministers of the Eurogroup agreed to activate stability support to Greece through bilateral loans pooled by the European Commission in the so-called Greek loan facility in line with their statement of 11 April.[59] However, the Greek bail-out could not restore market confidence and the crisis spilled over to other euro area countries.

4.3.2. The search for policy options to manage the crisis

In light of the spill over of the Greek crisis to other Member States and in the absence of an EU crisis management framework, euro area policy makers were forced to further explore unchartered territory considering what options were feasible.[60] The following main ideas have been contemplated by policy-makers: (1) a stabilisation fund run by the European Commission, (2) a European Debt Agency, (3) a European Monetary Fund, and (4) an intergovernmental Special Purpose Vehicle (see Gocaj and Meunier, 2013).

The European Commission proposed a stabilisation fund under EU law, which would raise money on the markets by issuing bonds backed by Member States' guarantees (Barber, 2010). This plan, however, ran into difficulties with the EU's own lawyers warning that the proposal may be incompatible with the EU treaties and was rejected by Germany claiming it would not get past by its constitutional court (Barber, 2010).
The then Belgian Prime Minister Yves Leterme has advanced the creation of a European Debt Agency in March 2010. The agency was supposed to issue and manage euro area sovereign debt under the authority of its finance ministers and the ECB (Leterme, 2010). It would take over the existing debt and issue new one. For existing debt, member states would continue to pay varying interest rates corresponding to their credit ratings. When old debt of individual nations matured, it would be replaced by common debt of the euro

[57] Eurogroup. 2010a. Statement by the Eurogroup, 11 April 2010.
[58] The Guardian, 23 April 2010, https://www.theguardian.com/business/2010/apr/23/greece-activates-eu-imf-loans
[59] Eurogroup. 2010b. Statement by the Eurogroup, 2 May 2010.
[60] This discussion will not take into consideration all the various proposals that have been made by think-tanks, academia or other actors but those that have actually been made by policy-makers involved in the discussions at the time.

zone (Leterme, 2010). Leterme's proposal would have needed a Treaty change.

Coinciding with the Leterme proposal, the German Finance Minister mentioned in a newspaper interview the possibility of establishing a European Monetary Fund.[61] He then further elaborated that such an EMF would grant emergency liquidity aid to avoid sovereign default in exchange for strict conditionality and with a high price tag attached to ensure it remains the last resort (Schäuble). While Schäuble was less explicit on the functioning, academics proposed that a country in need could issue debt guaranteed by the EMF whose contribution would mainly come from countries that were in non-compliance with the EU fiscal surveillance framework (Gros and Mayer, 2010). Schäuble's proposal got support from the European Commission, the European Parliament, across political parties in Germany.[62] The head of the German government, Mrs Merkel also endorsed the proposal but said that it would require Treaty change as it was in conflict with the no-bail out provision of the Treaty.[63]

4.3.3. The European Financial Stability Facility

It took the euro area several months to agree on a way forward but all of a sudden, it decided to set up the European Financial Stability Facility (EFSF) at a meeting of its Finance Ministers on 9 May 2010.[64] The EFSF was designed as an intergovernmental special purpose vehicle (SPV) backed by euro area member states guarantees, with a lending capacity of € 440 billion and limited in time. It was a compromise, which according to Commissioner Rehn was based on a proposal by Dutch Finance Ministry official Maarten Verwey (Barber, 2010). The SPV structure was the solution to Germany's resistance to creating a more permanent EU authority under the control of the

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[61] Die Welt, ‚Schäuble liebäugelt mit einem EU-Währungsfond, Interview, 6 March 2010, http://www.welt.de/politik/deutschland/article6668719/Schaeuble-liebaeugelt-mit-einem-EU-Waehrungsfonds.html

[62] Der Spiegel. 'Krise in Griechenland: EU stützt Ruf nach Euro-Währungsfonds', 7 March 2010 http://www.spiegel.de/politik/ausland/krise-in-griechenland-eu-stuetzt-ruf-nach-euro-waehrungsfonds-a-682223.html
European Parliament, 2010, EP resolution on economic governance, 16 June 2010, http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2010-0224+0+DOC+XML+V0//EN

[63] Euractiv. 2010. EU at odds over Treaty change for EMF. 18 March 2010, https://www.euractiv.com/section/euro-finance/news/eu-at-odds-over-treaty-change-for-emf/; Peel, Q., 2010, 'First steps towards more integrated eurozone', The Financial Times, 7 March 2010 http://www.ft.com/cms/s/0/749db82c-2a1c-11df-b940-00144feabdc0.html#axzz4FR9wMoTo

[64] ECOFIN. 2010.Council conclusions. 9/10 May 2010.

Commission. The Commission would, however, manage under article 122 (2) TFEU a Community financial assistance facility known as the EFSM disposing of € 60 billion. The EFSF was born in a situation in which markets were driving politics. Markets were in constant doubt about the ad-hoc nature of the euro area's crisis response creating a self-fulfilling downward spiral (Yiangou et al., 2011). Ambiguous communication by policy-makers - often driven by national interests - created uncertainty whether the euro area was ready to deliver a unified response. There is some evidence that certain political comments have aggravated the crisis, which can be traced back to the relationship between political statements and sovereign bond spreads (Gade et al., 2013; Carmassi and Micossi, 2010). According to the German Finance Ministry, "*the crisis became drastically acute in early May. Risk premiums for government bonds in some eurozone member states such as Portugal, Ireland and Spain increased rapidly and reached levels equal to that, which prevented Greece from accessing the financial markets in April. In an echo of the final dramatic phases of the financial crisis, there was virtually no interbank lending between European banks. Within a very short period, there were overall signs of an acute pending systemic crisis*".[65] On 7 May 2010, the leaders of the euro area declared that the Commission would propose a 'European stabilization mechanism to preserve the financial stability in Europe' to be decided upon during an extraordinary ECOFIN meeting on Sunday, 9 May 2010.[66] They had not discussed the details yet but were eager to put something in place before the opening of the stock markets in Asia on Monday morning (Barber, 2010). After the weekend, the EU response to the sovereign debt crisis had significantly changed: a bail-out package for the euro area worth € 750 billion had been agreed. It included an intergovernmental bail-out fund with a volume of € 440 billion, the EFSF, a community fund with a volume of € 60 billion, the EFSM, and IMF funds of up to € 250 billion.[67]

The rescue package, however, was not the turning point in the crisis European leaders had hoped for as markets initial positive reaction swiftly made room for scepticism again. The design of the EFSF remained economically unconvincing for some analysts as interest rates had a punitive character (market rate plus a charge of 300 basis points for maturities of up to three years and an additional 100 basis points for longer maturities) and the country requesting a bail-out would no longer pay into the pot. Therefore, also the Irish bail-out of 12 January 2011 could not stop market speculation on

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[65] Bundesfinanzministerium. Chronology: Stabilisation of the Economic and Monetary Union. Available at http://www.bundesfinanzministerium.de/Content/EN/Standardartikel/Topics/Europe/Articles/2010-06-04-Chronologie-Euro-Stabilisierung.html

[66] European Council. Statement by the Heads of State and Government of the euro area. Brussels, 7 May 2010.

[67] ECOFIN. Council conclusions. Brussels, 9/10 May 2010.

Portugal, Spain and Italy. Markets and policy-makers alike did not believe that the EFSF's capacity would be sufficient to cater for bailing-out the three countries (Atkins et al., 2010). The euro area found itself in a situation similar to right after the Greek bail-out, its response to the sovereign debt crisis was not sufficient and it was searching for a convincing policy yet again.

4.3.4. The search for policy options to manage the crisis II

The short-comings in the setting up of the EFSF package set the euro area on the path to explore other policy options. [68] The following main proposals were made by policy-makers: (1) large scale bond purchases by the ECB, (2) issuing common debt in the form of Eurobonds, and (3) increasing the size of the EFSF.

French President Sarkozy very early in the crisis called on the ECB to follow the Fed and the Bank of England and step up its bond purchases (Barber, 2010). This call has been echoed later on by former Spanish Prime Minister Felipe González and José Antonio Alonso, Socialist party parliamentary leader (Atkins et al., 2010). Trichet, the President of the ECB, had already steered his institution in this direction but wary of German opposition he was unwilling to engage in US-style quantitative easing.

Even more controversial was the proposal by the then Chair of the Eurogroup, Jean-Claude Juncker, Prime Minister and Finance Minister of Luxembourg, together with the Italian Finance Minister Giulio Tremonti to introduce Eurobonds (Juncker and Tremonti, 2010). This was a slightly modified version of the earlier Leterme proposal but immediately encountered resistance in Berlin, which was opposed to any form of mutualisation of debt, but also Paris, which saw it as an unacceptable large step towards fiscal union.[69]

The other big debate was whether the EFSF's lending power was sufficient or should be increased. Axel Weber, the President of the Bundesbank and a Member of the ECB Governing Council, told an audience in Paris that, if necessary, the size of the fund could be increased (Traynor, 2010). The European Commission and Klaus Regling, the Managing Director of the

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[68] This discussion will not take into consideration all the various proposals that have been made by think-tanks, academia or other actors but those that have actually been made by policy-makers involved in the discussions at the time.

[69] Der Spiegel. The battle over the Eurobond: Juncker calls German thinking 'simple''. 8 December 2010 available at http://www.spiegel.de/international/europe/the-battle-over-the-euro-bond-juncker-calls-german-thinking-simple-a-733571.html; Atkins, R., 2010.

EFSF, said that it was not needed trying to stop any discussion on an increase as they feared that it would signal that a bail-out of Spain, or even Italy, is being anticipated (Atkins et al., 2010). Moreover, Germany was completely opposed to the idea (Peel et al., 2010).

4.3.5. The European Stability Mechanism

Ultimately, and under increased pressure of financial markets, euro area leaders announced the setting up of a "permanent crisis mechanism to safeguard the financial stability of the euro area as a whole", which would involve a limited Treaty change but not modify the no bail-out clause in article 125 TFEU.[70] The Eurogroup of 28 November 2010 spelled out the main features of the new mechanism, the European Stability Mechanism (ESM): financial assistance against strict conditionality watched over by the European Commission, the IMF and the ECB, involvement of private creditors and unanimous decisions on loans by Eurogroup Ministers.[71] It was the European Council of 16-17 December 2010 that decided on the establishment of the ESM to replace the EFSF and EFSM.[72] The fact that the decision included a Treaty change albeit limited meant its implementation involved a long procedure. In March 2011 the European Council adopted the Treaty amendment to Article 136, which afterwards needed to be ratified by the parliaments of the 27 Member States. They agreed that the ESM should have an effective lending capacity of € 500 billion, could purchase government bonds on the primary market and reduced its lending rate by 100 basis points.[73] Almost a year later, in February 2012, euro leaders signed the treaty setting up the ESM, which also needed ratification by their respective parliaments.[74] In the meantime, and due to continued speculative attacks, the discussion on the right design of the EFSF resurfaced. Regling, who not too long ago argued against an increase in the size of the fund, now pushed for an expansion of its lending capacity.[75] A move that had been supported by France as well, including the purchase of government bonds (Spiegel et al., 2011). The ECB President Trichet argued for a long time that the EFSF should buy bonds (Parussini and Boschat, 2011, Wyplosz, 2011: 15). The President of the European Commission, Jose Manuel Barroso, and Olli Rehn, the Commissioner in charge, argued for a lowering of interest rates, as the punitive character of the interest rates discouraged

[70] European Council. Conclusions of 28-29 October 2010. 30 November 2010.
[71] Eurogroup statement. 28 November 2010.
[72] European Council. Conclusions of 16-17 December 2010.
[73] European Council conclusions of 24-25 March 2011.
[74] http://www.esm.europa.eu/about/legal-documents/ESM%20Treaty.htm
[75] Reuters. 9 February 2011 available at http://uk.reuters.com/article/efsf-germany-idUKLDE7182FJ20110209

countries that actually needed a bailout from requesting one over fearing political repercussions (Spiegel and Peel, 2011). Faced with an increased risk in June-July 2011 that contagion would spread to Spain and Italy, Merkel and Sarkozy coordinated a common line to enlarge the competences of the EFSF (Krotz and Schild, 2013: 206). The new powers of the EFSF have been agreed on 21 July 2011. The EFSF, and later on the ESM, should be able to (1) 'act on the basis of a precautionary programme', (2) finance recapitalisation of financial institutions through loans to governments including in non-programme countries', and (3) 'intervene in the secondary markets on the basis of an ECB analysis recognising the existence of exceptional financial market circumstances and risks to financial stability'.[76] These additional tools for the EFSF/ESM did not fully alleviate 'market tensions' as Euro area leaders admitted in their statement of 9 December 2011 and they agreed to further enhance it through two models: (1) payment default protection for new government bonds that may cover between 20% and 30% of possible losses, and (2) the creation of one or more Co-Investment Funds for primary and secondary market interventions and bank recapitalisation.[77]

4.3.6. SMP and OMT

As outlined above, EU policy-makers did not manage to implement convincing policies to calm markets. Originally the ECB had been hesitant to get engaged in financially assisting member states in difficulties. Constrained by its mandate to solely preserve price stability according to article 127 TFEU and the prohibition to directly finance Member States through money creation according to article 123 TFEU, the ECB tried to stay at the side-lines limiting its role to advising policy makers. Its then President Trichet insisted on the independence of the ECB and ruled out bailing out Greece (Trichet, 2010). However, considering what was at stake, the ECB finally decided to step in to fill the policy void and set up the Securities and Markets Programme in 2010 and the OMT in 2012 (ECB 2012, 2010b).

The SMP is a sovereign bond purchase programme. It has been conceived to purchase government bonds on the secondary market. The intention was to avoid the prohibition of article 123 TFEU of directly purchasing Member States' debt. The SMP was highly controversial among those defending the independence of the ECB and those that advocated for a massive intervention (Bastasin, 2012). This debate also took place within its Governing Council

[76] European Council. Statement by the Heads of State or Government of the Euro area and EU institutions, 21 July 2011.
[77] European Council. Statement by the Euro area heads of State or Government. 9 December 2011.

with the Dutch and the German representatives opposing the programme (Caporaso and Rhodes, 2016).

Between 2010 and 2012 the ECB bought debt worth € 220 billion, first Greek, Irish and Portuguese, and when the crisis evolved also Italian and Spanish. The programme did indeed alleviate the refinancing costs of Member States during its operation. Its aim, however, was not infinite monetary financing but trying to buy time for EU policy-makers and Member States to implement the necessary reforms (Pattipeilohy et al., 2013). Something the ECB made explicit in its letters to the Prime Ministers of Italy and Spain hinting at the suspension of the purchases in case of reform fatigue (Caporaso and Rhodes, 2016).

The OMT followed Mario Draghi's famous speech in London on 26 July 2012 where he stated that "the ECB is ready to do whatever it takes to preserve the euro".[78] The sovereign debt crisis had worsened again with Spanish and Italian spreads sky-rocketing. The ECB Governing Council decided the OMT on 6 September while at the same time announcing the termination of the SMP.[79] The OMT has two important features, which distinguishes it from the SMP: (1) possibility of unlimited bond purchases, and (2) strong conditionality, while preserving the monetary financing prohibition similar to the SMP.[80] Similar to the SMP was also the controversial nature of the measure. It has been widely welcome in the countries heavily under pressure by financial markets such as France, Italy and Spain, where politicians have lobbied for an active stance of the ECB (Steen and Wigglesworth, 2012). The reaction in the more Northern countries can be at best described as lukewarm. The German and the Belgium central banks expressed strong concerns, and it is reported that Jens Weidmann, the President of the Bundesbank, voted against the measure in the Governing Council (Jones et al., 2012).[81] The other German member on the board, Jörg Asmussen, however, supported Draghi (Siekman and Wieland, 2013).

4.4. Analysing the policy response on financial assistance

This section analyses the conditions in which the financial assistance mechanisms and their specific policy design have been decided. First, the preferences of the actors and how they were shaped will be examined. Then the capabilities, specific constellation and interaction of actors will be

[78] Mario Draghi (2012). Speech at the Global Investment Conference, London, 26 July 2012.
[79] https://www.ecb.europa.eu/press/pr/date/2012/html/pr120906_1.en.html
[80] ECB Monthly Bulletin October 2012.
[81] The Economist 6 September 2012.

explained and how they influenced the policy outcome. The analysis will show what are the most important factors shaping the policy response, how and why certain policy preferences emerged and how agreement on a common policy response was forged.

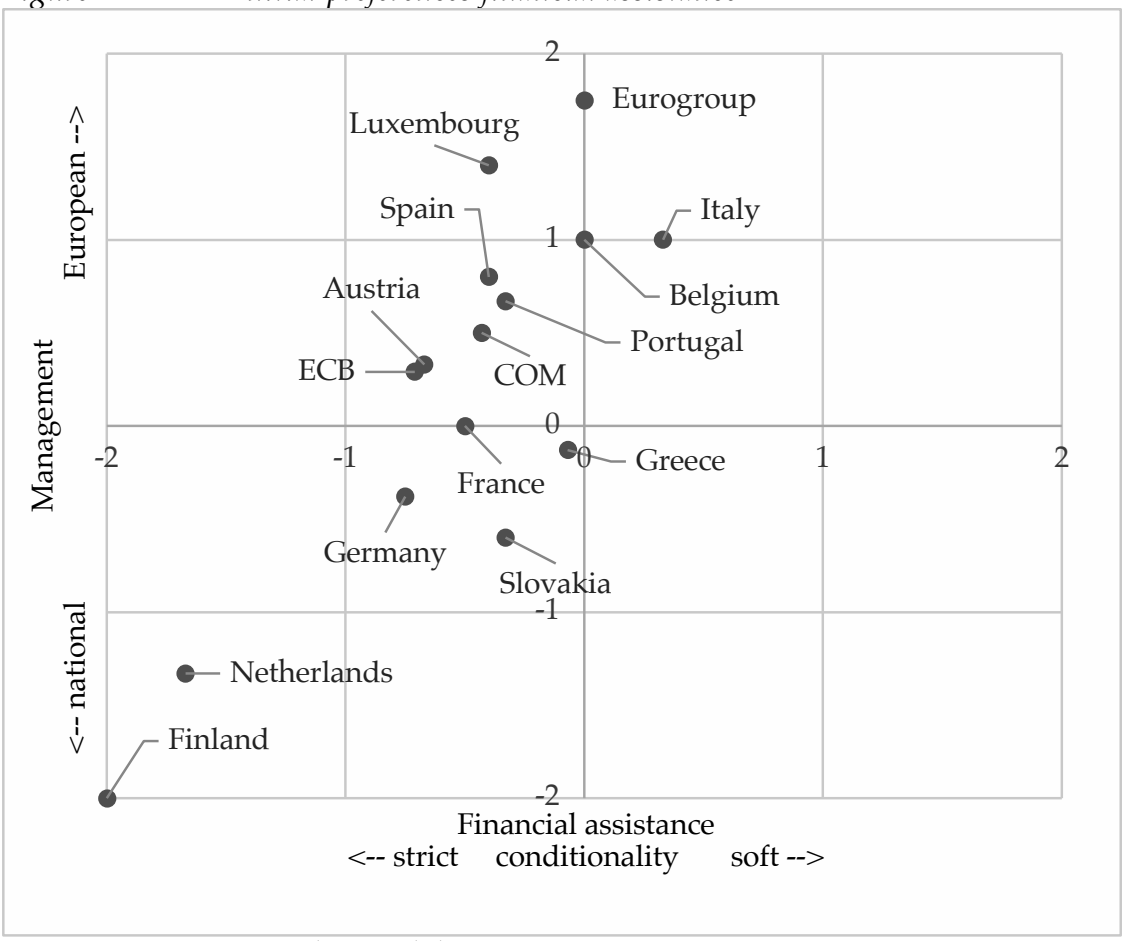
4.4.1. Actors and their preferences

4.4.1.1. Initial preferences

The preferences at the onset of the crisis reflected to a certain extent the conflict during the founding period of EMU when on the one hand traditional hard currency countries insisted on the euro to be governed by an independent central bank ensuring price stability to allow market forces keeping national budgets in check and on the other hand soft currency countries preferring intergovernmental macroeconomic governance of the euro area based on policy discretion oriented towards growth policies (see Schimmelfennig, 2014: 328; Krotz and Schild, 2013: 184-187).

Using the methodology described in Chapter "Methodology" we have mapped in figure 4.1. the preferences of the actors to financially support other euro area Member States at the beginning of the crisis. The horizontal axis shows the actors preferences for or against strict conditionality in exchange for providing financial assistance. The vertical axis shows their preference for or against the common management of financial assistance.

Figure 4.4.1.1 Initial preferences financial assistance



Source: Author's own data and design

Granting financial assistance to euro area Member State has been much politicised. Actors had extremely diverging views on whether to provide financial assistance and, if so, on what terms. In principle, the so-called "no-bail out clause" of article 125 TFEU ruled out giving financial assistance to member states. Its rational was to secure the effectiveness of market's role by avoiding conducts of moral hazard on the part of the Member States (Sisler, 2016). Member States should only rely on themselves for raising money on the market.

This was also the preference of the so-called creditor countries such as Germany, Finland, The Netherlands, Slovenia and Slovakia.[82] They saw the

[82] The term „creditor" although commonly used by now is misleading because also those that advocated of a different view have been creditor countries such as France or Italy for example. Another typology for creditor debtor countries is for example North South countries.

causes for the crisis in individual governments' reckless public spending.[83] They were against monetising or mutualising sovereign debt, and promoted that the burden of adjustment lies with the weaker Member States.[84] They saw no role for bilateral or common financial assistance within the euro area and were against the ECB taking a more market interventionist stance (Weisenthal, 2010). Their considerations were driven by the concern that their countries would need to shoulder parts of the financial burden of the weaker countries, either in the form of direct payments or fiscal transfers. Moreover, they shared the belief that financial assistance would alleviate the pressure on highly indebted countries to rapidly adjust. The governments in these countries also feared electoral repercussions. Public opinion, particularly in Germany, was largely against rescuing member states with (supposedly) reckless fiscal policies (Barysch, 2010). Public opinion and preferences in Germany were very much influenced by ideas on the economy, namely so-called ordo-liberalism. Germany took a very strong stance towards safeguarding the independence of the ECB and vocally opposed any form of monetizing euro area public debt. Moreover, it based its opposition to bailing out fiscally profligate countries by arguing that liability and control shall not be separated. Hence, the necessity that the sovereign states in EMU have to be held responsible for their decision and they cannot impose the costs of their actions on others (Feld et al., 2015).

The preferences of the predominantly southern member states differed greatly from their northern peers. They wanted a European solution based on burden-sharing. They opposed the no-bailout logic (Lellouche, 2010). The adjustment should be balanced among creditors and debtors. It was in the interest of all euro area countries to avoid possible spill over effects. They opposed strong conditionality for financial assistance and argued for mechanisms that would bring down the interest rates on sovereign debt such as for example the issuance of common bonds (Zapatero, 2010). France was also in favour of a more active role of the ECB, especially with regard to the purchase of governments bonds (Interview #20).[85] , France and Italy supported significantly higher capitalised rescue funds to be capable to deal with a potential spill-over of the crisis to larger euro area Member States such as Spain or Italy and argued for giving the rescue mechanisms access to ECB funding by means of a banking licence (Krotz and Schild, 2013: 204). This politicisation of the ECB was supported by the other southern countries. France was also opposed to the idea of private sector involvement in debt

[83] http://www.independent.co.uk/news/world/europe/merkel-hardball-tactics-pay-off-in-greece-aid-deal-1928027.html
[84] http://www.euractiv.com/section/euro-finance/news/eu-tells-greece-to-fix-fraudulent-budget-stats/
[85] http://www.ft.com/cms/s/0/61fa12fa-56bb-11dd-8686-000077b07658.html?ft_site=falcon&desktop=true&siteedition=intl#axzz4F7o6bd6p

restructuring, perceiving the risk of a financial market panic implying substantial losses for French banks that were heavily exposed in Greece, Ireland, Portugal and Spain (Krotz and Schild, 2013: 204; Merkel, 2010).

Consensus between the two camps, or at least France and Germany its main protagonists, only centred around the role of the Commission in financial assistance. On the one hand this was born out of necessity as the United Kingdom blocked the possibility of making greater use of the EFSM, a Community instrument (Interview #14). On the other hand, both countries wanted to keep the control of the money pots in the hands of governments. Hence, the preference for an intergovernmental solution, not one based on the Community method, limiting the role of the Commission and the transfer of sovereignty in economic policy-making to the supranational level (Merkel, 2010).[86] This is also reflected in Sarkozy supporting Merkel's objection to Eurobonds, which would have meant a transfer of fiscal policies to the supranational level and effectively transforming EMU into an EU fiscal union (Hall, 2012:365).[87] Moreover, a fiscal union would have entailed larger fiscal transfers from credit-worthy to overly indebted countries. Something not only the so-called hard currency countries wanted to avoid but also France, which at that time still enjoyed a triple-A credit rating and paid only marginally higher interest rates on its sovereign bonds than Germany (Interviews #12, #19, #20).

The preference for a European solution was shared by the European Commission (Interview #4, #11, #18). Given its institutional positioning, it argued for "European lead" and a "European response", which it saw in a community instrument to assist Greece and later on a permanent crisis mechanism (Rehn, 2010).[88] An exit of Greece from the euro was not an option for the Commission. In March 2010, the President of the European Commission, Jose Manuel Barroso, announced the Commission stands ready to make "a proposal for an instrument for coordinated assistance for Greece".[89] However, with regard to the role and the specific design of the financial assistance mechanisms, it had a preference for strong conditionality, a "safety net as last resort, so unattractive that no country wants to end up in such a situation" (Rehn, 2010).

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[86] TF1 News, 2010, 'Gouvernance économique : Sarkozy rejoint les positions de Merkel', available at http://lci.tf1.fr/monde/europe/2010-06/compromis-sarkozy-merkel-sur-la-gouvernance-economique-5882111.html

[87] Der Spiegel, 2010, 'Euro-Bonds : Sarkozy unterstützt Merkels Kurs', Der Spiegel, 10 December 2010, available at http://www.spiegel.de/politik/deutschland/euro-bonds-sarkozy-unterstuetzt-merkels-kurs-a-734042.html

[88] Ollie Rehn, 2010, Reuters Newswires, 19 March 2010.

[89] Jose Manuel Barroso, 2010, Reuters Newswires, 19 March 2010.

The European Parliament played quasi no role in financial assistance. Being a co-legislator under the EU Treaties, it was largely excluded from what became an almost purely intergovernmental response to the crisis. While it welcomed the setting up of financial assistance mechanisms, it deplored their intergovernmental nature and tried to defend its institutional position by emphasising its budgetary scrutiny with regard to the EFSM, the only community instrument within financial assistance.[90]

The ECB, by the Treaties denied a formal role in the decision-making process, took at the onset of the crisis a position similar to that of the northern countries. However, it signalled openness towards a "fund", which should be based on strict conditionality (Trichet, 2010). Later on it called for a permanent financial assistance mechanism equally based on strong conditionality. The ECB also adamantly argued that it was for governments to act before they could count on the ECB. It was keen on safeguarding its independence and avoiding moral hazard by lowering Member States ambition to reign in their public finances and to reform their economies. The ECB rejected the idea of a default of a euro area member for reasons of safeguarding financial stability but also preserving the integrity of the monetary union (Bastasin, 212: 149). Similar to the position of the European Commission, it preferred a European response (Constancio, 2010).

The IMF, which early on in 2010 signalled its readiness to assist Greece, showed a preference for a more comprehensive framework for crisis management and resolution in the EU (Strauss-Kahn, 2010). While it pressed for strict conditionality, it argued against the restructuring of the debt due to contagion effects based on political and economic inter-linkages (IMF, 2010).[91]

4.4.1.2. Shift in preferences

In May 2010 a shift in preferences occurred, which can be traced in their strategic communication as shown in figure 4.2. below. This was most visible among the so-called creditor countries.

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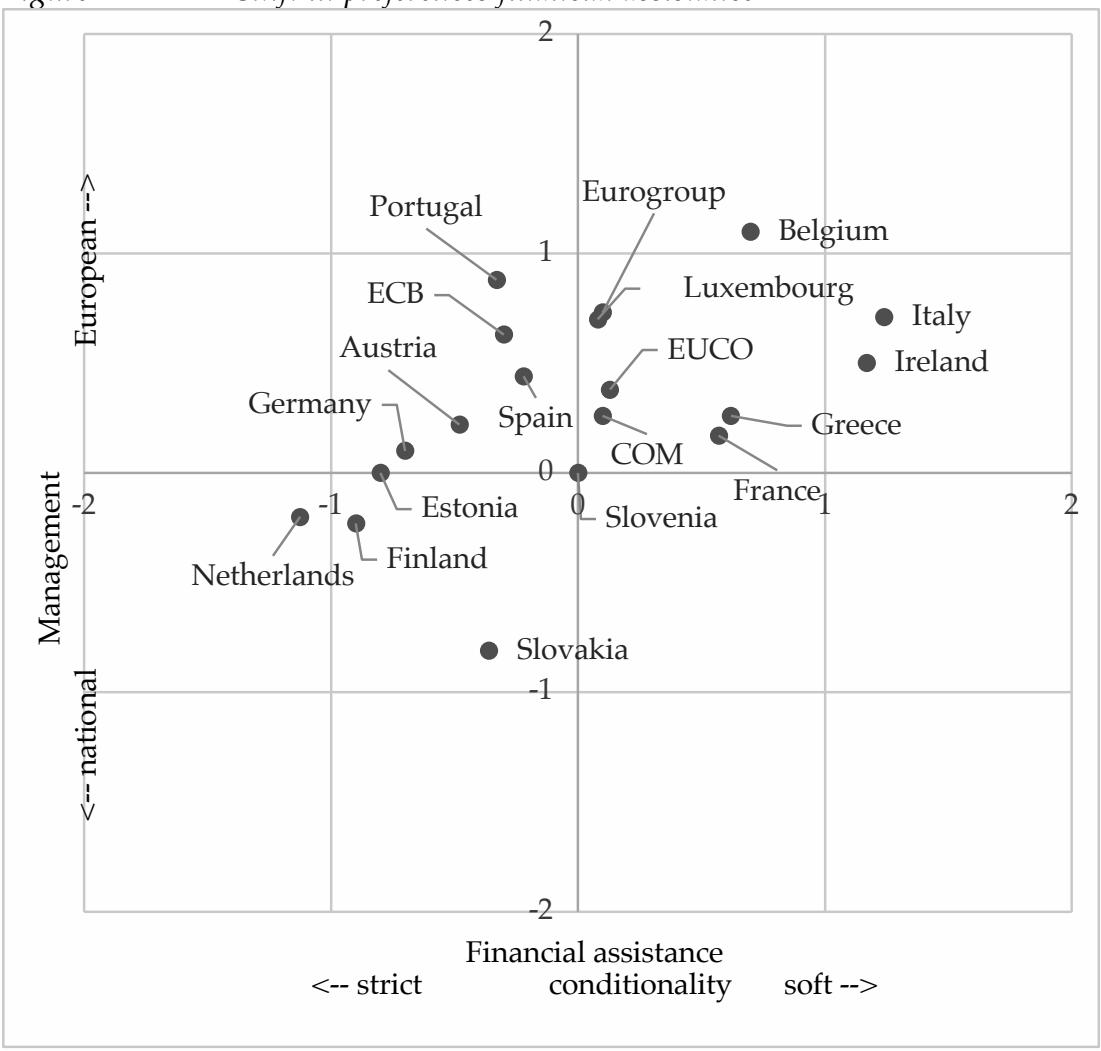
[90] European Parliament (2010). Resolution on the draft European Council decision amending Article 136 TFEU, 23 March 2011

[91] https://www.imf.org/en/News/Articles/2015/09/28/04/53/sonew050910a

Figure 4.4.1.2 Shift in preferences financial assistance



Source: Author's own data and design

Despite their initial preference for national adjustment as optimal crisis response and their opposition to bail-outs and transfers, which culminated in the call for the introduction of an orderly sovereign default procedure, the creditor countries opened up to an alternative crisis response.[92] They were now ready to provide loans to member states in financial difficulties under the conditions that the receiving country would undergo a severe macroeconomic adjustment programme foreseeing rapid fiscal consolidation and far-reaching structural reforms, that the IMF would be on board as a guarantor for strong conditionality of the programmes, that the private sector

[92] https://www.tagesschau.de/wirtschaft/griechenland692.html

would be involved, that the ECB would not become the lender of last resort, that loans would be underpinned with "punitive" interest rates, and that in exchange for setting up financial assistance EMU would get more stringent fiscal rules.

All of these measures were geared to shield the taxpayers in the creditor countries to the greatest extent possible from sharing the burden of adjustment and to avoid moral hazard (Interview #20). The French (and very late also the Austrian position[93]), however, shifted when it lost its triple-A rating in early 2012 (Wiesmann et al., 2012). France, whose government had shifted from the centre-right to the centre-left in the meantime, Italy and Greece backed by Belgium openly advocated for the introduction of "Eurobonds" something the creditor countries fundamentally opposed.[94]

Euro area Member States were, however, very clear in their preference of saving the euro and preserving the integrity of the euro zone. The German chancellor Merkel said as early as 13 May 2010 in a speech to honour the then Polish Prime Minister Tusk with the Charlemagne prize "if the euro fails…Europe fails, the idea of European integration fails" (Merkel, 2010). Similarly, she stated on 27 February 2012 in front of the Bundestag: "Europe fails if the euro fails".[95] She, however, also repeated the German negotiating position to be against any discussion on an increase in the financial means of the EFSF and ESM. French President Sarkozy stated that 'if we created the euro, we cannot let a country fall that is in the euro zone'.[96] Hereby he declared France's support to save Greece. The Greek government itself made clear that there was 'no chance' that it would leave the euro (Hopkins, 2010). Later on, France's President Hollande and Italy's Prime Minister Monti declared "they are determined to do everything to protect it [the euro]".[97] So did Merkel

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[93] The shift in the Austrian position can be traced in the quotes but their limited number falls short of making the shift visible in the graph.

[94] http://www.spiegel.de/politik/ausland/kanzlerin-merkel-schliesst-euro-bonds-aus-a-841115.html; http://www.reuters.com/article/us-eurozone-idUSBRE85O0CS20120626

[95] Government declaration of Chancellor Merkel on financial assistance to Greece and the European Council of 1/2 March 2012 in Brussels, Berlin, 27 February 2012, https://www.bundesregierung.de/ContentArchiv/DE/Archiv17/Regierungserklaerung/2012/2012-02-27-merkel.html

[96] Financial Times, 2010, 'If Greece falls, euro is pointless', The Financial Times, 6 March 2010, available at http://www.ft.com/cms/s/0/db2dd602-2914-11df-972b-00144feabdc0.html?ft_site=falcon&desktop=true#axzz4GM9XSPdn

[97] Joint declaration by M. François Hollande, President of the Republic, and Mr Mario Monti, Prime Minister of Italy, Paris, 31 July 2012 http://basedoc.diplomatie.gouv.fr/vues/Kiosque/FranceDiplomatie/kiosque.php?fichier=baen2012-08-01.html#Chapitre1

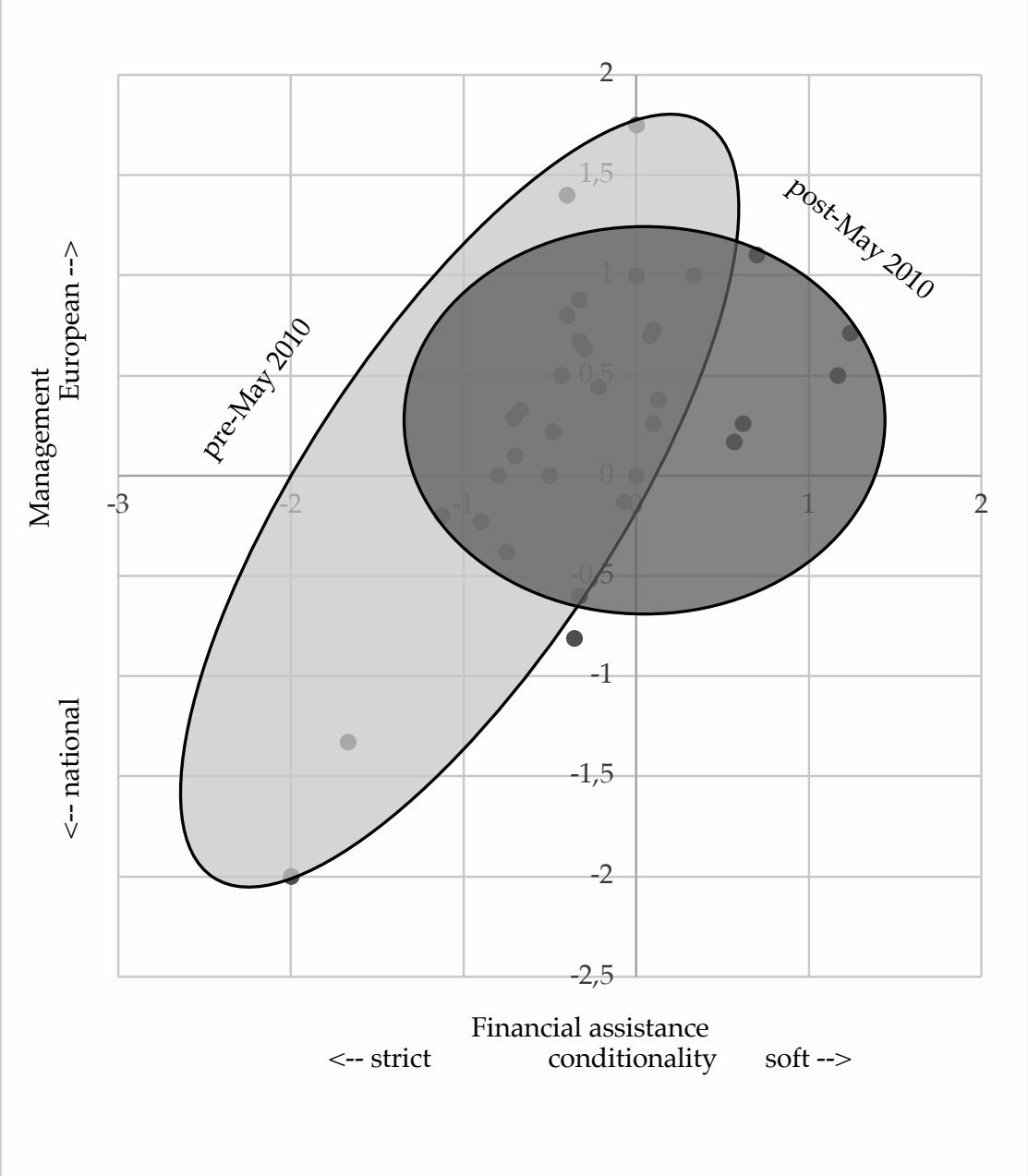
ensure that Germany will 'stand by the euro' in a speech to the German Parliament in June 2012.[98]

The Commission softened its stance as well. It advocated for increasing the rescue funds and for creating a permanent crisis mechanism (Rehn, 2010, 2011). The Commissioner in charge also argued for relaxing the credit conditions to not overburden countries pursuing an adjustment programme (Rehn, 2011; Interview #18). Moreover, following a request by the European Parliament it launched a Green Paper with options for the introduction of 'Stability Bonds', a form of Eurobonds (European Commission, 2011). The Commission also publicly articulated that the ECB should play its role albeit stating that it doesn't want to interfere with the independence of the central bank (Barroso, 2010). Overall, the Commission, especially at the level of the services, seemed to have been more in line with France with regard to financial assistance mechanisms (Interview #20). The ECB also released the pressure on governments by taking a more activist role. It was now ready "to do whatever it takes" but "within its mandate" (Draghi, 2012).

Figure 4.3. below illustrates the shift in preferences that has been taking place around the weekend of the 9 May 2010. It shows how far apart the positions of the actors had been before the agreement to financially assist countries in difficulties. The positioning after May 2010 shows how actors moved closer together, which illustrates the finding of agreement. Moreover, the figure shows that actors converged on the preference for a European response to the crisis. It also shows that a majority of actors was in favour of applying strict conditionality to granting financial aid.

[98] Government declaration of Chancellor Merkel on the Stability Union, the Fiscal Compact and the ESM, Berlin, 29 June 2012, https://www.bundesregierung.de/ContentArchiv/DE/Archiv17/Regierungserklaerung/2012/2012-02-27-merkel.html

Figure 4.4.1.2 Preferences financial assistance compared



Source: Author's own data and design

4.4.2. Actors' interests and ideas: Testing proposition 1.

Proposition P1 assumes that "actors' preferences based on material interest were more important in shaping the policy response than actors' preferences based on ideas" meaning that in the formation of the preferences on what

policy design to choose to respond to the crisis ideas on the economy or economic policy mattered less than financial or institutional interests.

The institutional framework of EMU did not foresee financial assistance to euro area member states in financial difficulties such as caused by a financial, economic or sovereign debt crisis. Moreover, such assistance has been ruled out explicitly in the Treaties. In response to the crisis, however, euro area member states little by little agreed to set-up such mechanisms starting from bilateral loans to a temporary and ultimately a permanent mechanism to financially assist member states. This shows that despite the initial diverging or even juxtaposed preferences actors ultimately agreed to complement EMU by crisis management mechanisms. There are several explanations for the diverging preferences of actors how to respond to the sovereign debt crisis.

First, there was a difference in the diagnosis of the crisis. While French and Italian policy-makers early on in 2010 believed that the crisis could spill over from Greece to other countries and therefore advocated for immediate and concerted action at EU level to bring the crisis under control. The reaction in Germany, the Netherlands, Finland and Austria had been different. In these countries, the political leadership did not realise that speculative attacks against Greece could threaten the integrity of the euro area as a whole. They saw it as a problem that had been created in Greece and could be solved in Greece by simply sticking to rigorous fiscal consolidation. This view had been held up even when the crisis spilled over to Ireland and Portugal.

Second, the differences reflected the prevailing economic doctrines in the various countries. France and Italy were more influenced by Keynesian approaches supporting active government intervention in economic governance while German, Dutch, Finnish and Austrian policy-makers were more inclined to follow the ordo-liberal approach foreseeing a limited role for governments only operating as a factor of stability setting a general rules-based framework and providing a stable framework guaranteeing sound money leaving economic activity predominantly to private actors (see chapter I).

Third, the material interests between creditor and debtor countries varied. Creditor countries had an interest in limiting their financial commitment to countries in financial difficulties and thereby the risk to incur budgetary losses. They saw this best executed if debtor countries would carry the burden of adjustment. The objective of limiting their own exposure is also well documented in the fact that they only agreed progressively to set up financial assistance mechanisms. Debtor countries had an interest in creditor countries firming up their commitment to financially support them to limit their own adjustment.

The EU institutions had a strong preference for setting up permanent crisis management mechanisms[99]. Their preferences were largely based on the same assessment by France and Italy, that there is a risk of the crisis spilling over posing a real threat to the integrity of the euro area.[100] The Commission also made very clear from the beginning that Greece should remain within the euro area as "it shares a common destiny with the other members".[101] It also tried to demonstrate that it had the means to effectively address the crisis. Both, President Barroso and Commissioner Rehn made very clear that there should be a "European response" and that it should be the European Commission that should be in the lead of designing and implementing the response.[102] When it came to the specific design of the policy response, its preferences were more closely aligned with those of the creditor countries. However, it advocated for non-punitive interest rates on loans to avoid the over-burdening of countries in an adjustment programme.[103] It was also important for the European Commission to safeguard the independence of the ECB. Hence, its preferences for allowing the EFSF and ESM to purchase government debt in the secondary market.[104] An operation considered important to contain sovereign debt crises. The European Commission aligned itself as well with the debtor countries in calling for an increase of the firepower of the rescue funds. The ECB largely shared the preference of the European Commission.

Material or ideational drivers?

In order to confirm proposition 1, there needs to be a causal link between material interests and actors' preferences. The debtor countries or those under stress had a clear material interest in the establishment of financial assistance at EU level. Their refinancing operations became more and more costly. They risked being cut off financial markets completely. They were also in need of taping financial resources to recapitalise their banking sector. The economic costs of an adjustment purely executed at national level were extremely high. The way the financial assistance mechanisms have been designed were not along their ideational preferences. They were intergovernmental, and featured strict conditionality and initially punitive interest rates. Contrary to what these countries wanted, the role of the ECB remained also limited. It

[99] Rehn, 2010, Reuters, 15.4.2010; Juncker, 2010, Reuters, 8.10.2010 Rompuy, 2010, Reuters, 29.10.2010.
[100] Barroso, J.-M., 2010, Reuters, 30.4.2010.
[101] Rehn, 2010, Reuters, 15.05.2010.
[102] Barroso, 2010, Reuters, 7.5.2010; Rehn, 2010, Financial Times, 19.3.2010.
[103] Rehn, 2011, Reuters, 5.3.2011.
[104] Rehn, 2011, Reuters, 6.6.2011.

seems quite clear that material interests were the main driver behind the preferences of countries under market stress (Interview # 7, 9, 10, 12, 14, 16, 20, 21).

The situation in the creditor and non-stressed countries has been more nuanced. The preference for strict conditionality and avoiding moral hazard was very much motivated by ideas on economic policy making how to create the right incentives. This is also shown by the initially high interest rates on the loans. The same applied to the role of the ECB, which should remain limited and certainly not become that of a lender of last resort. These countries were not only about short-term crisis management measures but wanted to create a system that works well in the long run (Interview #19, #20). Different conceptions of what constitutes "good economic behaviour" was very important (Interview #11). France albeit a member of the "club of creditors" in 2010-2012, was an outlier here not sharing the same ideational approach. But the creditor countries were also very keen on limiting the size of the rescue funds and therefore limiting the exposure of their own budgets to potential losses. Due to the non-existence of crisis management mechanisms, which would have provided for an orderly resolution to the crisis everything had to be decided in an "emergency mode" (Interview #14). There was huge fear of spill over effects from developments in Greece, particularly its banking sector, to other European banks, which were highly exposed (Interview #16). France and Germany were also very clear in the early months of the crisis that there should be no haircut or debt restructuring in Greece as this would have imposed huge losses on their banks (Interview #1, #8). Countries also had a significant material interest in the financial stability of Ireland and its banking sector. The potential spill over in financial markets from a senior creditor wipe out of Irish banks may have caused massive losses of senior creditors in France, Germany, Italy and Spain and therefore another round of bank recapitalisation. The Irish bail out has been considered less costly (Interview #20). Most of them also had a keen material interest in the continuation of the euro because its demise would have caused enormous costs (Interview #20). France had a very strong material interest as well in the stability of two of its main trading partners, Italy and Spain. The fear of contagion was very high and the objective was to minimise initial imminent collateral damages. Ideas or long-term considerations about the long-term architecture and the good structure of economic policy making played less of a role (Interview #16, #21).

The material interest of the EU institutions, the ECB and the Commission, was not of a financial but an institutional nature. The Commission needed to prove its role as European executive. Its preferences were clearly aligned with its objective of strengthening its own role. This was a complicated task as initially the Commission had no competencies in crisis management. When Member States in the absence of a Community framework for crisis management decided to set-up the financial assistance mechanisms on an intergovernmental basis the Commission was very eager to at least deliver the technical assistance and analysis necessary to set up the rescue

mechanisms. Partly this was motivated by the fear of becoming (institutionally) irrelevant in economic governance. The European Central bank had an existential material interest in the preservation of the common currency. Its institutional survival was at stake. It also had distinct ideas how the euro area should function. However, when it realised that the response given by Member States was insufficient to mitigate or resolve the crisis, it took recourse to unconventional monetary policy measures it initially refused to undertake to safeguard the integrity of the euro area. In addition to material interests, there was a similar ideational approach in both institutions present, at least at political level, whose guiding principal was to avoid moral hazard in designing the rescue mechanisms.

The interview data shows that both material interests and ideas on the economy played an important role. Most of the respondents state that ideas were very important in shaping actors' policy preferences and the crisis response. They stressed the differences in traditions in the economic and legal field, which influence how actors approached the crisis response (Interview #19, #20). The moral perception of the crisis was an important factor in some of the creditor countries but it was completely absent in the majority of countries. (Interview #4, #17) There were significant differences in approach on what fiscal policy and monetary policy could or should do. These differences in thinking, however, did not come so much to the fore as actors were "under the pressure of the crisis and the markets" (Interview #16). One respondent also argued that it was not ideas on economic policy making that mattered but rather a specific moral thinking (Interview #4). The important role of ideas is also reflected in the questionnaire were 28.57 % replied that they disagree with the statement that material interests are more important. Another 28.57 % neither agree nor disagree with the statement, which shows that ideas are an important factor.

But if we pitch material interests of the actors and their ideas on the economic policy making against each other than the majority of interviewees sees the material interest of the actors as more important than their ideas on the economy (Interview #1, #9, #10, #14, #15, #17, #20, #21 #22). Actors have "not been thinking of ideological responses in the heat of the crisis (Interview #22). Several respondents stressed that the reason why there was no early debt restructuring in Greece was that French, German and Austrian banks were heavily exposed to Greek debt and would incur huge losses (Interview #1, #12, #14, #20). Avoiding "*financial losses*" and preserving "*financial interests*" played a very important role when setting up the financial assistance mechanisms as mentioned by numerous respondents (Interview #7, #10, #12, #20, #21). On the one hand because, a Greek insolvency would have threatened French and German banks with high exposures (Interview #21). There was an increasing fear that first round losses in the banking system "*would not immediately continue to cause second and third round effects*" (Interview #12). On the other hand, the design of the rescue mechanism needed to shield the creditors from incurring high costs. The primary interests

of creditor countries in setting up the EFSF and ESM was that their design should "*limit the risk that they make any losses*" (Interview #10). Closely related to avoiding financial losses was also the fear of falling pray to financial markets. Respondents mentioned that actors had the fear that "*contagion would spread*" and that they could "*fall in the hands of the markets*" (*Interview #7, #15).*

A minority of interviewees considers material interests and ideas on the same footing (Interview #11, #12, #19). These group of respondents argued that it is very difficult to entangle material interests and preferences based on ideas. They would go "hand in hand" (Interview #19). Another respondent states that "people's preferences usually are line with their material interests" (Interview #12). Only one interviewee believes that ideas were more important than material interests (Interview #4). It is argued that actors primarily looked for solutions, which were in line with their political affiliation and which they could get through their parliaments. This view is challenged by various respondents, who evoke that actors were driven by events with the only aim to contain the crisis (Interview #14, #16, # 17, #22).

The data from the questionnaire shows that a majority of respondents, namely % 42.85 %, (strongly) agrees with the statement that "material interests of the actors had a greater influence on the policy response than their preferences based on ideas". 28.57% neither agree or disagree with this statement while 28.57 % disagree. 42.85 % of the respondents also agree with the statement that the "material interests of the actors were the fundamental drivers to converge or agree on the policy response". Only 14.29 % disagreed with this statement.

To conclude, taking the data from the interviews and the questionnaire, both have a bias that ultimately the main driver of actors' preferences in establishing financial assistance mechanisms were their material interests. While in general one could assume that actors' ideational policy preferences are aligned with their material interests, a sovereign debt crisis situation seems to be an exception. Basic ideas such as those on economic policy making usually do not change rapidly but rather incrementally. In a crisis situation such change seems to accelerate if something is at stake, such as material interests. The moment of change or shift in preferences happened prior to the weekend of 9 May 2010, which shows a critical juncture (see 5.4.1.). Actors' are ready to trade in ideational preferences for protecting or fostering their material interest in terms of public finances, banks' balance sheets or institutional power. Hence, we can conclude that actors' preferences based on material interest were more important in shaping the policy response than actors' preferences based on ideas. Actors' preferences, their evolution and convergence, were an important factor in shaping the policy response. Alone it cannot explain the concrete policy response though. Preferences predominantly determine the broader choice of an instrument

but not its concrete design. This is why we analyse the strategic behaviour of actors and their interaction in the following section.

4.4.3. Actor behaviour ("bargaining power"): Testing proposition 2.

In this part, we analyse the capabilities and strategic behaviour of actors during the process of negotiating the policy response within the institutional set-up. The question to be addressed is what impact the various actors have in shaping the policy response. We outlined in a previous section that large parts of policy-making on financial assistance has been based on an intergovernmental process. Therefore, the analysis will concentrate on Member States' governments and their interaction. However, we note that although the policy instruments are intergovernmental the bargaining took place in the main formal and informal EU institutional framework. Therefore, the analysis will also highlight the role of the EU institutions. Proposition 2 assumes that "actors with greater bargaining power have more influence on the policy response". We consider proposition 2 to be confirmed when its sub-propositions are confirmed, namely (1) "actors with greater power resources have more influence on the policy response", (2) "actors with a BATNA have more influence on the policy response", and (3) "actors that face domestic political constraints such as a formal parliamentary approval, judicial scrutiny or critical public opinion of the policies they agree to at EU level have a greater influence in shaping the policy response than actors where these constraints are absent".

We will now discuss actors' capabilities before we turn to analysing how the institutional set-up impacted on the policy-making process.

4.4.3.1. Greater power resources

The analysis shows that with regard to establishing the financial assistance mechanisms, Member States are the actors with the greatest power resources. Big Member States played a particular important role in establishing financial assistance mechanisms. As one interviewee put it: "clearly size matters" (Interview #16). Population size in EU negotiations usually translates into voting power. The textual analysis shows, however, that the traditional "size equals voting power" played less of a role in the establishment of the financial assistance mechanisms as they have been largely based on an intergovernmental basis, which required unanimity and provided each country with a veto power.

The interview data shows that the power to influence decisions to set up the rescue mechanisms was predominantly based on the economic weight of a

Member State. The most influential players in a sovereign debt crisis are those "that can put money on the table" (Interview #1, #7, #12, #16, #17, #19). The fact that the biggest Member States were also the largest economies played an important role. France and Germany were the biggest contributors to the mechanism (Interview #14). There was consensus among the interviewees that these two countries not only had greater influence but "the decisive influence" in setting up the rescue mechanisms (Interview #7, #8, #17). No decision could have been taken without them (Interview #4). The results of the questionnaire show that 50 % of respondent (strongly) agree with the statement that bigger Member States have a greater influence on the policy response. 35.71 % disagree and 14.29 % neither agree nor disagree. Moreover, the respondents to the questionnaire rank Germany and France as "(very) influential" actors with Germany slightly more influential. The data shows that size in terms of economic weight is an important factor in determining an actors' influence. It also illustrates the decisive role of France and Germany.

That the size of the economy is not necessarily a determining factor is shown in the case of Italy. As the third largest economy in the euro area just behind France it should have had an impact similar to France or even Germany in the negotiations. There is no track record of significant Italian influence on the policy-making process though. It failed in obtaining its perceived key objective, a solution within the Community framework. Its role is described as having supported or simply accepted what has been put on the table by the other actors (Interview #7, #12, #20). This may be due to its rather weak economic and financial position (Interview #4). It may also be due to the fact that no specific idea, no 'intellectual leadership' came from Italy during the negotiations (Interview #7). Respondents stated that "it has punched below its weight" (Interview #11, #22)

The relative matter of size in intergovernmental negotiations is also illustrated by the cases of Finland and Slovakia. Both threatened to use their veto if their conditions in granting financial assistance would not be met. A successful manoeuvre in which Slovakia was granted an opt out of the bilateral loans to Greece (Interview #21). Finland's voice "was much stronger than its size" as it obtained collateral from Greece for its part in the EFSF loans (Interview #4). Spain as the euro area's fourth largest economy was in a comparable situation to Italy. But with regard to financial assistance programmes it could in contrast to smaller euro area member states avoid a fully-fledged macroeconomic adjustment programme and was granted a tailor-made programme for the financial sector only (Interview #16, #17). The interview respondents attribute this, however, less due to its size but more to the fact that the then head of government belonged to the same political family as the German chancellor supporting austerity measures (Interview #1, #15).

The European institutions ranked low in bargaining power. The European Commission formally had no role in intergovernmental procedures. It could not make use of its right of initiative as provided for under the Treaties and it had no formal role in the negotiations. It launched several ideas for a European, a supranational solution but it failed to achieve a solution within the Treaty framework.[105] However, the process of establishing financial assistance was very much driven by the Commission (Interview #16). It was successful in influencing the negotiations because the discussions among Member States took place in established EU fora such as the Eurogroup (Interview #7, # 12, #16, #21). It was also part of the so-called Washington Group (see Interview #11, #16, #20). It was the Commission that proposed the "initial design, that put the first draft on the table and who said how we can do that" (Interview #4, #7, #8, #11, #17). Member States relied on the European Commission for its technical expertise (Interview #20). In the Eurogroup it usually took the floor directly after the opening statement of the Eurogroup President and presented its analysis of the situation and options to the representatives of the Member States. It was seen as a facilitator to the negotiations acting "under the instructions of the Task Force on Coordinated Action and the EWG" (Interview #11). It did not weigh on the final decisions (Interview #8). The Member States were in the "driving seat", which was primarily because, the Commission "cannot put any money on the table" (Interview #8, #11, #17). One of the interviewees even suggested that the "Commission was non-existent in the whole affair" due to its lack of expertise (Interview #19).[106] Neither the interview nor the questionnaire data, where 28.57 % of the respondents in the questionnaire state that the European Commission was very influential in establishing the financial assistance mechanisms and 35.71 % believe it was influential, would confirm the absence of the Commission in the process. The Commission's power resource was its technical expertise and its role in the institutional set-up, which permitted it to act as a facilitator to the negotiations. However, only the European Parliament and the IMF are considered less influential than the Commission by the respondents of the questionnaire.

The European Central Bank similar to the European Commission had no formal role in establishing financial assistance mechanisms (Interview #7, #10). The fact that it had a role is due to the crucial function of a central bank in a sovereign debt crisis (Interview #10, #11). Its impact on the political decision-making process was not direct but it influenced the preferences of the other actors. It played a very important role in the decision not to include debt restructuring in the first Greek programme (Interview #8). By providing financial assistance itself through the SMP and OMT, it calmed markets and

[105] Apart from the EFSM, which in practice only played a limited role.
[106] One of the reasons why the IMF has been brought on board.

therefore bought Member States time for finding an agreement on the different mechanisms (Interview #10). The change in the leadership in the ECB to Mario Draghi, who had a view of a much more activist ECB than his predecessor and his 'whatever it takes-statement' convinced markets they would not be able to push countries anymore (Interview #8). Moreover, it provided ideas and technical expertise how to set up financial assistance mechanisms. Some see it as having been in the driving seat of most of these proposals (Interview #12). Like the Commission, it was, however, unsuccessful in pushing for a European solution.

Contrary to the other EU institutions, the European Parliament played no role in negotiating the establishment of financial assistance due the fact that the mechanisms have been established on an intergovernmental basis and the fact that it was literally not sitting around the table as for example the European Commission and the ECB (Interview #9, #10, #11). Crisis response is the task of the executive not the legislator (Interview #11). The European Parliament took a backseat role. It also could not provide intellectual stimulus, or at least not to an extent that it was considered by the other actors. This has been confirmed by all interviewees. The respondents to the questionnaire ranked the EP's influence at "none at all" (46.15%) or very little (53.85%)

The International Monetary Fund is not part of the EU institutional set-up. Its role derived from its organisational mission and experience in sovereign debt crisis, which was absent in the EU institutions. At the onset of the crisis there was a strong political will to deal with the problems solely among EU countries and institutions. An IMF involvement was seen as a weakness (Interview #14). However, the lack of expertise within the EU how to manage sovereign debt crisis and the distrust of certain governments vis-'a-vis the European Commission lead to the decision to bring the IMF on board (Interview #8, #14, #16, #19). The role of the IMF has been limited to providing expertise on how to implement the macroeconomic adjustment programmes in the countries that had requested financial assistance (Interview #10). It was not an actor in negotiating the setting up or the design of the financial assistance mechanisms themselves (Interview #4, #11, #22).

4.4.3.2. Better alternative to a negotiated agreement

The analysis shows that economically and fiscally sound euro area member states had more influence. France and Germany both enjoyed the strongest

market confidence.[107] This also applied to Austria, Finland and the Netherlands.[108] There is consensus that countries with sound fundamentals have a stronger hand in negotiations in a sovereign debt crisis. They were less immediately threatened by the crisis. They could "walk away" from the negotiations (Interview #11, #12, #16). These countries were more successful in implementing their preferences in the final agreement than the debtor countries: strong conditionalities and limited financial firepower for the rescue mechanisms. The latter was not shared by France, which advocated for a 'bigger bazooka' but it could not overcome German opposition to it (Interview #20).

That economic and financial soundness matter show particularly the cases of Austria, Finland and the Netherlands, which are rather small in population size, but whose voice has been heard around the negotiating table, particularly with limiting the size of the rescue instruments and the strict conditions attached to their loans (Interview #1, #20, #21). Being creditor and triple-A rated countries, they punched above their weight, sometimes supporting German positions, sometimes going beyond (Interview #8, #15).

Germany had a 'primus inter pares' role or 'the last say' in establishing and designing the financial assistance mechanisms (Interview #8).[109] There was a clear understanding among the other actors that if Germany voiced its opposition to a policy option for legal or political reasons, it would not be further pursued (Interview #7). Germany also successfully obtained a veto in the EFSF and the ESM something that has been resisted by other Member States to prevent seeking agreement from creditor countries on every single decision on releasing money. This also being a reason why 'Southern' Member States preferred a European solution, which would have operated under qualified majority voting. This shows that the influence of 'stronger' economies has been limited by the fact that debtor countries were unlikely to avoid default, potential exit from the common currency and contagion to the rest of the euro area. Hence, some form of contribution of initially reluctant countries such as Austria, Finland, Germany and the Netherlands was inevitable to safeguard the integrity of the euro area (Interview #11, #16). None of these countries had a credible and economically viable alternative to abandon the common currency (Interview #7, #10).

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[107] Germany and France had a triple-A credit rating in the relevant period. The latter was downgraded by Standard & Poor's in early 2012: https://www.reuters.com/article/us-france-rating/frances-loss-of-aaa-badge-a-blow-to-sarkozy-idUSTRE80C2GO20120113 .

[108] Finland started to lose its triple-A rating only in October 2014, http://www.helsinkitimes.fi/finland/finland-news/domestic/14016-finland-loses-its-last-triple-a-credit-rating.html .

[109] This view is not uncontested though as one interviewee stated that France and Germany worked as a real duo (Interview #14).

However, overall highly indebted countries such as Greece, Ireland, Portugal and Cyprus seem to have had little influence. Their sole possibility was to evoke imminent disaster and stress their incapacity in order to force reluctant creditor countries to come to their rescue (Schimmelfennig, 2015: 185). The fact that ailing economies had less influence is also illustrated by the fact that Ireland, Cyprus and to a limited extent also Spain had to accept to participate in (macro-economic) adjustment programmes, something they resisted in the first place. Only under the pressure from their European partners, and financial markets, they accepted loans from the EFSF. The loss of influence of weaker economies is illustrated by the following quotes. Moreover, the countries under distress were not strong enough to shape the policy response because as "a demandeur for money, you are always in a weaker position" (Interview #9, #16). The large majority of respondents (85.71 %) of the questionnaire stated that economically and financially sound Member States have a greater influence on the policy response. 50 % strongly agree and 35.71 % agree with this statement. No respondent disagreed with the statement.

Despite the intergovernmental nature of the process, the European Commission and the European Central Bank had an interest in helping Member States to find an agreement on establishing financial assistance mechanisms. None of them could "simply walk away" from the negotiations. The European Commission, which faced criticism by governments for a lack of expertise, needed to prove its role as European executive. Its institutional standing was at stake (Interview #16). For the ECB, the imminent threat of a meltdown of the euro, meant it had no alternative than to support governments in finding agreement on financial assistance mechanisms.

4.4.3.3. Domestic constraints

Several Member States faced domestic constraints with regard to decision-making on establishing financial assistance mechanisms. Parliamentary scrutiny especially played a role in the 'Northern' countries, where governments could only commit to policies at EU level after approval by their respective parliament (Interview #4, #10, #12 #20).[110]. Such a requirement did not exist or was less pronounced in other countries, where the Minister simply 'informed' the parliament (Interview #20). The governments in countries with strong parliamentary scrutiny usually concurred with the position of the parliamentary majority, which supported them. This obviously raises 'the

[110] Austria, Finland, Germany, the Netherlands, Slovakia foresaw a strong role for their parliaments.

chicken and the egg' problem, where governments could influence parliaments in their orientation and then later use this in supranational negotiations (Interview #4, #12). Most interviewees, however, consider this a genuine motive albeit the widely shared regret that it slows down procedures and contributed to the too-little-too-late criticism of the euro area's response to the crisis (Interview #7, #14, #16, #19,#20). Interviewees also stated that governments facing parliamentary scrutiny were eager to properly explain the decisions they had committed to at EU level to get parliamentary approval. Governments were considered as "loyal to Europe" and seen as "trying to convince" their parliaments that what they had agreed at EU level was "a good deal" (Interview #16). Parliamentary procedures mattered less in France and in debtor countries though (Interview #8). When for example the Cypriot government rejected the agreement on the bail-out conditions, the ECB threatened to cut off liquidity, which pushed the Cypriot parliament into accepting the agreement albeit with some minor modifications.[111] Parliamentary scrutiny was not the only domestic factor that weight on governments bargaining power. The establishment of financial assistance mechanisms also faced judicial scrutiny in several Member States, particularly in Estonia, Ireland and Germany. While in Estonia and Ireland only the ESM was challenged, the German Bundesverfassungsgericht had to deal with complaints against the ESM and the EFSF. The national courts played an important role in scrutinizing EU policies during the crisis. Ultimately all cases have been dismissed, albeit with some conditions for governments to implement to ensure compliance with the respective national legal order. Compliance with legal requirements was a concern shared by all actors (Interview #8, #12, #14, #19, #20). Actors frequently raised in negotiations the potential challenges in court concerning certain policy options but this was seen by all actors as a genuine concern (Interview #7, #14, #20). Once actors had committed to a policy at EU level, they did not seek legal recourse or favour a diverging verdict.[112]

Judicial scrutiny played less of a role for EU institutions, which devised policies based on their competencies attributed under the EU treaties. However, both the Commission and the ECB had to take into account that their proposals and measures would also stand the test in national courts. The respondents of the questionnaire (strongly) agreeing with the statement that actors that face domestic political constraints had more influence on the policy response, namely 78.58 %.

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[111] https://www.economist.com/charlemagne/2013/03/25/a-better-deal-but-still-painful, 25 March 2013.

[112] See for example German Minister Schäuble, who warned the Court not to derail the ESM, https://www.reuters.com/article/uk-germany-court-schaeuble-idUKBRE8690FL20120710, 10 July 2012.

Domestic public opinion played less of a role. It did particularly not matter much in debtor countries (Interview #8). Governments tried to use the fact that they face a hostile public or even Eurosceptic public opinion to push for their policy preferences. Contrary to judicial and parliamentary scrutiny, these arguments have been dismissed by their European partners on a regular basis with the argument that they would need to deal with this on their own (Interview #14, #20). Not least because some Ministers or Heads of government around the negotiating table were from the same political family as the opposition in those countries and wouldn't mind supporting their own parties. The respondents of the questionnaire largely believe that actors that faced a critical public opinion had more influence on the policy response. 14.29 % strongly agree and 50 % agree with this statement. 21.43 % (strongly) disagree with this statement. Overall, questionnaire respondents ranked parliamentary scrutiny as the most influential domestic constraint, followed by national elections, national constitutional courts and national public opinion. The constraints posed by national opposition parties ranks last. These observations allow for several conclusions with regard to proposition 2 and the bargaining power of actors in the establishment of financial assistance mechanisms.

First, the most influential actors are Euro area Member States governments. They have the greatest power resources. They make the decisions. The EU institutions, namely the European Commission and the European Central Bank, are in a limited, more consultative role. This in principle is not surprising for the ECB as it is not an actor in the EU formal decision-making procedures. The role of the Commission is, however, severely limited compared to under the formal EU procedures. Compared to the Commission, the role of the ECB nevertheless increased in importance. This was due to its technical expertise and to the crucial role the instruments of a central bank play in a sovereign debt crisis. The European Parliament saw its role degraded to a simple opinion-giving body. Among Member States the biggest Member States, namely Germany and France, have the greatest influence, due to their economic size. But size does not necessarily correlate with a bigger influence on the policy response. On the one hand there is Italy, the Euro area's third largest economy, which has been rather absent in influencing the negotiations. On the other hand, there are small countries such as Finland and Slovakia that could effectively use their veto under the intergovernmental procedures to obtain concessions with regard to their preferences.

Second, the observations also show that economically and financially sound Member States such as Austria, Finland and the Netherlands have a greater influence than debtor countries. They can implement their preferences in the policy response more easily, particularly if they concur with the preferences of one of the bigger Member States. This shows that the so-called Northern countries had a greater influence on the policy response than the Southern countries, which were primarily in a worse economic and financial condition. The fact that Italy although being a large economy played less of an important

role in the policy-making process may also be explained by the fact that its economic and financial position was rather weak. The reason why the economically stronger countries had to make concessions on their preferences can be mainly explained by the fact that the euro binds all countries so closely together that a worsening of the crisis or even a break-up would have entailed very high costs for all of them.

Third, actors that faced parliamentary scrutiny such as Austria, Finland, Germany and the Netherlands had more influence on the policy response as they could effectively and legitimately use the argument that supranational decisions needed parliamentary approval in the negotiations – subject to the fact that the government and the parliamentary majority shared the same position. Judicial scrutiny played an important role but merely with regard that all actors wanted to avoid legal obstacles to the implementation of the policies. It did not necessarily increase the bargaining power of an actor with the exception were the law puts limits on policies and the actor agreed with these. Domestic public opinion although being used by actors around the negotiating table has not been considered an argument in the discussions. Hence, it did not influence the bargaining power of actors.

Fourth, something that was initially not included in the analysis, actors that could provide intellectual leadership such as technical expertise, fresh ideas or new proposals, increased their influence in shaping the policy response.

4.4.4. The role of formal and informal institutions

In the following the analysis of actors will be complemented by analysing the role of the formal and informal institutions of EMU. There are several institutional features that shape and facilitate agreement among the actors and, hence, have an impact on the policy response: the Franco-German relationship as an informal institution, and the European Council, the Council and its sub-sets of negotiations, and the provisions in the EU Treaties as formal institutions.

4.4.4.1 The Franco-German relationship

The Franco-German relationship played an important role in negotiating the establishment of the financial assistance mechanisms. Regularly, Eurogroup meetings were preceded by a meeting of the French and German Finance Ministers, who identified and coordinated common positions. Likewise, the French President and the German chancellor met bilaterally to prepare important Euro summit or European Council meetings (Interview #14, #20). France and Germany had joint working groups on the level of ministerial

staff, who prepared and coordinated common positions (Interview #16). They were literally speaking every day on the phone (Interview #14, #19, #20). The significance of the Franco-German axis for the response to the Euro crisis became obvious with the agreement the two leaders made in Deauville on 5 December 2011 (Brunnermeier et al., 2016; Fabbrini, 2015). The "Deauville-deal" became the blueprint for the conclusions of the following European Council meeting on 8-9 December (Interview #12, #14, #20). The Franco-German couple was responsible for finding actual 'solutions', which were accepted by the other countries in subsequent meetings (Interview #14, #16). Quite often this happened without alterations (Interview #14, #19). As one interview bluntly put it: *"While we had joint working groups…we were all waiting for green light from bilateral Franco-German meetings in order to deblock this or that" (Interview #16)* France and Germany were not always on the "same line" but they were "the powers that upheld the system and came to its rescue" (Interview #4, #7). The data from the questionnaire shows that 35.71% of the respondents share the view that the Franco-German couple was important on all aspects of the crisis response and another 50% believes that they played a crucial role on a few important aspects.

4.4.4.2. The Eurogroup

At ministerial level ECOFIN is the formal institution, where EU finance ministers gather. The discussions on financial assistance, however, took primarily place in the more "informal" Eurogroup, the gathering of Euro area finance ministers. The Eurogroup has seen an appreciation of its scope and function during the crisis (Interview #11). It has changed its "minimalistic role" as set out in the Lisbon Treaty from an informal and deliberative body to an operator taking and implementing significant policy decisions (see Schlosser, 2015). In the absence of crisis management mechanism, the Eurogroup filled the institutional void where euro area member states could share analysis and weigh policy options. It was smaller than ECOFIN and therefore more efficient (Interview #19).[113] They knew each other as a group and the positions of each other (Interview #10, #19). It took the institutional lead in crisis management and served as the principal forum for discussion and negotiations (Interview #9, #21). This was also partly due to the fact that non-Euro area countries viewed this as a euro area crisis only and therefore interests in ECOFIN were not aligned (Interview #10). The majority of respondents to the questionnaire rank the Eurogroup as the most influential

[113] Only the Minister and the Secretary of State take part in EG meetings compared to six people per Member State in ECOFIN.

actor in the establishment of the financial assistance mechanisms. 61.54 % state that it was very influential.

At the margins of the Eurogroup informal sub-Groups started to emerge. Obviously, there was the Franco-German couple, which in the years 2009 and 2010 was only assisted by the ECB, the Commission and the Eurogroup Chairman. It is in this format where the key discussions took place (Interview #11). Later it had been enlarged to Italy, Spain and the Netherlands. This turned into the so-called Washington Group once the IMF came on board, which then was composed of the biggest Euro area member states, Germany, France, Italy and Spain, the Netherlands, and the European Commission, the European Central Bank and the IMF. This group of actors discussed policy options and prepared solutions, which then were discussed and adopted at subsequent Eurogroup meetings (Interview #10, #14). In case it was known that a country would be difficult in the Eurogroup, it was invited to the Washington Group where a deal was brokered before the meeting (Interview #10). Hence, to a certain extent the Washington Group also institutionalised the power of the bigger Member States despite the fact that intergovernmental negotiations actually provide for more influence of smaller Member States (Interview #20).

The fact that not only actors at political but also at expert level had significant influence has been acknowledged by most interviewees. The Eurogroup Working Group, which prepares the ministerial meetings in the Eurogroup, has been mentioned by many as having played an important role in preparing the ground for decisions to be taken (Interview #1, #9, #14, #20, #21). These senior officials behind the Ministers were seen as very influential. This assessment is shared by the respondents of the questionnaire. 61.54 % strongly agree with the statement that the Eurogroup Working Group had a significant impact on how the policies to respond to the crisis have been shaped. Another 38.46 % still agree with this statement.

The respondents rank the Eurogroup Working Group as the second most influential actor in financial assistance - just behind its political master the Eurogroup - with 53.85 % stating it was very influential. Closely related to the well-established cooperation among the actors, is the important role certain individuals played within these configurations. In general, it was important for the influence of an actor whether it was represented by someone who had strong political and professional credibility (Interview #4). Certain Ministers had more cloud than others. A strong power to influence has been attributed to the Chairman of the Eurogroup (Juncker), the President of the European Council, van Rompuy, and the Chair of the Eurogroup Working group, Thomas Wieser the ECB (Interview #4, #12, #16, #21).

4.4.4.3. The European Council

The deliberations of the competent ministers were seconded by a parallel process within the European Council. A meeting of the Eurogroup was often followed by a meeting of the European Council. From 2010-2012 there were also regular meetings of the Euro summit, a format only for Euro area heads of state and government. The Leaders did not limit their discussions to broad political issues or strategic objectives. They went very much into detail of the policy solutions leaving sometimes only the implementation to their ministers (Interview #8, #14, #16, #17, #19). They also delivered new impetus to discussions that got stuck at ministerial level by removing impediments to compromise. The sheer number of EUCO meetings dedicated to the economy in these years is yet another indicator how important its role was.[114] The data from the questionnaire shows that 28.57% of the respondents share the view that the European Council was important on all aspects of the crisis response and another 57.14 % believe that it played a crucial role on a few important aspects.

4.4.4.4. The institutional provisions

When the crisis hit, the euro did not have a proper institutionalised crisis management framework (see above). This was an obstacle to the crisis response (Interview #1, #14, #20). Something that was known to the actors before the crisis (Interview #8). It forced the euro area Member States to build up crisis management mechanisms at a time when trust among them was at the lowest level (Interview #15). While the crisis management framework was inadequate, the institutional set-up still served as *"a sort of legal screen against which these decisions and innovations have been justified and scrutinised"* (Interview #12). Despite its constraining character, the institutional framework still allowed to set up new institutional features (Interview #9). This was particular the case for articles 123 and 125 TFEU, which limited the room of manoeuvre for policy-makers in granting financial assistance to member states (Interview #4, #20). These provisions excluded comprehensive policy responses such as a European Monetary Fund or Eurobonds, both of which required Treaty change. Moreover, the institutional set-up also conditioned a specific immediate response in the sense that *"you had no lender of last resort...that makes you diffuse national budgets for your backstop"* Interview #1). It took long discussions whether Greece needed a bail out and whether the EU Treaties would allow it (Interview #8). Once there was agreement that

[114] 20 European Council meetings and 9 Euro summits.

Greece needed financial assistance then the legal question needed to be solved (Interview #12). The legal question was particularly important to Germany, which has a greater tendency than other Member States to approach EU policy from a legalistic perspective (Interview #7).

The thinking of what is politically and legally feasible evolved in the period of 2010 to 2012 (Interview #16). Before the crisis article 125 TFEU was seen as a strict bail out prohibition: "*we do not borrow each other, we do not lend each other*" (Interview #10). Once there was political agreement that Greece needed a bail out the interpretation of the provision changed as well (Interview #10, #20). Consensus emerged around the interpretation that the provision allowed for loans or grants to a country albeit under strict conditionality (Interview #10, #14, #20). This reading became even more flexible over the course of time meaning loans could not only be given at market prices but below (Interview #16). Hence, what was seen as a legal limitation turned out to be one only at "*theological level*" (Interview #4, #7, #22). It was, however, the reason why it took actors so long to set up financial assistance mechanisms (Interview #14).

That article 125 TFEU was nevertheless at least a legal constraint became relevant in the setting up of the ESM, which due to the no-bailout clause required a Treaty change. The necessary amendment to article 136 of the Treaty needed to be reached by unanimity among all member states. This resulted in a long negotiating process, which considerably slowed down the crisis response and added a lot to the "too little too late" criticism of the EU's response to the crisis. The unanimity dilemma also featured in the negotiations on the intergovernmental agreements such as the GLF, the EFSF and the ESM itself (see Fabbrini, 2015; Interview #12). This necessitated the neutralisation of veto players and lead to solutions representing the lowest common compromise instead of a more optimal policy response to the crisis one could expect from the use of majority rule.

The monetary financing prohibition of article 123 TFEU was clearly seen as a constraint on policy makers (Interview #4, #8, #20). In countries, where you don't have such a prohibition the central bank can act as lender of last resort, which was not the case in the euro area (Interview #10). The Treaty provisions equally restraint not only the ECB in its response to the crisis but also the influence of policy-makers on the ECB. The monetary financing prohibition of article 123 made the ECB label its rescue measures not as financial assistance but as unconventional monetary policy measures aimed at repairing the monetary transmission mechanism (Interview #4). The guaranteed independence of the ECB by the Treaty (article 282) and the ECB mandate prevented a politicization of the institution and a more direct intervention on the bond markets called for by some euro area governments. Within the ECB decisions are taken by majority, which prevents individual

veto players from blocking decisions.[115] However, neither article 123 nor article 125 prevented granting financial assistance to euro area member states in the end. As Bianco (2012) and Louis (2010) noted, a less strict interpretation of the rules prevailed. The provisions did make the policy process more difficult and time-intensive as every policy innovation or decision had to be scrutinised and justified against this legal screen. The institutional set-up did constrain the actors procedurally but also in their policy choices.

4.4.4.5. Summary on institutions

The absence of a specific institutionalised framework for crisis management meant that there was no structured course of action for the actors how to respond to the sovereign debt crisis. The incompleteness of the institutional set up of EMU made it difficult for policy-makers to respond swiftly to the crisis. Moreover, the specific provisions in the Treaty, articles 123 and 125, limited the choices of options. Particularly the no bail-out clause and the uncertainty around its legal interpretation hampered a quick response. However, the existence of formal and informal gatherings of the actors allowed for exchanges of views and discussions of policy options. This was essential in shaping the actors' preferences. It allowed for a process of learning and facilitated convergence on policy responses. To sum up, even in the absence of crisis management features the institutional set up rather enabled than restrained policy-makers and, hence, facilitated the policy response.

4.4.4. The role of financial markets

Another important factor in the response to the sovereign debt crisis to consider is the interplay between political actors and financial markets.[116] Financial markets played an important role in the setting up of financial assistance mechanisms. This is illustrated by the correlation of spreads and CDS on sovereign bonds and policy decisions. If we take sovereign bond

[115] Minutes of the ECB Governing Council meetings are not made public before 30 years but the media widely reported the opposition of particularly the German representative to the ECB SMP and OMT programme.

[116] Financial markets also played an important role in the run-up to the crisis by underestimating risk, which has undermined the market discipline pillar in the institutional set-up of EMU (see European Commission, (2010), Public Finances in EMU, interview #4, #19) or as some of the interviewees put it: "Financial markets were pretty much asleep throughout a decade" (Interview #8), "Financial markets were the big disappointment" (Interview #19).

spreads and CDS as indicator, we can observe that financial market pressure was rising before important policy decisions were taken and then easing again afterwards. Financial market pressure was building up in late 2009 triggering the Greek sovereign debt crisis and peaking when the euro area decided the bilateral loans to Greece. The adoption of the rescue measures to help Greece, the bilateral loans, the GLF and the establishment of the EFSF, calmed the sovereign bond markets. So did the SMP, the ECB's sovereign bond purchase programme. What is interesting to observe though is that the policies have been set up sequentially showing that financial markets deemed the single policies not sufficient to safeguard financial stability. This illustrated the role of financial markets as a driver for change (Interview #4, #9, #14, #20, #22).

The same process applied to the ESM. The shortcomings of the so far implemented measures, particularly the EFSF, were exposed by the spilling over of the crisis to Ireland. Financial markets were not convinced by the temporary instruments adopted by policy-makers and "demanded" a more structural solution. This lead to the agreement on setting up a permanent rescue fund, the ESM. The process of implementation of the ESM through an amendment to the Treaty started when the crisis hit Portugal. The ESM Treaty was signed in July 2011 when Spain and Italy came increasingly in the focus of financial markets. However, financial market pressure only calmed with the ECB's OMT programme and the "whatever it takes" announcement of Mario Draghi in July 2012.

The expectation of financial markets was that the euro area would implement a comprehensive package similar to what happened in the United States when it announced its TARP programme (Interview #7, #20). It was very difficult if not impossible for euro area actors to please markets (Interview #20). The sheer amount of different actors, which were involved, made a rapid decision-making impossible (Interview #7). Moreover, albeit the ambition by actors to put forward a comprehensive package, which included various measures, the time line for its adoption was given the underlying crisis long. This lead to public statements by actors at various moments of the discussion reviling elements of the package. As single elements on their own could not please financial markets their impact and that of the ultimately adopted package did lack the "awe effect" that was necessary to switch from a bad equilibrium into a good equilibrium as happened in the United States (Interview #7). The communication by actors had direct impact on financial markets, which has been characterized as "loose lips, sinking markets" (Gade et al., 2013). Financial markets have been described as overreacting, switching from 0:1 (Interview #1, #4, #19, #21). "First they were too complacent, then they were too scared" as one interviewee put it (Interview #17). But there was also the feeling that *"there was a lack of knowledge about financial markets, hedge funds, derivative products, CRAs and how to do adjustment programmes"* (Interview #22).

Another indicator for the impact of financial markets is the correlation between high public debt and governments in office. Greece, Portugal, Ireland, Spain and Italy all saw the fall of incumbent governments in the face of mounting financial market pressure (see Fabbrini, 2014). Financial market pressure is also illustrated by reported policy-makers statements such as from French Finance Minister Lagarde being worried about the opening of Asian markets during the EFSF negotiations (Hewitt 2014: 80). This statement stems from the weekend the EFSF was conceived. Member States could not find an agreement but the perception was that 'the world, the euro, would fall apart'. Lagarde said that the markets have opened in Australia but not yet in Japan indicating that there was still some time left to find a solution. It was in this very hour that the SPV, which became the EFSF, was agreed (Interview #19).

Markets or better market actors also had an influence in the discussion on how to shape the policy response (Interview #7). Most of financial institutions have research departments, which publish analysis and opinions on current affairs.[117] Instruments and mechanisms how to respond to the crisis are often described in great detail, how to make them operational and even how to overcome potential political opposition to it. Many actors considered the role of financial markets as very important (Interview #8, #9, #10, #22). However, one of the interviewees from a large, non-stressed creditor country described the role of financial markets as "not so big" (Interview #19). This shows that the perspective of the actors matters. Debtor countries, or those under stress, perceive financial markets as a threat and thereby as limiting their policy choices. It is evident that the role of financial markets was very important particularly in two specific aspects: (1) as driver of the policy process contributing to the evolutionary setting up of financial assistance mechanisms and (2) in putting pressure on policy makers to agree on specific policy responses despite their original preferences and therefore reinforcing consensus finding.

4.5. Summary of the analysis and assessment of the factors

This concluding section assesses the extent to which the empirical evidence presented supports the theoretical argument with regard to establishing financial assistance mechanisms. Overall, it contends that the case study largely backs the propositions developed in chapter 3. The preferences of the actors were the determining factors in converging on an agreement on the policy response. Their capabilities were the determining factors in influencing

[117] The sheer number of such publications makes it impossible to list them.

the specific design of the policy response. This allows for the following assessment:

First, the case study illustrates the role of actors' preferences for finding agreement on a policy response. It showed that despite almost juxtaposed ideational preferences, agreement is possible when material interests are at stake. It also showed that preferences can change rapidly in case an actor perceives pressure within the wider policy environment. This is best illustrated in the case of Germany, which at the beginning of the crisis in early 2010 was opposed to bailing out Member States that experienced financial difficulties. This opposition, which was shared by Austria, Finland, the Netherlands and Slovakia, was founded partly in what can be broadly labelled ordoliberal ideas on economic policy and partly in the false assessment that the crisis cannot spill-over to their countries. This pattern changed within weeks as we described above. In May 2010, Germany and its allies changed their preferences and agreed to establish financial assistance mechanisms to help ailing euro area countries. The shift of preferences occurred once they saw their own material interests, financial losses to public finances and banks' balance sheets, under threat. It allowed for a convergence of preferences on the policy response, namely to have a common response at EU level to grant financial assistance Hence, material interests became the crucial factor in shaping the policy response in this case study as they were the drivers to converge on a common policy response.

Second, while converging preferences made it possible to have a common policy response, the capabilities of the actors decided upon the specific design of the policy response. The economic weight was a very important factor. Big economies could financially backstop the system. However, only in combination if they were economic and financially sound. France and Germany were both big and stable economies, which made them indispensable to the stability of the euro and therefore very influential in shaping the policy. Italy was a big economy but economically fragile and therefore had little influence. That financial and economic soundness matters show the cases of Finland and Austria, which were two relatively small economies but had disproportionate influence on the policy response. The same can be observed in the case of the Netherlands, whose GDP was bigger though than that of Austria and Finland combined, but only roughly 3/5 of Spain and 2/5 of Italy. Another factor that strengthened the influence of a governmental was the potential veto power of their parliament or the judiciary at national level. Governments, which faced such domestic constraints, could potentially use this in the negotiations but it was less a 'creative' or positive influence that shaped the policy design, it can be rather described as a sort of veto power that a certain line should not be crossed or a certain policy not considered. The EU institutions disposed of low capabilities. The mainly intergovernmental nature of the negotiations deprived the Commission and the European Parliament from making use of its their institutional role in the EU framework. The ECB had no formal role

as well. But the ECB and the Commission institutions could only make use of its expertise by providing intellectual leadership as participants in the various fora, where the negotiations took place. The same applied to the IMF. The analysis also suggests that member states had more faith in the expertise of the ECB and IMF than the Commission with regard to the financial assistance mechanisms.

Third, the analysis showed that several structural factors related to the institutional context were important and facilitated agreement.[118] These are the Franco-German meetings, the deliberations in the Washington Group, the discussions in the European Council, the 'technical' drafting in the Task Force for Coordinated Action and the Eurogroup Working Group, and the pressure from financial markets. However, these factors remain remote and are not determining causes for the policy response. The Franco-German meetings were very important. Both countries represented opposing fractions among the Member States and at the same time both countries were the actors with the highest power resources. The discussions among all euro area member states not only benefitted from the negotiations between France and Germany but quite often the two countries found actual solutions to issues that could not have been solved among all actors. They subsequently became the basis for the agreement -sometimes without alterations. The Washington Group fulfilled a similar function in preparing the ground for the discussion in the Eurogroup but it was merely the extension of the Franco-German consultations. The negotiations in the Eurogroup were assisted by a parallel process in the European Council. Here the role of the European Council was not confined to merely giving political impetus or guidance. The 'leaders' negotiated actual solutions to find agreement and only left the very detailed implementation to the Eurogroup. Besides the political for a there was also an influential role for the Task Force for Coordinated Action and the Eurogroup Working Group. These bodies were elaborating the technical basis for agreements. While their preparatory work helped the political actors to convergence on a policy response, they had no decisive power in the process. However, the existence of fora in which the actors could discuss and the trust that had been established among the actors through past cooperation were important factors in facilitating agreement.

Fourth, financial markets were a very influential factor. The fact that sovereign yields rocketed whenever the finding of agreement dragged on put a substantial cost of failure on the negotiating actors. This put pressure on the actors to convergence on a specific policy despite their initial preferences. Financial markets were not only crucial in putting pressure on the negotiators

[118] For a similar analysis on the institutional context in EMU see also Heipertz & Verdun (2004: 15-16).

to find swift agreement. They were the key driver for the change of certain member states preferences putting their material interests before their ideational preferences, and thereby paving the way for the gradual setting up of the various rescue mechanisms.

Fifth, two actors played a very important role at different stages of the negotiations. France in the period before the principled agreement on establishing financial assistance mechanisms in the euro area in early May 2010. It was from the beginning very vocal that the crisis could spill over to other euro area countries and therefore needed a common response at EU level. Once the principled decision to establish financial assistance mechanisms had been taken, Germany became the most influential actor. It is no coincidence that the design of the rescue mechanisms, meaning money in return for not only reigning in public spending but also implementing far-reaching structural reforms, reflects very much the German government's economic policy doctrine. Germany used its asymmetric bargaining power as de facto guarantor of the stability of the euro area to influence the specific design of the policy response. This is an interesting contrast to negotiations within the EU Treaties, where the Commission and the country holding the rotating Presidency of the Council broker deals, which try to strike a balance between the different actors' interests and lead to acceptable outcomes to all actors. The fact that these two actors played an important role also highlights the role the Franco-German bilateral meetings played in influencing the response to the crisis.

Chapter Five: Case study on the Reform of Economic Governance

5.1. Introduction

In the previous chapter we have explained the establishment of financial assistance mechanisms as one part of the response to the crisis. The other part of crisis response was a complete overhaul of its economic governance. On 29 September 2010 the European Commission proposed six pieces of legislation to reform and extend the economic governance framework of the EU. These proposals, which came to be known as the "six-pack", entered into force on 13 December 2011 after having been negotiated and adopted by the European Parliament and the Council. The "six-pack" is composed of three regulations with the aim of strengthening the Stability and Growth Pact (SGP).[119] The SGP has been beefed up with a new set of more gradual financial sanctions in case of breaching the rules starting with the possibility of (non-) interest-bearing deposits earlier in the process to turn it into a more credible sanctioning regime. The horse-trading among Member States in the Council has been limited through increased automaticity in the form of the so-called "reverse qualified majority voting" (RQMV), which makes it more difficult for the Council to reject sanctions proposed by the European Commission.[120] The debt criterion has been made operational to put it on an equal footing with the excessive deficit procedure obliging Member States with public debt above 60 % of GDP to decrease these levels by 5 % each year. The "six-pack" also introduced two regulations with the aim of monitoring and correcting macroeconomic imbalances.[121] Core elements of the procedure are an alert mechanism report with broad indicators, in-depths studies and related country-specific policy recommendations for policy action, and the possibility of placing Member States in an excessive imbalance procedure in the case of the existence of severe imbalances, including imbalances that (could) jeopardise the proper functioning of EMU. Once subject to an excessive imbalance procedure, euro area Member States must submit to a corrective action plan containing concrete, time-restricted economic reforms. If this plan is insufficient or is not implemented, the procedure can lead to the imposition of financial sanctions in the form of (non-) interest-bearing deposits and fines (Flores & van Duin, 2015, 27). The procedure is similar to the reformed SGP but RQMV is applied in all steps. Finally, the "six-pack" included a directive

[119] Regulation (EU) No 1175/2011; Regulation (EU) No 1173/2011; Regulation (EU) No 1177/2011.
[120] RQMV is applied in all steps of the procedure but the final step in the excessive deficit procedure, which is laid down in the Treaty and cannot be altered by secondary law.
[121] Regulation (EU) 1176/2011; Regulation (EU) 1174/2011.

on requirements for budgetary frameworks in Member States.[122] It sets minimum requirements for national fiscal governance essential for the SGP, such as on accounting systems, statistics, forecasting practices, fiscal rules, budgetary procedures and fiscal relations with other entities such as local or regional authorities.

On top of the reformed SGP, Member States agreed on the Treaty on Stability, Coordination and Governance (TSCG). The so-called "Fiscal Compact", an intergovernmental treaty, was signed on 2 March 2012 and entered into force on 1 January 2013.[123] The TSCG further strengthened EU budgetary rules among others by lowering the permitted structural deficit, obliging signatories to introduce a balanced budget rule in national legislation of constitutional character and prescribing RQMV in the sanctioning step of the EDP. In November 2011 the European Commission proposed the so-called "two-pack", which entered into force on 30 May 2013.[124] The "two-pack" introduced the requirements for euro area member states to submit draft budgetary plans to Brussels for discussion before their adoption by the national parliaments, to undergo enhanced reporting when in an EDP and to be scrutinised more closely when in a financial assistance programme.

In the following part of the chapter, the analysis of chapter 3 will be mirrored. First the question will be asked what influenced the policy response, then what role did actors, the institutional set-up and other factors play in reforming economic governance. Hence, first explain the political and economic rational behind reforming economic governance will, be explained before describing the negotiating process and, finally, drawing conclusions on what were the most important factors shaping the policy response.

5.2. The reasoning for reforming economic governance

5.2.1. The economic reasoning

The global financial crisis has exposed weaknesses in the economic governance framework of the EU, and of the euro area in particular, and

[122] Directive 2011/85/EU.
[123] Treaty on Stability, Coordination and Governance (TSCG), http://www.consilium.europa.eu/en/european-council/pdf/Treaty-on-Stability-Coordination-and-Governance-TSCG/
[124] Regulation (EU) No 473/2013; Regulation (EU) No 472/2013.

severe shortcomings in its implementation.[125] The fiscal surveillance framework of EMU, including its core instrument the Stability and Growth Pact, could not prevent some Member States of accumulating large public debt. This situation has been aggravated through the effects on budgets of automatic stabilisers, financial support for ailing banks and fiscal policy measures to counter the economic downturn. Moreover, the pre-crisis economic governance framework allowed Member States to build up macroeconomic imbalances over the years, which worsened during the crisis leaving countries with weak growth prospects for the future. Given the significance of economic and financial integration in the euro area, the risk of negative spill-over effects within the currency union emerged fuelling not only speculation among market participants whether the public debt in some euro area countries is sustainable but also whether the euro area will remain intact. The core idea of fiscal rules is to cater for sustainable fiscal policies allowing states to provide public goods including providing for sufficient fiscal headroom to cushion external shocks. Unsustainable fiscal policies can spill over to the rest of the euro area adversely affecting the single monetary policy or the financial system (see De Grauwe, 2009). If a member state spends and borrows more this could create inflationary pressures in the whole monetary union through the intensified stimulation of demand also in other member states. As a consequence the ECB could be forced to implement a more restrictive monetary policy, which in turn would affect demand and borrowing costs of other euro area member states but also the overall trade balance as the euro would appreciate due to higher interest rates.

Moreover, an unsustainable fiscal policy in a Member State could endanger monetary stability in the whole currency union. This could happen when in the absence of other instruments the ECB could come under political pressure to have to step in to alleviate a funding crisis in a Member State, which is threatened with default (Bénassy et al., 2010, 222). There is also the risk of potential spill overs of an unsustainable fiscal policy through the financial system due to the fact that a Member State's debt may be held by banks located in other euro area countries. Hence, a default would weaken the whole euro area's financial sector (Eichengreen and Wyplosz, 1998). Furthermore, the crisis showed that risks stemming from fiscal policies were not the only root cause of the crisis but that other macroeconomic and financial developments played a major role. In some countries, which later turned to broadly coincide with the group most affected by financial turbulences credit and asset booms were accompanied by widening current account deficits, which eroded price-competitiveness as captured by the evolution of relative unit labour costs (Buti and Carnot, 2012: 904). The pre-

[125] see ECB, The reform of economic governance in the euro area - essential elements, ECB Monthly Bulletin, March 2011, p. 99-119.

crisis surveillance framework fell short of addressing these risks. It equally did not for economic policy coordination in a monetary union, which is however very pertinent (Buti and Carnot, 2012: 907; Begg, 2002).

5.2.2. The political reasoning

The sovereign debt crisis made obvious that the Maastricht framework of EMU has failed to deliver on its objectives. It generated into a full-blown confidence crisis across much of the Eurozone and, indeed, the European Union (Buti and Carnot, 2012: 909). The confidence crisis was threefold. First, markets lost confidence in certain Member States to repay their debt, which went along with a fear of greater market turmoil. Second, Member States lost trust in their partners to honour their commitments under the commonly agreed rules. Third, the electorate lost confidence in the construction of the euro. The latter was particularly a concern for countries like Germany, the Netherlands and Finland, which promoted on strict rules for fiscal discipline to appease domestic opposition to EMU (see Heipertz and Verdun, 2004). The pre-crisis fiscal surveillance framework lacked transparency and had a problem of enforceability (Alves and Afonso, 2007). The fact that sanctions were to the discretion of the finance ministers and subject of horse trading in the Council where "future sinners" had to judge current ones through a system of qualified majority voting had as a consequence that they were never applied. Something Heipertz and Verdun (2004: 77) described as "the dog that would never bite". The lost confidence in the euro and its construction fuelled Euroscepticism and ultimately lead to the creation of two new anti-euro parties in Germany and Finland, the "Alternative für Deutschland" (Alternative for Germany) and the True Finns.[126] The loss of trust among Member States or between Member States and EU institutions posed a problem for further cooperation in responding to the crisis. Particularly the German government lost trust in the European Commission as Guardian of the Treaty, which became obvious in Chancellor Merkel's speech at Bruges, and partly contributes to the explanation why certain elements of the response to the crisis are based on intergovernmental agreements.[127] Furthermore, the unsustainable fiscal policies, which risk forcing the hand of the monetary authority not only have economic consequences but call into

[126] The countries most severely hit by the crisis also saw a rise in euro-sceptic or populist parties but this was more a result to the adopted reforms than the crisis as such.

[127] Speech by Federal Chancellor Angela Merkel at the opening ceremony of the 61st academic year of the College of Europe in Bruges on 2 November 2010 https://www.coleurope.eu/events/mrs-angela-merkel-delivered-opening-address-opening-ceremony.

question a core political fundament of the economic constitution of EMU into question, the very independence of the ECB.

To sum up, there were pertinent economic and political reasons for reforming economic governance. On the one hand, the avoidance of unsustainable fiscal policies and their potential spill over to other member states to avoid another sovereign debt crisis, to ensure the effectiveness of the single monetary policy and to cater for the importance of financial and economic developments for the stability of the euro. On the other hand, to improve the efficiency of the application of the rules, the safeguarding of the independence of the central bank as an institution and the rebuilding of trust in the project EMU and the euro as such.

5.3. Negotiating economic governance reform

This part explores the important steps in the reform of economic governance in response to the crisis and the various policy options that have been under consideration by the different actors. Currency unions have rarely survived when not framed by some kind of framework of fiscal rules (see Mayer, 2012). This is the background to the adoption of the so-called Stability and Growth Pact (SGP) in 1997, whose aim is to prevent excessive government deficit and, if necessary, to correct them.[128] The SGP has ever since been an issue of controversy notwithstanding its reform in 2005 after France and Germany had broken the rules but were left unsanctioned by their peers in the Council displaying the Pacts political arbitrariness and enforcement deficit. The SGP was never really enforced. This applies not only to the correction of excessive deficits but particularly to its provisions, which rule that euro area member states should use economic benevolent periods to reduce deficits. This has often been described as "wasted good times" (Schuhknecht et al., 2011, 10; Barnes, 2010). The rules of the SGP were always interpreted in a very flexible manner with the government deficit "reference value" literally being rather a reference value than a cemented threshold. The absence of a proper enforcement mechanisms allowing for horse-trading among member states on the one side and the lack of incentives to comply further undermined the fiscal surveillance framework preparing the ground for the sovereign debt crisis and making the case for reforming the rules on economic governance.

Early on in 2010 reform cries for the rules governing the euro became louder again. The decision by the European Council on 26 March 2010 to set up a 'Task Force' under the auspices of its President, Herman Van Rompuy, to

[128] see Protocol No 12 EU Treaties on the excessive deficit procedure.

trash out concrete legislative proposals to improve the crisis resolution framework and budgetary discipline gave new impetus to this debate.[129] It gave rise to the old stand-off between supporters of fiscal discipline implemented in a strong rules-based framework, which includes (quasi-) automatic sanctions, and proponents of greater national discretion, flexibility and solidarity mechanisms.[130]

5.3.1. Enhanced budgetary surveillance

The first part of the proposed reforms that was implemented was the so-called "European Semester". The initial proposal was part of the Commission communication of 12 May 2010. It became part of the recommendations of the Van Rompuy Task Force and was endorsed by the European Council in June 2010.[131] The European Semester entered into force in January 20100. It is a six-month cycle in economic policy coordination in the EU and later on has been incorporated in the legal text of the economic governance package, more precisely into the Wortmann-Kool report. The European Semester process is intended to ensure that Member States keep their budgetary and economic policies in line with their EU commitments (debt and deficit commitments under the Stability and Growth Pact, economic reform plans enshrined in their country-specific recommendations, and the long-term growth and jobs targets in the Europe 2020 strategy). The cycle starts in each November with the presentation of the Commission's Annual Growth Survey (AGS). The AGS sets a number of priorities for the EU as a whole and identifies objectives that would enable the fulfilment of those priorities. The Spring European Council then endorses the AGS after a discussion in the Council and the European Parliament. The Spring European Council explicitly invites Member States to take account of the AGS in the drafting of their budgetary and structural reform plans, which they need to submit to the EU already in the spring. The Commission is set to deliver country-specific recommendations (CSRs) on the basis of these documents, with the Council expected to adopt them no later than July. It is based on two procedural innovations. The first is a shift in the timing of the budgetary process which is part of the preventive arm of the Stability and Growth Pact. National governments are asked to submit their Stability and Convergence Programmes before they are discussed by national parliaments and translated into national legislation. The aim is to strengthen economic policy coordination across countries by providing ex-ante

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[129] European Council, 2010, European council conclusions, 25/26 March 2010, http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%207%202010%20INIT
[130] see chapter 1.
[131] European Council, 2010, European Council conclusions, 17 June 2010, EUCO 13/10, http://ec.europa.eu/eu2020/pdf/council_conclusion_17_june_en.pdf

guidance. The second institutional innovation is the alignment of the timing of fiscal and structural reform plans. EU Member States are now asked to submit Stability or Convergence Programmes at the same time as their National Reform Programmes, implying that Member States should pay more attention to complementarities and spill-over effects across policy areas. Euro area Member States have to submit their national budgetary plans by 15 October every year. The Commission assesses the plans but has no veto right.

There was not much controversy around the European Semester before its introduction. This seems to be surprising as it constrains government's fiscal policies (Scharpf, 2011). Conditioned by supranational targets and recommendations for their economic policies, national governments find their ability constrained to respond to any wishes from their national parliaments (Crum, 2017). The lack of controversy may be explained by the fact that the European Semester broadly reflected what the fiscally more-hawkish member states wanted, namely more control of national budgets. Moreover, in the absence of a formal veto over national budgets the interference may not have been felt as being too intrusive (yet), which comforted those member states that were reluctant to cede such powers to the EU level, a preference which was not limited to debtor countries. It may also be explained by the post-crisis outbreak consensus that a common currency needed some sort of more formal fiscal and economic policy coordination.

5.3.2. The Six-Pack

There was consensus in the European Council that the governance of the euro area needed reform. In March 2010 it concluded that despite structural reforms economic policy coordination and budgetary discipline should be strengthened, and competitiveness challenges should be addressed. They also re-affirmed that the integrity of the SGP and the specific responsibility of ECOFIN in its implementation "will be fully preserved".[132] The latter could hint at the aim of avoiding either a French-style 'gouvernement économique' at Heads of State and Government level or a weakening of the role of Council in the procedure to the benefit of the Commission.

The divisions among Member States reflected the diverging preferences within the European Parliament. While the European Parliament had adopted its resolutions on economic governance reform with broad majorities from the centre-left to the centre-right, the text masked the differences of views among conservatives, socialists and liberals on how to remedy the

[132] European Council, 2010, European Council conclusions, 25/26 March 2010.

crisis. The EPP advocated for strict budgetary discipline arguing that balanced national budgets were essential to guarantee economic and social stability and to provide better investment conditions (Daul, 2010, Daul, 2011, Wortmann-Kool, 2010).[133] The S&D Group backed a reform of economic governance but argued against putting governments into a fiscal "straightjacket" and instead put greater emphasis on growth policies.[134] The ALDE Group stroke a similar tone to the EPP with regard to the strengthening of the rules of the Stability and Growth Pact but advocated for greater sanctioning powers such as the withdrawing of voting rights and the suspension of EU funds. Contrary to the EPP it also advocated for binding economic policy coordination at EU level and strongly urged to base the reform of economic governance on the Community method something, which had also been supported by the S&D and later in the process became the official position of the Parliament.[135]

In September 2010, the European Commission put forward a comprehensive package of six legislative proposals, "the biggest step forward in economic governance", which came to be known as the "Six-Pack" (Barroso, 2010).[136] The proposals came out a month before the release of the report of the Van

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[133] Daul, 2010, EP plenary debate, http://www.europarl.europa.eu/sides/getDoc.do?language=EN&type=IM-PRESS&reference=20100507FCS74267#title11; Daul, J., 2011, Press release, 13 January 2011, http://pr.euractiv.com/pr/start-european-semester-european-economic-governance-must-be-pursued-joseph-daul-mep-chairman-epp; Euractiv, 2010, EU unveils new budgetary discipline rules, 30 September 2010, https://www.euractiv.com/section/regional-policy/news/eu-unveils-new-budget-discipline-rules/

[134] Schulz, 2010, Press release, 15 June 2010, http://socialistsanddemocrats.eu/newsroom/stability-pact-and-growth-pact-confront-crisis; Beres, P, 2010, Press release, 18 May 2010, http://socialistsanddemocrats.eu/newsroom/eu-will-not-emerge-crisis-if-things-stay-they-are-argues-pervenche-berès; Huges, S., 2010, Press release, 11 May 2010, http://socialistsanddemocrats.eu/newsroom/sd-group-warn-against-harsh-cuts-hit-jobs

[135] ALDE draft resolution on economic governance: http://www.europarl.europa.eu/sides/getDoc.do?type=MOTION&reference=B7-2010-0355&language=EN
Verhofstadt, 2010, http://www.europarl.europa.eu/sides/getDoc.do?language=EN&type=IM-PRESS&reference=20100507FCS74267#title11;
Goulard, 2011, https://www.robert-schuman.eu/en/european-interviews/0052-european-interview-with-sylvie-goulard-mep-alde-fr-on-financial-supervision; Haglund, 2011, Euractiv interview.
Schulz, Press release 18 May 2010;

[136] Barroso, 2010, Press conference, 29 September 2010, Speech/10/494, http://europa.eu/rapid/press-release_SPEECH-10-494_en.htm
The label „Six-Pack" has been coined by an advisor of the EPP Group and introduced in the public discourse by one of the EP rapporteurs, Corien Wortman-Kool. See also footnote 5 for the various legislative proposals.

Rompuy Task Force but incorporated the bulk of its recommendations.[137] The Commission proposed changes to the Stability and Growth Pact by extending the Excessive Deficit Procedure (EDP) also to countries in excess of 60% debt of GDP. It also proposes a specific debt reduction benchmark to assess the pace of debt reduction. The Commission proposes a two-step approach under which sanctions are first applied to euro area MS and later extended to the EU as a whole through conditionality of EU budget (next financial perspective). In the so-called preventive arm the following procedure is being proposed: in case of a significant deviation from the adjustment path, the Commission will issue an early warning setting a deadline for addressing the deviation. If the deviation is persistent and/or particularly serious, the Council would adopt a recommendation by qualified majority voting (QMV) on the basis of a Commission recommendation based on article 121 (4) of the Treaty. On this basis, and at the same time, an interest-bearing deposit would be imposed on the euro area MS (by reverse QMV). In the so-called corrective arm (EDP) the Commission proposes that a non-interest bearing deposit should be applied when a Member State is placed in EDP on the basis of article 126 (6). The decision to place a MS in EDP is taken by QMV in the Council. The non-interest bearing deposit would follow suit unless Council objects by QMV (reverse QMV). The Commission may, on grounds of exceptional economic circumstances as defined in the SGP or following a reasoned request by the MS concerned, propose a lower amount of the non-interest bearing deposit or cancel it. If a MS does not take effective action to correct the excessive deficit within the given deadline, the Commission proposes a fine. If a MS persists in failing to put into practice its recommendations, the fine will be applied in line with the existing provisions of the SGP including a variable component related to the level of the deficit. The Council takes a decision that a MS is in excessive deficit or has failed to take effective action by QMV. The following decision on the sanction is taken by reverse QMV.

The Commission also introduced a new formal framework for the follow-up and detection of non- fiscal macroeconomic imbalances, including a preventive and a corrective arm. As part of the alert mechanism, it proposes to establish a scoreboard of indicators. The scoreboard applies indicative thresholds as alert levels. Thresholds may be different between euro area and non-euro area countries. The Commission can adapt the scoreboard if needed. A report with an economic reading of the indicators accompanies the scoreboard. The report identifies for which countries there should be an in-depth review. If an imbalance is found the Commission proposes preventive recommendations based on article 121 (2). Further, the Commission proposes

[137] European Council Task Force, 2010, Strengthening Economic Governance in the EU, 21 October 2010.

that the Council, on a recommendation of the Commission, can declare that there is an excessive imbalance and issue a recommendation under article 121 (4) that corrective action should be taken within a set deadline. On the basis of a Commission report, the Council concludes whether the recommended corrective action has been taken. Euro area MS in excessive imbalance have to pay a yearly fine if they do not meet two deadlines for corrective action. Also, MS that fail twice to provide a sufficient corrective action plan will have to pay a fine. The procedures in the macroeconomic surveillance framework are based on the same mechanism as those in the SGP. The Commission proposals also include a directive containing a set of legally binding minimum requirements to national fiscal frameworks to be met no later than end 2013.

The fact that the Commission proposals were largely building on the consensus among Member States' discussions in the Van Rompuy Task Force, and therefore avoiding that too conflictual issues were put on the table facilitated the negotiations in the Council. After Germany had given up its insistence on automatic sanctions and sanctioning by suspending voting rights in the Council, following a meeting of President Sarkozy and Chancellor Merkel in Deauville, Member States could agree a common position in late 2010 (Brunnermeier et al., 2016).

The negotiations in Parliament, which assumed the role of co-legislator in the Six-Pack, were ideologically loaded with Conservatives and Liberals advocating for greater fiscal discipline, and the Socialists and Greens for growth policies and more room for public investment. However, after more than 100 hours of negotiations Parliament found an agreement on the package, which was to a large extent supported by EPP, S&D, ALDE, ECR and Greens, and along the lines of the original Commission proposals (O'Keffee et al., 2016). The main differences were the extension of reverse QMV to all parts of the procedure, the possibility of an emergency intervention by the Commission in case of risk to financial stability, the incorporation of the European Semester in the legal text, sanctions for statistical fraud, strengthening the role of parliaments through the economic dialogue, the request that public investment need to be taken into account when calculating the MTOs and the call for a system for the issuance of Eurobonds based on strong conditionality.

Negotiations between the Parliament and the Council started on 21 April 2011. A first attempt to find agreement under the Hungarian Presidency failed as ECOFIN rejected the deal, which had been brokered in the trilogue. Member States were not ready to accept transferring more powers to the Commission due to the extension of reverse QMV and to allow Parliament to summon national Ministers for an exchange of view in the competent committee in case of non-compliance with the rules, the so-called economic dialogue Subsequently, Parliament decided to put the reports on the agenda of the plenary to put more pressure on the Council. Ultimately, an agreement

in trilogue has been reached under the Polish Presidency on 15 September 2011, which subsequently has been endorsed by ECOFIN and the Parliament's plenary. The final deal changes the voting system in most parts of the Stability and Growth Pact, which would only allow a qualified majority in Council to block sanctions proposed by the Commission, the so-called reverse QMW. Although not being fully automatic, this severely reinforces the sanctioning mechanism, and makes scenarios as in 2003 when Member States rejected sanctions for France and Germany proposed by the Commission less likely. The similar procedure applies for the newly introduced procedure for the prevention and correction of macroeconomic imbalances. It includes sanctions for statistical fraud. And misreporting of national data, and allows the Commission field missions in Member States to improve surveillance. The reform also extents stricter surveillance from public deficits to public debt, which needs to be reduced according to a prescribed path, with the aim of making public finances more sustainable. Moreover, it includes the economic dialogue and a request to the Commission to make an analysis of the possible introduction of Eurobonds.

5.3.3. The Fiscal Compact

The Fiscal Compact, officially known as the "Treaty on Stability, Coordination and Governance" (TSCG) has been adopted on 2 March 2012 by all Member States but the UK and the Czech Republic. It is an intergovernmental agreement apart from the EU Treaties, which binds the contracting parties only, but draws and builds on existing EU law. It is the complement to the ESM, whose establishment for some actors has been conditional of reinforcing the rules on fiscal surveillance. The initial preference for the main driver behind the tightening of the fiscal rules, Germany, was to revise the Treaties. A direction, which had the support of most euro area countries, most importantly France, all of which believed in the necessity to further restore confidence in the markets. The UK, however, opposed a Treaty revision and made it conditional upon granting the City of London a guarantee to exempt it from tighter financial market regulation and the UK a veto on Single Market related issues by reintroducing the unanimity principle. Neither of which was acceptable to the other member States. To overcome British opposition Member States then decided to sign an intergovernmental agreement.

The TSCG is modelled around the reforms introduced by the Six-Pack and replicates a number of its provisions. Its main innovations were the requirement of stricter budgetary rules by enshrining a structural deficit limit of 0.5% in national constitutional or equivalent provisions, a so-called "debt-brake", an automatic correction mechanism to reduce excessive debt, and the possibility for an ECJ proceeding in case its rules are breached. Moreover, it provides for only its signatories having access to ESM financial assistance.

5.3.4. Two-Pack

Just before member states agreed to sign the Fiscal Compact, the Commission proposed a package of two regulations to further strengthen budgetary surveillance in the euro area in November 2011, the "Two Pack".[138] The two regulations build on but go beyond the Six Pack regulations by requiring greater coordination of budgetary policies and tighter monitoring of countries in an EDP or under a macroeconomic adjustment programme (European Commission, 2013). The rules were agreed between the European Parliament and the Council early 2013.

5.4. Analysing the policy response on the reform of economic governance

This section analyses the conditions in which the reform of economic governance has been decided. First, the preferences of the actors and how they were shaped will be examined. Then the capabilities, specific constellation and interaction of actors will be explained and how they influenced the policy outcome. The analysis will show what are the most important factors shaping the policy response, how and why certain policy preferences emerged and how agreement on a common policy response was forged.

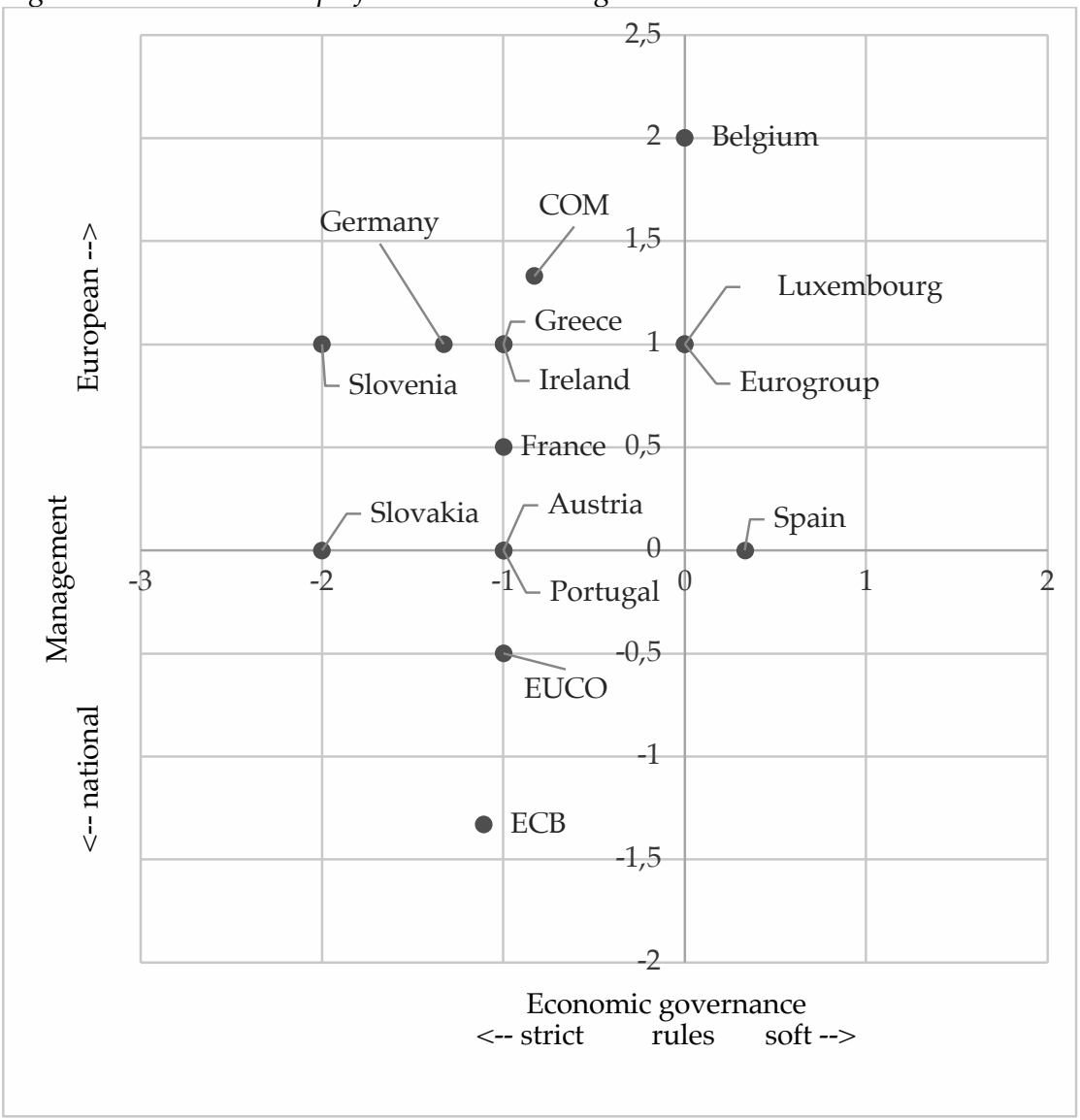
5.4.1. Actors and their preferences

5.4.1.1. Initial preferences

Using the methodology described in Chapter 3 we have mapped in figure 5.1. the initial preferences of the actors before the new rules were agreed. The horizontal axis shows the actors preferences for or against strict rules. The vertical axis shows their preference for or against the common management of economic governance. The figure shows that the preferences have been fairly aligned with a large majority of actors in favour of a European approach to strengthening the rules on economic governance.

[138] See footnote 8.

Figure 5.4.1.1 Initial preferences economic governance



Source: Author's own data and design

At Member State level the reform of economic governance pitched almost the same actors against each other as in the case of financial assistance. The preferences of the actors depended very much on their analysis of the crisis (Interview #7, 14). Italy, Spain, Portugal and Greece lead by France believed that governments fell victim to market forces. The weakness of the euro area was not the failure to enforce the fiscal rules but insufficient economic and fiscal coordination, which allowed markets to speculate against countries. Rules should remain flexible and provide euro area governments with sufficient national discretion to remain the masters of their fiscal policy (Schild, 2013). 'European solidarity' in form of financial assistance was to come first before reinforcing the rules but without ceding fiscal sovereignty

to the supranational level (Brunnermeier et al., 2016). This reflected an old French idea of a "gouvernement économique' for the euro area as form of intergovernmental cooperation (Neumann, 1991).[139] Moreover, France also advocated for a balanced adjustment, which would not only see deficit countries to take the burden but also surplus countries to act to support the recovery in the euro area.[140] Incentives for good behaviour were more important than sanctions. The latter should not be financially burden-some or limit national sovereignty such as in the form of for example the withdrawal of voting rights.

The other group of countries, the so-called creditor states, which gathered around Germany and included among others Austria, Finland, the Netherlands, Slovakia and Slovenia insisted on stricter SGP rules, central bank independence and respect of the no-bail out clause (see also chapter 4.). They saw the cause of the crisis in the mismanagement of fiscal policies in the countries now in financial difficulties. They considered it essential to tighten the rules and their enforcement capability to regain trust and to prevent future crisis.[141] A necessary condition was to limit political discretion, which would involve automatic sanctions and a possible "European veto" over national budgetary policies. Sanctions should range from severe financial penalties to the suspension of EU funds to the withdrawal of voting rights. Some actors even suggested to threaten rule-brakers with a possible exit from the euro area (Pahor, 2010; Schäuble, 2010). Contrary to France, which was warry of transferring sovereign powers to the community level, Germany had a preference for reinforcing the non-majoritarian supranational institutions, the European Commission and European Court of Justice, with new monitoring and enforcement competencies (Schimmelfennig, 2015, 189).

The European Commission was at the forefront of driving the reform process. It had already called in 2008 for an improvement in the governance of EMU.[142] The Commission published a communication on 12 May 2010, which announced legislative proposals to strengthen the fiscal rules, to monitor competitiveness and macroeconomic developments, to enhance economic policy coordination and to set up a permanent crisis resolution mechanism based on the EFSF.[143] Its proposals to toughen up the SGP through greater ex-ante surveillance of national budgets, more emphasis on the debt criterion

[139] Conseil des ministres, 5 December 1990
[140] Lagarde 12 May 2010, New York Times.
[141] Reuters 11 March 2010.
[142] European Commission, 2008, EMU @ 10: successes and challenges after 10 years of economic and monetary union, 7 May 2008, IP/08/716.
[143] European Commission, 2010, Reinforcing Economic Policy Coordination, Communication, 12 May 2010, http://ec.europa.eu/economy_finance/articles/euro/documents/2010-05-12-com(2010)250_final.pdf

and a stronger sanction mechanism, including the suspension of EU funds, were largely on the line of the creditor countries. Its proposals to enhance economic policy coordination by surveying macroeconomic developments in the euro area took up requests from Northern countries that favoured structural reform in countries showing adverse trends in competitiveness and countries such as France that advocated for an economic government of the euro area. For the Commission it was very important that any reform was based on the Community method not to replicate the intergovernmental solution seen in the financial assistance mechanisms. This was partly motivated to be able to implement an effective quasi-automatic sanction mechanism leaving less leeway for ECOFIN ministers, but also partly to avoid losing influence as an institution in the process of European economic governance.

The European Parliament's position was closely aligned with that of the Commission.[144] It supported a strengthening of the SGP, including penalty but also incentive mechanisms, a greater degree of economic policy coordination to deal with macroeconomic imbalances and disparities in competitiveness and a stronger role for the Commission in economic governance, meaning reinforcing the Community method. Unsurprisingly it was the EP that underlined the importance of strengthening democratic accountability at EU and national level with regard to economic governance.

Despite its lack of formal decision-making powers, the ECB put forward its proposals for the reform of economic governance in June 2010 calling for a "quantum leap" toward a deeper economic integration of EMU reflecting what has been achieved in monetary integration.[145] The ECB advocated for a strengthening of the fiscal rules, a reinforcement of the sanctioning mechanism and a de-politicisation of the process. This reflected the previous public statements by its President Trichet.[146] He, however, opposed to exclude a country from the euro area in case of a rules' breach. The proposals by the ECB for "reinforcing economic governance in the euro area" went very much into detail. Fiscal discipline was the core theme arguing for the introduction of greater ex-ante control of national budgets, of independent fiscal councils, of quasi-automatic sanctions, and for giving the Commission more powers in

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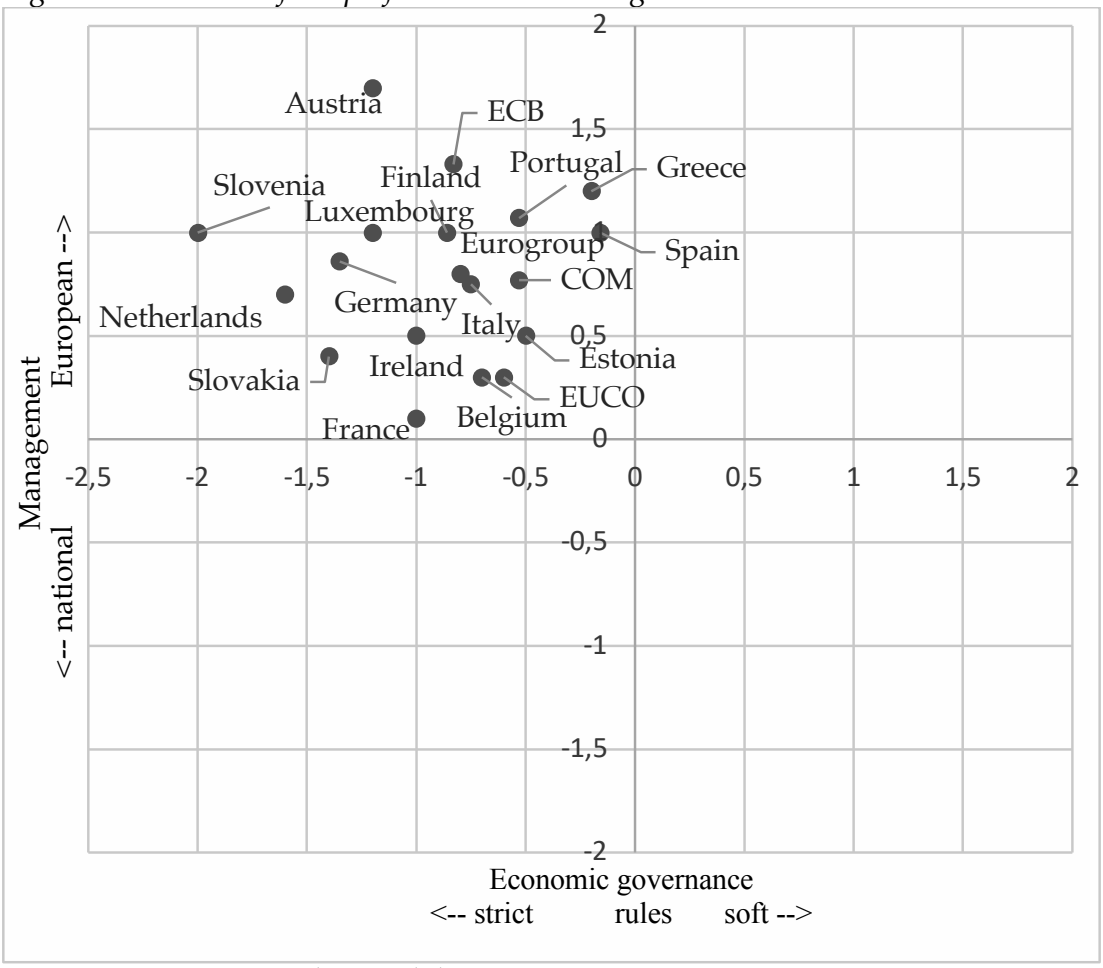
[144] European Parliament, 2010, EP resolution on EU 2020, 10 march 2010, http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2010-0053+0+DOC+XML+V0//EN
European Parliament, 2010, EP resolution on economic governance, 16 June 2010, http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2010-0224+0+DOC+XML+V0//EN
[145] ECB, 2010, Reinforcing economic governance in the euro area, 10 June 2010, https://www.ecb.europa.eu/pub/pdf/other/reinforcingeconomicgovernanceintheeuroareaen.pdf
[146] Trichet, 2010, Europe needs a quantum leap in budget oversight, Reuters, 15 May 2010.

the process of fiscal surveillance. It also made the case for monitoring competitiveness in Member States with the aim of correcting macroeconomic imbalances and the possibility of sanctions in case of non-compliance.

5.4.1.2 Shift in preferences

By 2012, the Presidents of the European Council, of the Eurogroup and of the European Commission and the European Commissioner in charge all started to emphasise in their communication that growth elements should be added to the governance framework. They, however, still argued that strengthening fiscal rules was the over-arching objective. By mid-end 2012 the Spanish Prime Minister Rajoy and the German Minister of Finance Schäuble were both calling for pooling greater fiscal sovereignty at EU level. A move that according to Rajoy was not supported by France, who was wary of ceding fiscal sovereignty to an EU body. Despite the idea of a 'fiscal union' both countries remained committed to reigning in national public finances.
France adopted a different tone in 2011 on fiscal rules mirroring the German position. Something that was also then supported by the Italian government. This changed again with the new French government in 2012, which put greater emphasis on growth elements in EU economic governance but without calling into question to strengthen fiscal discipline in national budget. President Hollande, however, made clear that France was not ready of "taking a federal leap". The initial preferences of the other actors remained relatively constant over the period of time as figure 5.4.1.2, which depicts the preference over the years 2010-12, shows. If anything, then preferences became more aligned.

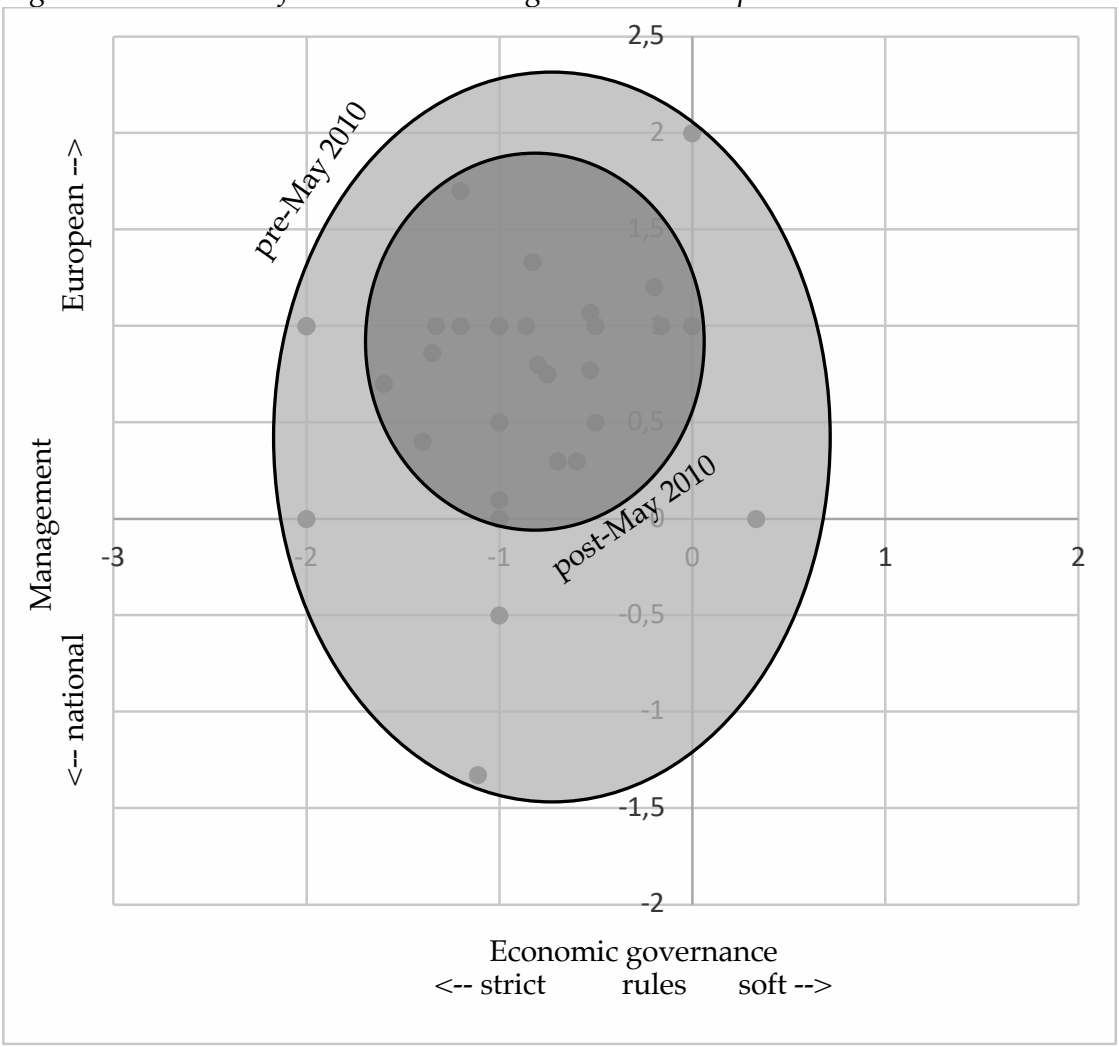
Figure 5.4.1.2 Shift in preferences economic governance



Source: Author's own data and design

No shift in preferences can be traced in the strategic communication of the actors. There was consensus on the policy paradigm to tighten the rules on fiscal and economic surveillance in the euro area, and a large majority agreed from the start of the crisis to have a common management to fiscal and economic surveillance. This is also illustrated in figure 5.4.1.3 below, which shows how actors' preferences have further aligned in the course of negotiating the policy response to the sovereign debt crisis.

Figure 5.4.1.3 Preferences economic governance compared



Source: Author's own data and design

5.4.2. Actors' interests and ideas: Testing proposition 1.

Proposition P1 assumes that "actors' preferences based on material interest were more important in shaping the policy response than actors' preferences based on ideas" meaning that in the formation of the preferences on what policy design to choose to respond to the crisis ideas on the economy or economic policy mattered less than financial or institutional interests. In the previous chapter, we have already stated that there are several explanations for the diverging preferences of the actors on how to respond to the sovereign debt crisis. First, it depended on the analysis of the crisis. Second, it depended on an actors' attachment to a specific economic doctrine. Third, there were different material interests of the actors.

Material or ideational drivers?

In order to probe into proposition 1, there needs to be a causal link between material interests and actors' preferences. The creditor countries' preference for strengthening the EU fiscal rules was very much linked to their material interest. They had a financial interest in tying the debtor countries to more fiscal discipline. This was intended to limit possible fiscal transfers in case of further deteriorating public finances. Moreover, the creditor countries had a material interest in the trust of financial markets in the euro, which has a direct impact on their own re-financing operations. Hence, their preference for enshrining balanced budget rules in national constitutional law and more automaticity in supra-national decision making on sanctioning countries for violating the rules. While creditor countries shared the preference of avoiding costs for themselves, there were nevertheless differences on the policies to choose. France was not in favour of transferring more powers to the supranational level. It wanted governments to have the final say in sanctions for budgetary matters. It also opposed harsh sanctions for countries running an excessive deficit. This divergence in preferences for certain policies is again rooted in the diverging views the countries had on the economy. Germany and other more northern countries preferences for strengthening the rules was to re-establish the credibility in the rules-based system (Interview #1, #7). The aim was to avoid moral hazard and other bad behaviour by setting the right incentives (Interview #15). These measures should regain the trust of financial markets (Interview #19). The debtor countries wanted to limit their commitment to fiscal discipline. They were opposed to more automatic decision-making and harsher sanctions. This can be partly explained by a material interest in not being restrained in their fiscal policy as an important tool for politics, partly it can be explained by the fact that they shared more the ideational approach of France on how an economy should be governed (Interview #7).

The respondents in the interviews state that material interests played a role but that ideas on the economy were a more important factor in determining Member States' preferences (Interview #1, #12, #19, #20). While economic interests influenced Member States positions, "the way they see the world" was very important (Interview #19). The "different philosophies" on economic policy were "at all times at play" (Interview #16). The material interest of the European Commission was about preserving and furthermore reinforcing its institutional position in economic governance. It was *"in favour that economic governance progressed from soft to hard coordination, which enhanced the powers of the Commission"* (Interview #12). Its preferences were aligned with its objective of strengthening its own role by transferring more powers to the supranational level. Ideas played an important role in the Commission's approach on how to design the rules on economic governance (Interview #15). Sanctions were important features and, at least at political level, these should be triggered almost automatically. Countries should be

put into a fiscal straight jacket, which should prevent future crisis (Interview #1).

The European Parliament was united in pursuing the strengthening of its institutional role within economic governance from which it was previously completely absent (Interview #1). While the institution's political groups were relatively united with regard to establishing the macroeconomic imbalance procedure, there was a rift based on ideological grounds on the strengthening of the fiscal surveillance in the Stability and Growth Pact between the conservative EPP and liberal ALDE on one side, and the Socialists, Greens and GUE groups on the other side. However, some of the Socialist and Green MEPs from the creditor countries voted in favour of reinforcing the SGP (Interview #15). Conservative and liberal MEPs from debtor or traditionally soft currency countries voted with their party line. Overall the differences were more political or ideological than geographical but both were present (Interview #1, #4, #17). One of the respondents states that the Spanish MEPs from the conservative Partido Popular only supported the creditor approach because they feared that Spain could have needed financial assistance, which would be easier to access if you showed your commitment to more prudent fiscal policies (Interview #15). The data from the questionnaire[147] shows that a majority of respondents, namely % 42.85 %, (strongly) agrees with the statement that "material interests of the actors had a greater influence on the policy response than their preferences based on ideas". 28.57 % neither agree or disagree with this statement while 28.57 % disagree. 42.85 % of the respondents also agree with the statement that the "material interests of the actors were the fundamental drivers to converge or agree on the policy response". Only 14.29 % disagreed with this statement.

To conclude, the evidence suggests that ultimately the main driver of actors' preferences were their material interests. However, contrary to the case study on financial assistance, ideas and interests of the actors were much closer aligned. The basic ideas actors had about the economy played a much stronger role in determining the actors' preferences and they were much more reluctant to trade those in for material gains than in the previous case study. There is, however, a consensus among political actors that a rules-based framework is important. This support is even higher among the institutional actors, particularly the Commission and the ECB. Hence, we can conclude that actors' preferences based on material interest were slightly more important in shaping the policy response than actors' preferences based on ideas. They were, however, less important drivers than in the previous case study on financial assistance. Actors' preferences, there evolution and convergence, were an important factor in shaping the policy response. Alone

[147] The questionnaire does not differentiate between the case studies.

it cannot explain the concrete policy response though. This is why we analyse the strategic behaviour of actors and their interaction in the following section.

5.4.3. Actor behaviour ("bargaining power"): Testing proposition 2.

In this part we analyse the strategic behaviour of actors during the process of negotiating the policy response within the institutional set-up. The question to be addressed is what impact the various actors have in shaping the policy response (and what other factors play a role in determining the outcome). Proposition 2 assumes that "actors with greater bargaining power have more influence on the policy response". We consider proposition 2 to be confirmed when its sub-propositions are confirmed, namely (1) "actors with greater power resources have more influence on the policy response", (2) "actors with a BATNA have more influence on the policy response", and (3) "actors that face domestic political constraints such as a formal parliamentary approval, judicial scrutiny or critical public opinion of the policies they agree to at EU level have a greater influence in shaping the policy response than actors where these constraints are absent". Contrary to policy-making on financial assistance, which was almost entirely an intergovernmental process, the reform of economic governance to a very large extent took place in the Community framework and was based on the ordinary legislative procedure. The exception being the TSCG, which was negotiated among Member States only. We will now discuss actors' capabilities before we turn to analysing how the institutional set-up impacted on the policy-making process.

5.4.3.1. Greater power resources

The analysis of actors' preferences above shows that views differed less on the general aim of reforming economic governance than on the specific design of the reforms. Contrary to the previous case study the reform of economic governance took predominantly place in the framework of the EU Treaties, which divided power resources more broadly across the different actors. The European Commission played overall a very important role in reforming economic governance. It has the right of initiating legislation under the Treaties and put forward the legal texts of the Six-Pack and the Two-Pack (Interview #15, #16). This means it could make its preference the basis for the reform (Interview #7, #20). It made use of its expertise with regard to fiscal surveillance. The SGP provisions became the blueprint for the newly introduced macroeconomic imbalance procedure. The Commission also became an influential actor throughout the negotiations on the proposals it had put forward. It made use of the fact that it sits around the table in the Eurogroup, the Eurogroup Working Group and the Council working group by mediating between Member States and by proposing compromises

(Interview #1, #11). Furthermore, it reached out to the Members of the European Parliament responsible for taking the laws through the house trying to mimic the role it plays in the Council's working group (Interview #1, #9). The Six-Pack and the Two-Pack were both negotiated between Council and Parliament in the so-called informal trilogue procedure. Here the Commission once again has a role as mediator and facilitator for compromises, which it made use of. The fact that the Commission was the draftsperson of the legal proposals combined with its experience as fiscal surveillance authority meant that it knew better than anyone else the functioning of the laws, which gave it a competitive advantage with regard to the other actors based on intellectual leadership (Interview #7, #8). Almost all interviewees see the European Commission as the most influential actor in reforming economic governance (Interview #1, #4, #8, #10, #11, 16, #20). This concurs with the results of the questionnaire where 71.43 % say it was very influential.

On the side of the Member States the reform of economic governance reflects to a very large extent the positions of the Northern countries such as Austria, Finland, the Netherlands and Germany in particular. The strengthening of the fiscal rules, the closer surveillance of Member States' economies and the TSCG mirrored almost one to one the preferences of Germany and the smaller, creditor Member States. This shows size did not necessarily matter, which is further illustrated by the fact that Spain and Italy had no significant impact on the reform (Interview #23). Contrary to establishing financial assistance mechanism the European Parliament played a greater role due to its role as co-legislator on the Six- and Two-Pack (Interview #4, #11). Parliament succeeded in enshrining the so-called European Semester in the provisions of the Six-Pack, the changes in the voting modalities (reverse QMV) and the broader scope of the MIP (Interview #1, #7, #14. However, and despite having a formal role under the Treaties with regard to the provisions on fiscal surveillance, the Parliament was left out from the intergovernmental negotiations on the Fiscal Compact (Interview #9, #16). Parliament, however, was "*only unified when it came to strengthening its institutional role but not on the substance*" (Interview #1). That within the EP size only matter in relative but not absolute terms shows that the S&D Group had less influence than the smaller ALDE Group, which aligned with the EPP, the largest group in the European Parliament, to form a majority coalition (Interview #15). The ALDE Group successfully delayed the vote on the Six-Pack against the will of the EPP until Council had conceded to include reverse QMV in all parts of the procedure (Interview #1, #9). However, only 21.43 % of the respondents of the questionnaire believe that the European Parliament was very influential in reforming economic governance. Overall Parliament gets a score of 3.14 of 5, which still shows it is an influential actor though.

The European Central Bank had no formal role in the procedures reforming economic governance. But it used back channels to influence the outcome of the discussions at various stages of the procedure (Interview #9). The ECB

was a participant in the Van Rompuy Task Force, whose conclusions became the blueprint for the Commission proposals (Interview #7). There is no specific account that it played a bigger role in the formal discussions among Member States, where it was clearly the Commission that delivered the technical expertise based on its own proposals. The ECB, however, tried to influence the drafting of the legal texts in Parliament, where it gained privileged access to the lead MEPs (Interview #9). Interviewees describe the role of the ECB as important, contrary to public belief (Interview #21, #22). The respondents of the questionnaire rank the influence of the ECB in the reform of economic governance higher than that of the EP. 28.57 % it was a very influential player. Overall it gets a score of 3.5 out of 5. Concerning the IMF, the was consensus among the interviewees that it had not much impact on reforming economic governance (Interview #4, #11).

5.4.3.2. Better alternative to a negotiated agreement

The analysis shows that the reform of economic governance is almost congruent with German preferences. While there was consensus to reinforce the fiscal surveillance framework, the design reflects "*what Germany wanted as price for the financing mechanisms*" (Interview #11). This applied particularly to the TSCG, where Germany "*was pivotal to the design*" with its idea of a debt brake and an automatic correction mechanism (Interview #20). Smaller, fiscally sound countries that aligned with Germany, such as Austria, Finland, the Netherlands and Slovakia, could also gain political influence in the negotiations (Interview #15). France was certainly an important actor but it could not attain its objectives of giving the European Council or the Euro summits a greater role in fiscal surveillance and thereby limiting the role of the Commission and 'technocratic' decisions, and of a more balanced adjustment of macroeconomic imbalances (Interview #7, #20, #22).[148] Similar to financial assistance, Italy seemed to have been almost absent from the negotiations (Interview #23). Partially this may have been motivated not to irritate financial markets (Interview #12). Spain was supportive to the reforms in exchange for the rescue of its banks without a full ESM programme (Interview #17). In general, it can be said that countries under distress, particularly smaller ones did not wield much influence (Interview #9, #16). The countries under stress had hardly any influence on the policies as this was "*the price they had to pay*" to have the backing of the financially stronger member states, in particular Germany, for the rescue mechanisms (Interview #1, 8, 9, 16).

[148] The MIP foresees sanctions for current account deficits but not current account surpluses.

The dividing lines within the European Parliament were less along geographical lines but more along political affiliation (Interview #4, #15). Five out of the eight reform laws had 'rapporteurs' from Finland, France, the Netherlands and the United Kingdom. The others were Portuguese. The principal piece of legislation to tighten fiscal rules was in the hands of Dutch rapporteur, Corien Wortman-Kool from the centre-right EPP, the largest Group in Parliament. She had significant influence on the negotiations within the EP (Interview #2, #9). Within the different political groups MEPS from economically and fiscally sound countries have also been more vocal than others (Interview #1, #2). The results of the questionnaire mirror this picture by confirming that Germany was the actor with the greatest influence on economic governance reform. More than 80 % of respondents give it a 4.5 points out of 5 ranking on average. This matches the ranked influence of the Eurogroup as a whole but is significantly more than respondents attributed for example to France were only 15.38% state it was very influential.

5.4.3.3. Domestic constraints

Domestic constraint played less of a role than in the case study on financial assistance. The outcome of the reform on economic governance was closely aligned with what the countries in which parliamentary, judicial or public opinion mattered most wanted (Interview #1, #12). Moreover, large parts of the reform were in the framework of EU law and therefore out of reach of national judicial or parliamentary scrutiny. An exception was the TSCG, which as an intergovernmental treaty needed ratification by national parliaments. In most cases this lead to purely 'pro-forma'-style debates (Interview #16). In Ireland, the TSCG was put to a referendum. The debate around the TSCG remained a domestic one dominated by the question who would borrow money to the Irish if they had no access to the ESM. 60 % voted in favour with only 50 % of the electorate going to the polls. Public opinion in more distressed countries did not play a role for decisions at EU law. Street protests against austerity measures "*have simply been ignored*" (Interview #8). These observations allow for several conclusions with regard to proposition 2 and the bargaining power of actors in the reform of economic governance.

First, the European Commission was a very influential actor. It had high power resources at its disposal. They did not derive from size or economic position as it is the case for Member States but from its role in the institutional set up of EMU and the fact that the reforms on economic governance where primarily conducted through the ordinary legislative procedure. The Commission had the technical expertise and practical experience with regard to fiscal surveillance instruments due to its competencies under the Treaties. It proposed the legislation and participated in all relevant negotiations for an agreement. Moreover, it was also in charge of the technical drafting of the TSCG. Among Member States, France and Germany were influential actors

due to their voting power in the Council. That size not necessarily matters show the cases of Italy and Spain, who had no specific influence on the reform of economic governance and whose role has been described as 'constructive' at best. The European Parliament had an influential role with regard to the negotiations on the Six- and Two-Pack under the Community method, where it could get significant concessions from the Member States, particularly when it showed unity among its political groups. However, once Member States decided to negotiate the Fiscal Compact on an intergovernmental level, it saw its role again degraded to an opinion giving body regardless of the fact that the Treaty provisions on economic governance and fiscal surveillance in particular foresee a role as co-legislator for the Parliament. Parliament was unable to claim that role though. The influence of the ECB remains unclear. It had no formal role in the process but its participation in the Van Rompuy and the Council working groups gave it a consultative or advisory role as did its interaction with Members of the European Parliament.

Second, those Member States with an economic and financially sound position had significantly more influence than others. The tightening of the rules on fiscal surveillance and the greater surveillance of countries economic policies was exactly what they wanted in return for them agreeing to establishing financial assistance mechanisms. This applied particularly to Germany, whose preferences were reflected almost entirely in the reform of economic governance. It needs to be mentioned, however, that the influence on the policy outcome smaller financially sound countries had results also from the fact that they were bandwagoning with Germany. Member States in distress had hardly any influence on the negotiations. They needed to accept what was on the table in exchange for the support of the creditor countries for the financial assistance mechanisms. This is especially obvious in the intergovernmental negotiations on the Fiscal Compact, where governments could have used their veto power to obtain concessions.

Third, domestic political constraints played less of a role. The Six- and Two-Pack went through the ordinary legislative procedure and were therefore out of reach for national judicial or parliamentary scrutiny. The Fiscal Compact needed approval by national parliaments and Ireland even held a referendum on it but none of these seem to have impacted the negotiations at EU level. Public opinion did not seem to matter either, particularly as the reforms were along the preferences of the countries, which were sceptical to rescuing countries under distress. Hence, domestic political constraints do not seem to have influenced the bargaining power of actors.

Fourth, intellectual and institutional leadership as provided for by the European Commission increased the influence in the policy response. A similar but less influential role can be observed for the ECB, an actor, which was no formal actor in the process.

5.4.4. The role of formal and informal institutions

In the following the analysis of actors will be complemented by analysing the role of the formal and informal institutions of EMU. There are several institutional features that shape and facilitate agreement among the actors and, hence, have an impact on the policy response: the Franco-German relationship as an informal institution, and the European Council, the Council and its sub-sets of negotiations, and the provisions in the EU Treaties as formal institutions.

5.4.4.1 The Franco-German relationship

The Franco-German relationship also compared to a subset of the negotiations in the reform of economic governance. The appropriate form of economic governance inside EMU has always been a contentious issue between France, which represents the defenders of policy discretion in economic policy-making, and Germany, which is one of the adherents of a rules-based approach (Krotz and Schild, 2013: 184). The two countries also locked heads over the response to the crisis with regard to reforming economic governance. However, contrary to financial assistance it was a broader group, not only France and Germany (Interview #14). The discussions in the respective working groups of the Council to which all Euro area countries were party, not least the Van Rompuy Task Force, played a much more prominent role compared to the establishment of financial assistance mechanisms. While France and Germany also met up bilaterally on trying to discuss and coordinate common positions on economic governance reform, the joint working groups were the main place where the negotiations happened (Interview #14, #16, #19). While in the case of financial assistance, "*France and Germany met up bilaterally just to announce their common position to the others*", reforming economic governance was prone to exchanges among all euro area countries (Interview #8). The assessment that the Franco-German relationship was less important in the reform of economic governance than in the establishment of the financial assistance mechanisms is also reflected in the responses to the questionnaire were France and Germany have a combined score of 7.5/10 compared to 8.2/10 in the case of the latter.

5.4.4.2. The Council

The fact that the Franco-German deliberations played less of a role in the reform of economic governance than in the rescue mechanisms provided a greater role for ECOFIN and the Eurogroup. Much of the preparatory work

was done in the Van Rompuy Task Force, which was composed of all EU Finance Ministers, the Presidents of the ECB and the Eurogroup, and Commissioner Rehn (Interview #. This group developed the concrete ideas, which resulted in the Commission proposals on the Six-Pack and the Two-Pack (Interview #7, #14). The discussions at political level were accompanied by a 'sherpa process', which allowed Van Rompuy to have a tight grip on the outcome but also gave an important role to the sherpas themselves, which made them "even more influential" than in the negotiations on the rescue mechanisms (#11).[149] The important role of the sherpas is also reflected in the responses to the questionnaire where the Eurogroup Working Group is seen as the most important actor.[150]

Once the Commission had put forward its legislative proposals, which were largely based on the report by the Van Rompuy Task Force, the Eurogroup took over as main forum for the negotiations among Member States. The fact that ECOFIN has been less important is also expressed in the replies to the questionnaire, which ranks the Eurogroup on position 3 and ECOFIN only on 5. While the Eurogroup was the leading body, Germany was perceived as in the 'driving seat' in the negotiations on reforming economic governance (Interview #7, #21).[151] This is yet again reflected in the replies to the questionnaire, which give Germany the same score of influence as the Eurogroup overall. Similar to the process on establishing financial assistance, but less frequent here, the bigger Member States together with the Commission and the ECB met up to discuss things to have a common position to announce it to the other Member States (Interview #8).

5.4.4.3. The European Council

The role of the European Council went also beyond merely defining the broad political direction or priorities in the reform of economic governance (Interview #9). They not only discussed but also decided on the more specific reforms in economic governance (#16). One of the interviewees stated that the Heads of State and Government were "*even more leading this process*" than they did in the case of establishment financial assistance mechanisms (Interview #11). That the role of the European Council was more than symbolic is also shown in the responses to the questionnaire where 57.14 % state that it has

[149] The term 'sherpa' in the EU context generally refers to a representative of a Member State, who conducts preparatory work for a minister or head of government.
[150] The EWG scores 4.8/5. 64.29 % of respondents strongly agree with the statement that the EWG had a significant impact.
[151] The questionnaire results confirm this with Germany leading 4.2 to 3.3 for France compared to 4.4 to 3.8 in the case of financial assistance.

been important on a few important issues and 28.57 % state that it has been important on all aspects. Overall the questionnaire respondents rank the European Council in the reform of economic governance behind the other institutional fora such as the Eurogroup Working Group and the Eurogroup but before ECOFIN.

5.4.4.4. Inter-institutional negotiations

Large parts of the preparatory work on the reform of economic governance was done by the Commission and the Member States (Bressanelli and Chelotti, 2018: 75). Once the packages were submitted by the Commission to the European Parliament to be negotiated under co-decision, they were amended by the latter. The actual negotiations between the institutions took place in the so-called trilogue format. The result looked not very much different to what had been proposed by the Commission and earlier agreed in the Van Rompuy Task Force (Interview #1, 7, 16). The negotiations in the trilogue were conducted under time pressure, and while the EP was holding up the process at some stage to get concessions from the Member States, it did not interrupt significantly the speed of the negotiations. This was partially due to the fact that the EP wanted to be a responsible actor in times of crisis and partially because the governments put enormous pressure on their MEPs to swiftly agree on the proposals (Interview #1, #15). The fact that the community method did not impinge on the negotiations is also shared by the respondents to the questionnaire where less than 15 % believe it played an important role.

5.4.4.5. The institutional provisions

There is consensus that despite the existence of rules on fiscal surveillance the framework had failed in preventing the sovereign debt crisis (Interview #10, #15). It not only allowed the build-up of fiscal and macroeconomic imbalance but also the "*Greek crisis to go unnoticed and explode*" (Interview #8). The existing legal framework, however, played also a role in the reform of economic governance rules themselves. It did not have the same constraining effect as the no-bailout provision in article 125 TFEU and the monetary financing prohibition in article 123 TFEU but it conditioned a certain response (Interview #9). The questionnaire respondents only assign an 'importance' - score of 3.1 to the rules of the SGP compared to 3.9 for articles 123 and 125 TFEU. 84.61 % of respondents to the questionnaire (strongly) agree with the statement that the pre-crisis institutional framework has constrained the policy response though. The van Rompuy Task Force and the European Commission reform proposals were not a departure from the existing framework but an evolution. The newly established macroeconomic

imbalance procedure mirrored 1:1 the functioning of the SGP. There was concern that a more radical overhaul could call the whole economic governance framework into question. Something particularly the European Commission was worried about (Interview #1). The fact that the Fiscal Compact yet again built on the existing mechanisms of the SGP shows that there was no departure to a new framework. It can rather be described as an evolution of the existing institutional framework. It was particularly countries like Germany and the Netherlands that watched over not losing the rules-based elements of the fiscal surveillance framework (Interview #16).

5.4.4.5. Summary on institutions

The institutional context clearly shaped and facilitated agreement on the reform of economic governance. The reform built on the existing EU legal framework and was predominantly negotiated within its institutional fora. The forum that had significant influence has been the Van Rompuy Task Force and particularly its expert composed "sherpa" sub-set of negotiations. The Franco-German axis and the European Council both, not only gave impetus to the discussions, but pre-agreed compromises that were taken over by the Eurogroup and, respectively, ECOFIN. The inter-institutional negotiations did only weigh on the speed of the negotiations but not significantly impact on the outcome of the policy response.

5.4.5. The role of financial markets

The role of financial markets in the reform of economic governance was less omnipresent than during the negotiations on the rescue mechanisms. However, it was the markets that revealed the weakness of the institutional arrangements and "*by doing so forced behavioural and institutional change*" (Interview #8). Markets were also closely watching whether the negotiating parties could find an agreement on reform. Not least because countries such as Germany and the Netherlands were monitoring that the rescue mechanisms and the strengthening of the governance rules were negotiated in parallel and ratification went hand in hand, particularly in the case of the ESM Treaty and the TSCG. However, there is no evidence that financial markets made policy makers rush into agreements or agree on specific policies with regard to economic governance.

5.5. Summary of the analysis and assessment of the factors

This concluding section assesses the extent to which the empirical evidence presented supports the theoretical argument with regard to the reform of economic governance. Overall, and similar to the case study on financial assistance, it contends that the propositions developed in chapter 3 are generally confirmed. The determining factor in converging on an agreement on the policy response were the preferences of the actors. The specific design of the policy response has then been determined by their capabilities. The analysis allows for the following assessment:

Firstly, it was important that there was ideational convergence among the actors' preferences. Traditionally, actors' views widely diverged with regard to the objectives of EMU and its institutional design. But at the onset of the sovereign debt crisis, there was wide-spread consensus among Member States and EU institutions that fiscal consolidation needed to happen and that the fiscal rules governing EMU needed reform. Material interest played a role as well. The traditional hard currency countries wanted to shield themselves from any losses that may occur in a monetary union due to unsound economic management of some of its members. The countries in financial distress wanted to win back trust of financial markets to be able to refinance themselves. The EU institutions saw a chance of also strengthening their institutional position. But overall there was a shared belief that a reform and a strengthening of the rules was necessary. This ideational convergence was important to allow for a common policy response. The material interest of the actors explains the variation in preferences for the specific design of the policies.

Secondly, with the exception of the TSCG, ECOFIN and the European Parliament were the actors with the highest decision-making power. On the side of the Member States it was the Eurogroup that took the decisions, not ECOFIN. ECOFIN merely enacted the Eurogroup decisions. Within the Eurogroup, actors' influence depended on size and sound budgetary positions giving France and Germany a leading role but also smaller, financially sound countries such as the Netherlands and Finland. Size alone did not matter as the cases of Italy and Spain show. The European Parliament did not see eye to eye with the Eurogroup, partly because some of the reforms were negotiated outside the EU framework, partly because MEPs acted as proxies for their governments instead of defending Parliament's own positions in the negotiations. The European Commission on the other hand was very influential due to the right of initiative, its brokering role within the institutional framework and the expertise it had in fiscal surveillance matters. The ECB saw itself again relegated to an advisory function but it could not match the intellectual leadership of the Commission. The IMF was absent from the reform of economic governance. Domestic constraints did not have a specific influence in shaping the policy response.

Third, the analysis has shown that the institutional context was an important factor in shaping the policy response and finding agreement on economic governance reform. The negotiations took predominantly place within the existing EU institutional fora and the reform was an evolution of its pre-crisis legal provisions. The forum that had significant influence has been the Van Rompuy Task Force and particularly its expert composed "sherpa" sub-set of negotiations. This forum was not an initial feature of the EU institutional framework but an ad-hoc working group that has been set up. Its setting up became an important factor in shaping the crisis response as it took away the power of initiative from the Commission and relocated it partly with the representatives of national governments – albeit the Commission participated in the Task Force. The Franco-German meetings were important. Some of their agreed compromises have been taken over by the Eurogroup and, respectively, ECOFIN. More important than the meetings between these two countries was the European Council. It did not limit itself to discussions of giving political impetus but went quite a stretch into discussing details and technicalities of legislation. The Heads of State and Government then instructed the Eurogroup to implement them in legislation. The European Council was also the forum in which deadlocks were broken. This then allowed the Finance Ministers to continue their negotiations. The European Council took a very prominent role in the reform of economic governance.
Other institutional factors, including financial markets, played a less important role in shaping the policies on economic governance.

Chapter Six: Comparing the case study findings and refining the theoretical framework

The two case studies have identified the specific factors that play a role in shaping the policy response to the sovereign debt crisis. In this chapter the findings from the cases are analysed on the basis of the conceptual framework to allow for a comparison and for providing an answer to the research question. The first section will aim to answer the question of what factors shaped the policy response of actors to the sovereign debt crisis in EMU at EU level. The second section will focus on what the analysis tells us about the influence of the various factors. This chapter does not introduce new material but is based on the evidence that can be found in the two case studies. It merely compares and expands on them. The final conclusion can be found in the next chapter.

6.1. Factors shaping the policy response

The dissertation set out to answer the following main research question: What factors shaped the policy response of actors to the sovereign debt crisis in EMU at the EU level? It has argued that a combination of actors' preferences and their capabilities has shaped the response by policymakers. This section will compare the findings of the two case studies in line with the propositions set out, first with regard to actors' preferences and then actors' capabilities. This will be followed by an overview of additional finding originating from the analysis.

6.1.1. Actors' preferences

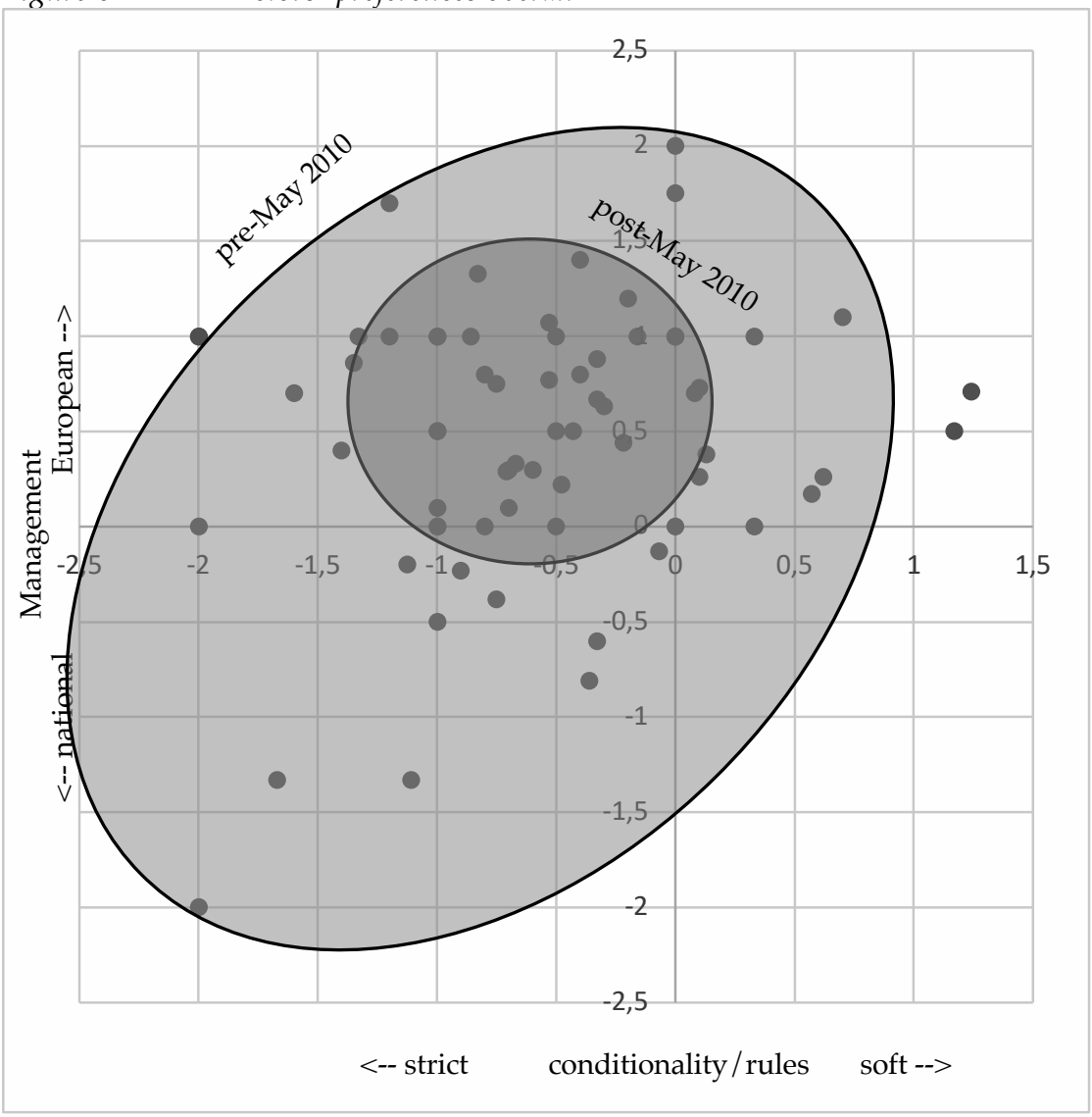
The research argued that the preferences of actors were an important factor in shaping the policy response. In chapter 3 we assumed that actors' preferences based on material interest were more important in shaping the policy response than actors' preferences based on ideas meaning that in the formation of the preferences on what policy design to choose to respond to the crisis ideas on the economy or economic policy mattered less than financial or institutional interests. Both case studies validated the proposition that material interests were the main driving force behind actors' preferences albeit to a different extent.

In the case of reform of economic governance actors' ideational preferences and material interests were broadly aligned. Actors were overall favourable to a rules-based framework that had a bias towards stability. Hence, once stability became under threat the logic consequence was to tighten the rules.

This was also in line with their material interests to shield themselves from financial losses occurring mainly through the punitive measures of financial markets, which would have requested a higher risk premium for lending to sovereigns. By procuration, these preferences were also shared by a majority coalition within the European Parliament. The European Commission had long argued for reforming the rules on economic governance, partly motivated by its bias towards stability, partly motivated by strengthening its own role within the institutional set-up. Albeit the exact design of the reform was not determined by the alignment of preferences, its overall framework became visible.

In the case of the establishment of financial assistance mechanism the situation had been different. The preferences of the actors widely diverged at the beginning of the crisis not allowing for a convergence on a common policy response. Actors preferences were based on different ideas on economic policy but also on a different analysis of the crisis and its possible consequences. However, we find a rapid shift in preferences on the side of the so-called creditor countries, particularly Germany, towards the direction of France and the debtor countries. Initially these countries were opposed to bailing out other euro area Member States. The opposition was founded partly in what can be broadly labelled ordoliberal ideas on economic policy and partly in the false assessment that the crisis cannot spill-over to their countries. The shift cannot be explained by a change of ideas as ideational preferences usually do not change rapidly but incrementally. It can rather be explained by an adjustment in the analysis of the possible negative consequences of the sovereign debt crisis on their own public finances. This re-alignment of preferences based on material interests caused by the sudden shift allowed convergence on a common policy response. Contrary to the case study on economic governance, the overall framework of the policy response was not visible yet. The evidence presented in both cases shows that the convergence of preferences as illustrated in figure 6.1. below, here based on material interests, was the pre-condition for having a policy response. Hence, material interests of the actors were a very important factor in influencing the policy response. The empirical evidence presented also shows that preferences were important for shaping the overall framework of the response but not necessarily the specific design.

Figure 6.1.1 Actors' preferences overall



Source: Author's own data and design

6.1.2. Actors capabilities

Besides the important role of actors' preferences, the research argued that actors' capabilities were an important factor in influencing the policy response. Proposition 2 assumed that "actors with greater bargaining power have more influence on the policy response". We considered proposition 2 to be confirmed when its sub-propositions are confirmed, namely (1) "actors with greater power resources have more influence on the policy response", (2) "actors with a BATNA have more influence on the policy response", and (3) "actors that face domestic political constraints such as a formal

parliamentary approval, judicial scrutiny or critical public opinion of the policies they agree to at EU level have a greater influence in shaping the policy response than actors where these constraints are absent". Both case studies broadly validated the main proposition but the weight of the sub-propositions varies in the two cases.

The case study on establishing financial assistance mechanisms shows that the actors with the greatest capacities are the Member States. France and Germany could wield the greatest influence as the two countries with the largest GDP. The case study also shows that pure size measured in GDP is not sufficient to wield influence. Italy, the euro area's third largest economy, had little influence on the policy response. It could neither bring in effectively its economic weight nor its technical expertise in the negotiations. Ultimately, it had less influence on the policy response than Austria, Finland the Netherlands and even Slovakia despite its much larger population and GDP. These countries could effectively use their veto power in the intergovernmental negotiations that required unanimity. What allowed them to use their veto power was their sound economic and financial position, which made them less dependent on other actors. Moreover, in most of these countries the approval of EU policies was subject to parliamentary scrutiny. Governments, which faced such domestic constraints, could potentially make use of it in the negotiations. It was less a 'creative' or positive influence that shaped the policy design than a sort of veto power though. The countries hardest hit by the crisis and most dependent on external aid had the least influence in shaping the policy response. The absence of technical expertise, financial firepower or budgetary rights also left the European Commission and particularly the European Parliament at the lower scale of influence on the policy response. Overall, we can conclude that once it was decided to establish financial assistance mechanisms, economically and financially sound Member States had to make significant fewer concessions on the specific policy design than countries in a weaker financial position. That they had to make concession at all was solely dependent on the fact that they are all members of the currency union and therefore prone to financial fall-out.

In the case of economic governance, the bargaining power to influence the policy response was more equally shared out among the actors. While yet again the big, economically powerful Member States, France and Germany, had significant influence on the policy response, also the European Parliament and the European Commission could make use of their institutional role foreseen under the Treaties to influence the outcome. However, the European Parliament did not see eye to eye with the Eurogroup, partly because some of the reforms were negotiated outside the EU framework, partly because MEPs acted rather as proxies for their governments instead of defending Parliament's own positions in the negotiations. Albeit Parliament's majority coalition has been more successful in the negotiations on the Six-Pack than on the Two-Pack. The Commission could substantially influence the design of the reforms due to its institutional

role as proposing, brokering and mediating authority. Member States with an economic and financially sound position had also significantly more influence than others. The tightening of the rules on fiscal surveillance and the greater surveillance of countries economic policies was part of the concessions for agreeing to establish financial assistance mechanisms. This applied particularly to Germany, whose preferences were reflected almost entirely in the reform of economic governance. Domestic factors could not measurably increase the bargaining power of actors to influence the policy response. This is despite the fact that the TSCG needed ratification by national parliaments. However, countries that had a more sceptical stance towards reinforcing fiscal surveillance where also those that had the lowest level of parliamentary scrutiny and the least margin to manoeuvre due their dependence on financial assistance in exchange for agreeing to reforming economic governance.

Looking at both case studies combined, Member States in principle were the actors with the greatest power resources but only if they were accompanied by sound economic and financial position. These Member States could obtain more concessions on the design of the policy response than other actors, even some bigger Member States. The EU institutions had limited bargaining power. In the case of the Parliament only on the reform of economic governance. The European Commission could use its institutional role to influence the design of the policies and therefore rank higher than the so-called debtor countries. France and Germany dominated the negotiations in both cases as the actors with the greatest power resources.

6.1.3. Additional empirical findings

This section provides additional empirical findings, which were not covered by the initial propositions but emerged as relevant factors shaping the policy response.

6.1.3.1. Role of Institutions

In both case studies the empirical evidence shows that institutions influenced the behaviour of actors. The main influence exercised by the institutional set-up was to facilitate the negotiations and therefore the agreement on a crisis response. In the case study on establishing financial assistance mechanisms these were the Franco-German meetings, the deliberations in the Washington Group, the discussions in the European Council, the 'technical' drafting in the Task Force for Coordinated Action and the Eurogroup Working Group. The Franco-German meetings here were the most important. Both countries represented opposing fractions among the Member States and at the same

time both countries were the actors with the highest power resources. The discussions among all euro area member states not only benefitted from the negotiations between France and Germany but quite often the two countries found actual solutions to issues that could not have been solved among all actors. They subsequently became the basis for the agreement - sometimes without alterations. The Washington Group fulfilled a similar function in preparing the ground for the discussion in the Eurogroup but it was merely the extension of the Franco-German consultations. The negotiations in the Eurogroup were assisted by a parallel process in the European Council. Here the role of the European Council was not confined to merely giving political impetus or guidance. The 'leaders' negotiated actual solutions to find agreement and only left the very detailed implementation to the Eurogroup. Besides the political fora there was also an influential role for the Task Force for Coordinated Action and the Eurogroup Working Group. These bodies were elaborating the technical basis for agreements. While their preparatory work helped the political actors to convergence on a policy response, they had no decisive power in the process. However, the existence of fora in which the actors could discuss and the trust that had been established among the actors through past cooperation were important factors in facilitating agreement.

The institutional context was also an important factor in shaping the policy response and finding agreement on economic governance reform. The negotiations took predominantly place within the existing EU institutional fora and the reform was an evolution of its pre-crisis legal provisions. The forum that had significant influence has been the Van Rompuy Task Force and particularly its expert composed "sherpa" sub-set of negotiations. This forum was not an initial feature of the EU institutional framework but an ad-hoc working group that has been set up. Its setting up became an important factor in shaping the crisis response as it took away the power of initiative from the Commission and relocated it partly with the representatives of national governments – albeit the Commission participated in the Task Force. The Franco-German meetings were important. Some of their agreed compromises have been taken over by the Eurogroup and, respectively, ECOFIN. More important than the meetings between these two countries was the European Council. It did not limit itself to discussions of giving political impetus but went quite a stretch into discussing details and technicalities of legislation. The Heads of State and Government then instructed the Eurogroup to implement them in legislation. The European Council was also the forum in which deadlocks were broken. This then allowed the Finance Ministers to continue their negotiations. The European Council took a very prominent role in the reform of economic governance. However, these factors remain remote and are not determining causes for the policy response.

6.1.3.2. Role of the wider policy environment

The empirical evidence also points out the influential role financial markets played in the policy response on establishing the financial assistance mechanisms. They were a driver of the policy process contributing to the evolutionary setting up of financial assistance mechanisms. Spreads of sovereign bonds were increasing every time either negotiations stalled or the outcome was deemed insufficient. Pressure of financial markets made the actors agree on policies that were initially contrary to their preferences because failure to agree entailed high financial and political costs. In the case of the reform of economic governance, the role of financial markets was different. The weaknesses in the economic governance framework of the EU have been known for a long time but reforms have been put on hold due to high political costs. Here, financial markets were rather a remote cause for policy change. However, overall, we can conclude that financial markets had a very important role to play in shaping the policy response.

6.1.3.3. Role of individual actors

The empirical evidence also shows that not only composite actors played an important role but also individual politicians. Such a political leadership role in EU decision-making is widely accepted in the literature (see Tömmel and Verdun, 2017). The specific constellation of the bargaining process allowed certain individual actors to have an influence on the policy response. While several individuals, the President of the European Council van Rompuy, the President of the Eurogroup Juncker, the Chair of the Eurogroup Working Group and the Chair of the Task Force for Coordinated Action certainly had an impact on formulating the policy response, two individuals seem to have had a decisive influence on the policy response: the French President Sarkozy and the German Chancellor Merkel. France and Germany played a very important role at different stages of the negotiations. France in the period before the principled agreement on establishing financial assistance mechanisms in the euro area in early May 2010. It was from the beginning very vocal that the crisis could spill over to other euro area countries and therefore needed a common response at EU level. Once the principled decision to establish financial assistance mechanisms had been taken, Germany became the most influential actor. Germany was considered by markets as guaranteeing for the stability of the euro area because of its economic firepower and sound public finances. This empowered Germany with a sort of asymmetric bargaining power as de facto 'guarantor' of the euro to influence the specific design of the policy response. It is no coincidence that the design of the rescue mechanisms, meaning money in return for not only reigning in public spending but also implementing far-reaching structural reforms, as well as the reform of economic governance, reflects very much the

German government's economic policy doctrine. Although it is difficult to assess the exact impact of individuals in this institutionalised process, Nicolas Sarkozy and Angela Merkel developed close ties and were both personally involved in the actual negotiations. The striking example is the so-called 'Deauville deal' when Merkel conceded to Sarkozy not to have a very strong ex ante control of national budgets and in exchange Sarkozy agreed to have private sector involvement in the financial assistance mechanism.[152] This deal between the two leaders came as a complete surprise to the finance ministers, who were meeting at the same time for an ECOFIN Council in Luxembourg (Brunnermeier et al., 2016). It remains unclear what would have happened without the bilateral agreement. It is, however, clear that it enabled the overall agreement on the setting up of a permanent financial assistance mechanism and the toughening up of the rules on economic governance. With the change in government in France from Sarkozy to Hollande, this privileged partnership came to an end though.

6.1.4. Summary on factors shaping the policy response

The main research question that needed answering was what are the factors that shape the policy response of actors to the sovereign debt crisis in EMU at the EU level. The empirical findings indicate that a multitude of factors play a role in shaping the policy response, albeit to varying degrees. This leads to the following conclusions:

The first conclusion of this research has to do with the preferences of the actors. First, the results show that preferences allow for a policy response to happen. In the first case study, the preferences of the actors diverged significantly. In the absence of an EU institutional framework for crisis management, there was no specific course of action foreseen. Only the shift of preferences of some of the actors allowed the common policy response. In the second case study, the preferences were already largely aligned from the beginning. We can observe path dependency based on the already existing EU institutional framework of economic governance. Actors shared a common preference for a rules-based framework on fiscal surveillance. In both case studies, material interests came to the fore to protect or foster the economic, financial and institutional position of the actors. They take precedence over ideas in economic crisis. Based on the findings, it can be concluded that, although in principle preferences based on ideas are aligned with those based on material interests, the convergence of preferences based on material interests allow for agreement on a crisis response.

[152] See also chapters 4.4.4.1 and 5.3.2

The second conclusion has to do with the capabilities of the actors and how they shaped the crisis response. While the preferences of the actors were determinant in allowing the crisis response, their capabilities shaped the design of the policies. The size of Member States mattered less than their economic and financial soundness. Member States that had a perceived alternative to the negotiated agreement had more influence on the policy response. This was disproportionally the case for small Member States. Germany disposed of an asymmetric bargaining power in influencing the specific design of the policy response as the de facto guarantor of the stability of the euro. The European Commission struggled in influencing the policy response on establishing financial assistance mechanisms. It could, however, significantly influence the policy response on economic governance reform. Its role as broker and its expertise ("intellectual leadership") allowed it to influence the negotiations significantly. The role of the European Parliament was reduced to a bystander. This applied even to the reform of economic governance, where it had in theory an influential position as co-legislator under the EU Treaties. Domestic factors could restrain actors at EU level. This applied, however, only to actors that faced judicial or parliamentary scrutiny. Actors also paid attention to the general public opinion. It influenced their preferences but ultimately had no significant influence in shaping the policy response. In conclusion, actors' capabilities are determinant in shaping the design of the policy response.

The third conclusion is with regard to institutions. The institutional framework was rather enabling than restraining in finding a policy response. It facilitated agreement. This was particular the case for the negotiations on financial assistance, which despite their intergovernmental character took place in the formal EU fora and relied on informal EU rules. The existing institutional framework enabled policy and institutional innovation. Neither in the first nor the second case study the institutional framework had a significant impact in shaping the policies. In conclusion, the institutional framework was a remote factor in shaping the crisis response.

The fourth conclusion of this dissertation focuses on the role of the wider policy environment in shaping the crisis response. The wider policy environment played a significant role. Financial markets were drivers of change. They caused the sudden shift in preferences. They exercised tangible influence on the actors in terms of speed of negotiations, and on the choice of policies and their design. In conclusion, the policy environment was not a remote cause but an important factor in shaping the policy response.

The fifth conclusion of this dissertation relates to the role of individual actors in shaping the policy response. Besides composite actors, there were several individual actors that had a role in the negotiations mainly with regard to facilitating agreement. They were all heavily invested using their expertise and their network to help find solutions and broker deals. Two of them,

however, left a significant impact on the policy response: The French President Nicolas Sarkozy and the German chancellor Angela Merkel. They were personally involved in negotiating detailed parts of the agreements in both case studies, which afterwards were endorsed by all actors. In conclusion, individual actors were an important factor in shaping the policy response.

Table 6.1.4 Overview of the main findings on factors shaping the policy response

Factors shaping the policy response		**Financial assistance**	**Economic governance**
Preferences of actors *"permitted policy response"*	**Ideas**	Diverging views on economic policy initially hindered a common policy response.	Ideas on reform have been broadly shared and therefore facilitated agreement.
	Material interests	Material interest prevailed over ideas on the economy. Decisive for converging on a common policy response.	Broadly aligned with ideas and therefore facilitated agreement.
Capabilities of actors *"determinant to the design of the policy response"*	**Power resources**	Size: played less of a role in a veto power environment. Economic weight: important but not determining.	Institutional standing: Advising, mediating and brokering role of European Commission. EP as co-legislator. Size: voting power in Council and EP.
	BATNA	Economic and financial soundness: wields significant influence often disproportionate to actual disposal of 'classical power resources' such as size and economic weight.	Economic and financial soundness: coinciding with the establishment of financial assistance, which necessitated agreement of these actors.

	Domestic constraints	Judicial scrutiny: actors wanted to avoid legal obstacles. Parliamentary scrutiny: used to leverage own position.	Parliamentary scrutiny only with regard to the TSCG as majority of reforms under EU Treaties.
	other	Intellectual leadership: Actors that were perceived as having technical expertise or innovative ideas. Political affiliation: Political alignment with the most powerful actors.	Intellectual leadership.
Institutions *"facilitated negotiations"*		Sub-sets of negotiations facilitated agreement. Overall institutional framework conducive to convergence on policy response. No path dependency.	Only structured the course of action. Path dependency.
Wider policy environment *"driver of change"*	**Financial markets**	Accelerated shift of preferences. Pressured actors to find agreement.	Conducive to reform. Window of opportunity.
Individual actors *"enabled policy response"*	**Sarkozy, Merkel**	Enabled finding agreement.	Enabled finding agreement.

Source: Author's own data and design

6.2. Theoretical perspectives and refining the theoretical explanation

In the previous sections the empirical findings of the two case studies based on the conceptual framework of actor centred institutionalism (ACI) as laid out in chapter 2 have been presented. This approach, which cuts across the variants of new institutionalism by combining their elements, has shown its

high explanatory value with regard to the policy response to the sovereign debt crisis in the euro area. The empirical evidence revealed that actors have specific preferences but beyond cost-benefit and utility maximising calculations, ideas, norms and trust, hence, non-codified institutions affect actor behaviour and strategies. It also revealed that individual politicians significantly influence policies and that policy-making in the euro area can break with path dependency.

Moreover, the initial assumption put forward in chapter 1.4 that the combination of actors' preferences based on material interests together with a supporting power-political constellation shaped the policy response and the propositions that followed from it proved their explanatory value. Overall, the assumption and the proposition have worked well to identify the factors that shape the policy response of actors at the EU level. However, the research also presents empirical evidence, which calls for supplementing the assumption and the propositions with the following considerations: First, not only composite actors but also individual politicians played an important role in shaping the policy response. Second, the role of the wider policy environment was not only a remote cause. Financial markets proved to be an important factor in influencing actors' preferences and their negotiations.

6.2.1. Role of individual actors

The explanatory framework of ACI builds on composite actors and their preferences. The empirical evidence of this research also shows that there was an important role of individual politicians as actors. ACI recognises individuals as the representatives of their organisation implementing and trying to maximise its preferences. It does not necessary deny that there is a role for individuals, who may step beyond their organisations mandate, but it neglects it. In the response to the sovereign debt crisis several individuals played a role in influencing the negotiations on the policy response. As illustrated earlier, the President of Eurogroup, the Chair of the Eurogroup Working Group and the Chair of the Task Force for Coordinated Action were individuals that had an important role in the negotiations. Based on the empirical evidence it remains unclear to which extent they would have left their institutional roles and influenced the bargaining process beyond their mandate as representatives of the composite actors. However, two politicians, Angela Merkel and Nicolas Sarkozy, made a veritable difference in the negotiations as individual actors. They put forward their own compromise proposals, they facilitated the negotiations and agreement among the actors also by extending their bilateral consultations to groups of more actors and by bypassing the formal institutional structure. By applying this strategy, they kept control of the process and heavily influenced the design of the policy response.

6.2.2. Role of the policy environment

An important factor in explaining the policy response are financial markets. In the framework of ACI, the policy environment is a remote cause, similar to institutions, which influences actors and their preferences. According to this categorisation, financial markets would not be a determining factor but one that stimulates, enables or restraints. In chapter 4 and 5, I already illustrated the important role of financial markets. They were exercising pressure on the actors. This stimulated the negotiations as all actors were more inclined to come to an agreement. However, while in chapter 5 the role of financial markets was merely conducive to reform by presenting a window of opportunity, their role in chapter 4 was more pronounced. The reaction of financial markets posed a veritable threat to the stability of individual countries and the integrity of the euro area as a whole. Actors feared the negative reaction of financial markets to their policy (in-) action. They not only adapted their timeline for agreeing a policy due to the pressure of financial markets, they also adjusted the design of the policy based on the feedback loop of financial markets. Hence, the role financial markets played goes beyond one that only stimulates, enables or restraints. It becomes a quasi-proximate cause by influencing actors' preferences and their capabilities.

6.3. What else do the case studies show?

Previous research has mainly focused on the economics behind the policy response or ideological explanations, and has paid less attention to the politics and the interplay of various factors in the policy-making process. This research has addressed this empirical deficit by identifying a multitude of factors that played a role in the policy response. However, it also considered it worthwhile to see what we can learn from the analysis for the level of influence of the identified factors. Based on the empirical evidence presented, figure 6.3. on the next page summarises the identified factors and aims to illustrate their influence in both case studies and in the policy response overall.

Table 6.3 Summary of factors and influence on the policy response

Factors				**Influence + = low, ++ = medium, +++= high**		
				Finan-cial assist-ance	**Econo-mic gover-nance**	**Ov-eral l**
Actors	Prefer-ences	**Ideas**		**++**	**++**	**++**
		Material interests		**+++**	**++**	**++-**
	Capab-ilities	**Power resources**	Size	+	**++**	+-
			Economic weight	**++**	++	**++**
		BATNA	Financial soundness	**+++**	+++	**+++**
			Institutional standing	+	+	+
		Domestic constraints	Parliamentar y scrutiny	++	+	+-
			Judicial scrutiny	++	+	+-
			Public opinion	+	+	+
			Opposition	+	+	+
			Elections	+	+	+
		Intellectual leadership	Technical expertise & ideas	++	++	++
		Political affiliation		++	+	+-
Institut-ions		**Franco-German**		**+++**	++	**++-**
		ECOFIN		+	+	+
			Eurogroup	**++-**	++	++-
			EG President	++	+	+-
			Eurogroup Working group	**++-**	++	++-
			EWG Chairman	++	+	+-
			Washington Group	++-	+	++

		Treaty provisions	SGP	+	++	+-
			No-bail out clause	+	+	+
			Monetary financing prohibition	+	+	+
			Voting modalities	+	+	+
			Central bank independence	+	+	+
			Community method	+	+	+
Wider policy enviro nment		**Financial markets**		+++	++	++-

Source: Author's own data and design

The following main lessons can be drawn from the analysis with regard to the influence of the factors:

First, the analysis shows how important material interests are in the formation of preferences of the actors. While it is true that to a large extent ideas and material interests of the actors have been broadly aligned, the findings have equally shown that actors change their policy preferences when their material interests are at stake. The best example here is Germany, which was opposed to bailing out other Member States at the beginning of the crisis but then changed course when the government realised that its own public finances are under threat either due to possible bail-outs of banks that were exposed to debtor countries or due to ripple effects through financial markets directly impacting its budget. Hence, an important lesson we can draw is that material interests were very influential in shaping the policy response.

Second, and in relation to the first lesson, it is worth underlining that the case studies show no dominant role for ideologies in influencing the policy response. In part of the literature on the sovereign debt crisis, a very important role is assigned to ideas and the role so-called ordo-liberalism played in the crisis response. As described above, ideas and material interests of the actors have been broadly aligned but the findings do not report a dominant role for ordo-liberal thinking in influencing the policy response. On the contrary, the fact that actors belonging to the broader camp of ordo-liberal thinking ultimately agreed to bailing out countries, which is considered 'wrong' under ordo-liberalism, proves rather the opposite. The specific design of the policies, however, reports ordo-liberal influence.

A third lessons concerns capabilities and the interplay of factors. The analysis showed the important role sound public finances play. This can be identified as the single most influential factor with regard to shaping the policy response. Regarded in isolation it was more important than size or economic weight of an actor. However, actors that only possessed this factor were still less influential than actors that disposed of several factors such as size, weight and sound public finances as was the case for France and above all Germany. A system of strong domestic parliamentary scrutiny reinforced the hand of the relevant negotiators at EU level. This was another factor mainly the creditor countries had in common, which increased their influence. However, as in most countries the government could count on a majority coalition in its parliament, it was not a factor, which on its own was very influential. Hence, the findings show an interplay of factors related to capabilities that have a reinforcing character with regard to the influence factors have in shaping the policy response.

Fourth, and linked to the previous lesson, the case studies show the significant influence of the Franco-German tandem in shaping the policy response. This is not unexpected as it is widely reported in the literature on the euro area crisis and the EU in general. Other fora such as the Eurogroup, the Eurogroup Working Group and the Washington Group had an important role to play as well, particularly with regard to agreeing on technical details of the policies, but the Franco-German tandem, which was part of all these fora, could make its position the baseline scenario for further negotiations or, sometimes even, the final position in each of them. It was dominant in influencing both, the choice of policy instruments and their specific design. The significant influence of the Franco-German tandem stems from the fact that it disposes of important factors such as size, economic weight and sound public finances as described above and was part of all important fora in which negotiations were taking place.

Finally, as discussed in the two case studies but particularly in the one on financial assistance, financial markets were able to exercise great influence on the policy-makers and therefore on the policy response. The fact that every action or in-action by policy-makers generated a response on financial markets was closely observed by the decision-makers. This is illustrated by fact that they were keen on agreeing and communicating on important decision by the end of a weekend before the markets opened. Financial markets were not only part of the policy environment in which political decisions were made. They played the role of a quasi-actor, which gave them leeway over policy decisions and therefore made them a very influential factor.

Chapter 7: Conclusions and reflections

7.1 General conclusions

The sovereign debt crisis has more than stress-tested Economic and Monetary Union. It became clear that the institutional framework as conceived in Maastricht could neither prevent nor resolve the crisis. Fiscal rules that have not been enforced together with vague coordination of economic policies and the absence of a possibility to financially assist ailing economies had provided a fertile ground for the crisis to erupt and then to spread. Policy-makers in the euro area have addressed these shortcomings by overhauling the rules for fiscal and economic surveillance, and by establishing a permanent financial assistance mechanism. The reform of economic governance and the setting up of the financial assistance mechanisms are significant steps in the process of European integration. Both provide the EU with new instruments in areas that were until now in the primary competence of the nation states. First, not only fiscal but also economic policy of the Member States can now be sanctioned to enforce corrective action. Second, the EU has been given the possibility to bail-out euro area countries by raising money on the markets. While this reformed institutional framework is designed to prevent unsustainable fiscal and economic policies, and to mitigate and resolve a crisis in case prevention fails, the jury whether it lives up to its expectations is still out there.

This dissertation has aimed at explaining how the policy response came about. Accordingly, the main research question was the following: *What factors shaped the policy response of actors to the sovereign debt crisis in EMU at the EU level?*

The research argued that the preferences of the actors together with a supporting power political constellation shaped the policy response. The diverging preferences of the actors at the outbreak of the sovereign debt crisis were particularly problematic for finding a common policy response. The actors were partly manoeuvring in uncharted institutional territory as the EU did not dispose of crisis management mechanisms in the euro area. In addition, the policy environment was putting significant pressure on the actors to find agreement. However, actors managed to convergence on their preferences. This was due to a commonly perceived threat to their individual material interests. They used and complemented the existing institutional framework for their negotiations, and, where necessary, they created new institutions to address the policy problems. Despite all challenges and criticism, the euro area ultimately agreed on a common policy response to the sovereign debt crisis by reforming its economic governance framework and establishing permanent crisis management mechanisms.

The empirical observation shows that several factors were important in shaping the policy response of the actors. There were the preferences of the actors and their alignment based on material interests, which permitted agreement on the common policy response. While the evidence presented shows that preferences were important for shaping the overall framework of the response, they were not necessarily determinant concerning the specific design. This was shaped depending on the capabilities of the actors. Classic power resources mattered but only in so far as they were combined with sound economic and financial positions. These positions became an important factor and allowed actors disposing thereof to have a disproportionate bigger influence in shaping the specific design of the policy response. Another important factor were financial markets. They exercised pressure on the actors causing their preferences to shift. They influenced the speed and content of the negotiations, and therefore the policy choices of the actors. Lastly, the evidence revealed the important role of individual politicians or leaders. Their personal involvement in not only facilitating negotiations but in actually 'getting their hands dirty' in negotiating the details of the agreements made them an important factor in shaping the policy response. There is no doubt that other factors also played a role in shaping the policy response. A fact that this research aimed to highlight as well to show that a reductionist approach risks missing part of the puzzle to solve. However, while these factors have enabled, stimulated or constraint the actors, they were not determining in shaping the policy response.

The research was conducted from an actor centred institutionalist point of view, which assumes that actors are proximate while institutions and the wider policy environment remote causes within the explanatory framework. With regard to the EU's response to the sovereign debt crisis, this framework showed its high explanatory value. In addition, however, the empirical evidence revealed that individual politicians can have a significant impact on actors' preferences and the course of negotiations, and that the wider policy environment can present a quasi-proximate cause within the explanatory framework. These observations do not contradict the explanatory framework of actor centred institutionalism but they induce a slight correction of the original assumption.

The analysis of the two case studies also allowed for an assessment of who had the most influence on the policy response, or, as put more provocatively in the title of the dissertation, who has called the shots and why. The empirical observations show that in a sovereign debt crisis, where policy-makers are under pressure to make decisions in times of uncertainty, there is little room for the regular Community method and procedures that characterize multi-level governance in the EU. Moreover, the EU did not possess of the appropriate crisis management capacities, particularly with regard to financial means, to effectively address the crisis. This led to a shift of the policy response away from the European Commission (and by consequence the European Parliament) to the European Council and the resourcefulness of

the Member States. Among the Member States the empirical evidence points to France and Germany as being the most influential actors. Their leadership was foremost based on their economic capacities representing 48 % of euro area GDP and their financial soundness due to their AAA credit rating. Moreover, the analysis shows that they were able to together build and propose compromises, and partially set the agenda. Hence, their leadership role in influencing the policy response was based on their capabilities or power resources in the form of economic weight, financial resources, bilateral preparations and formation of sub-groups. While there is no doubt about the leadership role of France and Germany in the response to the sovereign debt crisis, the dynamics within the couple are more difficult to determine. The analysis shows that Germany was very influential in imposing its view on the design of the financial assistance mechanisms such as the strict conditionality for the use of the funds and the reform of economic governance such as the Fiscal Compact with its debt brake and debt reduction automaticity. It also influenced the decision-making procedures at EU level timing-wise by imposing a gradual establishment of new institutions and procedures, very much to the dislike of France, which wanted to have a comprehensive approach right from the start of the crisis. Hence, each gradual step of setting up financial support mechanisms, a French preference, was followed by a strengthening of the fiscal rules, a German preference. While all this would point to a German leadership in the response to the sovereign debt crisis, the analysis also demonstrates that important ideological or conceptual aspects for Germany such as the no bail-out clause and the independence of the ECB got compromised (see Deubner, 2011). Moreover, by moving competencies away from the EU institutions through intergovernmental arrangements such as in the case of the ESM and the Fiscal Compact, and by establishing regular Euro summits, France managed to impose its vision of a 'gouvernement économique' of the euro. As a result, it can be concluded that the leadership in the response to the sovereign debt crisis may be attributed to France on a conceptual level and to Germany on an operational one.

7.2. Contributions to the literature

This section outlines the methodological and theoretical contributions the dissertation makes to the literature. This dissertation offers a methodological contribution to the literature on the sovereign debt crisis in the EU. Past studies of the response to the euro crisis have used approaches looking through the lens of rationalist institutionalism, of historical institutionalism, or of discursive institutionalism, whereas this study uses actor-centred institutionalism (ACI). By employing this approach, the research focused on a comprehensive set of factors, exogenous and endogenous ones, that are actor related to explain the response to the sovereign debt crisis. By making use of ACI to this study subject, the dissertation fills a gap in the literature.

Moreover, the dissertation also provides a different perspective on the analysis of the response to the euro crisis. Previous studies have focused on the specific new treaties and regulations that have been negotiated and agreed, or on specific events such as the bailout of Greece, or on the role of a specific EU institution or country. This dissertation has embarked on a different path by analysing a combination of various factors to explain the response to the sovereign debt crisis in the euro area. By using this multifaceted approach, it contributes to the growing literature on the analysis of the policy-response to the euro crisis.

Finally, the dissertation makes a general contribution to the literature on EU integration. The previous section outlined the important role of France and Germany to the European project. Hence, this dissertation provides further evidence to the growing body of literature on the Franco-German leadership role in European integration and EU politics (see Krotz and Schild, 2013).

7.3. Policy Implications

This section outlines the main practical implications of the findings of this research, which are relevant to policy-makers in the EU. The primary policy-relevant suggestion arising from this research is that many of the difficulties or constraints the EU faced in responding to the crisis are linked to the incomplete institutional architecture of its Economic and Monetary Union. It is widely acknowledged in the literature that a more complete institutional framework will be more efficient in preventing crisis from arising and resolving them with less socio-economic and political costs (Hodson, 2020; Bénassy-Quéré et al., 2018; Brunnermeier, et al., 2016; Baldwin and Giavizzi, 2015; Pisani-Ferry, 2010; Verhofstadt, 2009; Issing, 2008; Eichengreen, 1993; Hagen, 1993).

The second suggestion relates to being aware of the various dynamics that characterized policy-making in response to the crisis. There was the limited effectiveness of intergovernmental decision-making, the delegation of powers to sub-groups and technocrats, the North-South or creditor-debtor divide, and the (perceived) Franco-German 'dictate'. These dynamics risk aggravating the perceived and indeed existing democratic, and therefore also legitimacy deficits in EU decision-making (Crum and Merlo, 2020; Fabbrini, 2015; Hix, 2008; Scharpf, 1999).

The third suggestion relates to views on economic policy-making. While the findings have shown that ultimately preserving material interests was more important to actors than standing firm to their preferences based on ideas on the economy, it also evident that the great divergence in concepts how economics works was a hinderance to effectively address the crisis. The divergences led to a more divided and polarized EU, which made the crisis

more intense (Brunnermeier et al., 2016; Blyth, 2013). Hence, policy-makers should have greater awareness of the different ways of economic thinking in the EU, which ultimately should lead to stop 'papering over' them but to dialogue and reconcile the different views. Needless to mention that this is not confined to economic policy-making.

7.4. Limitations and avenues for further research

The scope of this research highlighted the factors that influence the policy response to the sovereign debt crisis of actors at EU level. By framing the research project in this way, it has its limitations and other possible avenues remain unexplored. However, its findings may be of use to analyse other similar cases and thereby open a gateway for future research. Thus, this closing section of the dissertation reviews some potential areas for future research, which will at the same time address the limitations of the research project.

A first avenue for future research would be to investigate the factors that influence the response to the sovereign debt crisis of actors at the national level compared to at the EU level. The dissertation has focused on what has happened at the EU level but crisis response has also happened at the national or in certain cases at the sub-national level. This can certainly be considered a limitation. While Euro area countries have decided that one of the key policies to respond to a crisis of this kind, namely monetary policy, is a competence at the EU level, they have also decided that fiscal and economic policy remain national competence albeit embedded in a common framework with more or less binding rules. Hence, it would be interesting to see what are the factors that influence the policy response of the relevant actors at national level, and how these interact with the decisions taken at EU level.

A second avenue would be to look at the implementation of the measures agreed in the policy response and their impact. This can be done with a focus on whether the rationale of the policies is maintained. Do the new policies lead to better implementation of the rules? Do the new policies reach the intended objectives such as sound fiscal and economic policies? This could also be done with a focus on whether the new policies change how the euro is governed. Do they provide a path towards more intergovernmentalism? Do they amplify the asymmetries among the various actors?

A third avenue for future research would be to apply the same methodology to different policy areas. This seems to be particular pertinent with regard to policy-making in the EU. A possible proposition would be that by applying the methodology to the EU's response to crises in different policy areas

similar findings would be identified.[153] Possible policy areas to which the methodology could be applied to are migration, climate and the COVID-19 pandemic. In all three areas the EU is faced with a policy problem that if not addressed causes or may cause significant political and socio-economic costs such as was the case in the sovereign debt crisis. All four situations have also been identified as crisis and therefore achieved a certain level of politicisation (Voltolini et al., 2020). The following table aims to illustrate the application of the methodology to these three policy areas.

Table 7.4 Potential for generalisability of the findings to other similar cases

Factors influencing the policy response		**COVID-19 pandemic**	**Migration policy**	**Climate policy**
Preferences of actors	**Ideas**	Diverging views on economic policy.	Diverging views on migration.	Diverging views how to tackle climate change.
	Material interests	Material interest under threat as significant negative socio-economic consequences	Material interest under no immediate threat.	Material interest under no immediate threat.
Capabilities of actors	**Power resources**	Size: played less of a role in a veto power environment. Economic weight: important but not determining.	Size: voting power in Council and EP. Institutional standing: Advising, mediating and brokering role of European Commission.	Size: voting power in Council and EP. Institutional standing: Advising, mediating and brokering role of European Commission.

[153] The terminology refers to 'crises' as temporary moments in need of decisive intervention (see Voltolini et al., 2020).

	BATNA	Economically and financial soundness: wields significant influence often disproportionate to actual disposal of 'classical power resources' such as size and economic weight see "Frugal Four" (Austria, Denmark, Finland, the Netherlands).	Possibly national alternatives but these would come with high costs (e.g. closing borders).	N/A.
	Domestic constraints	Judicial scrutiny: actors wanted to avoid legal obstacles. Parliamentary scrutiny: used to leverage own position.	Most likely public opinion and populist parties.	Vested interests and possibly public opinion.
Institutions		Overall institutional framework conducive to convergence on policy response.	Overall institutional framework no hindrance to convergence on policy response	Overall institutional framework no hindrance to convergence on policy response.
Wider policy environment		Quasi-proximate cause. Financial markets put pressure on actors to find agreement.	Remote cause. Agreements with 3rd countries ease pressure on actors.	Remote cause. Climate change not considered as a sufficient immediate threat to put pressure on actors.

Individual actors	**Individual politicians**	Direct involvement of leaders: Macron and Merkel enabled finding an agreement.	No direct involvement of leaders.	No direct involvement of leaders.

Source: Author's own data and design

It is not possible to make any conclusive remarks within the remit of this dissertation but a couple of observations can be made. While the findings of our study do not unequivocally fit the case of migration and climate policy as there seems to be a lack of material interests under immediate threat, of preference convergence or of direct involvement of individual politicians in the negotiations, they seem to travel well to the case of the response to the COVID-19 pandemic. The EU's response seemed to follow the same pattern: Despite varying preferences on how to respond to the socio-economic challenges of the pandemic, actors converged on a common policy response based on their material interests by agreeing to establish a fund, the European Union Recovery Instrument, to address potential financial and economic fallout. The fund is a policy innovation as was European Stability Mechanism, both intended to fill a gap in the institutional architecture. The exact design of the fund has then been negotiated based on the capabilities of the actors, which followed a similar pattern as under the sovereign debt crisis with some of the so-called creditor countries, here labelled the 'Frugal Four', weighing in heavily to introduce notions of conditionality for the disbursement of the funds similar to the study object of this research. The existing institutional framework seemed to have facilitated the negotiations. While there was the possibility of increasing pressure from financial markets, it was less pronounced than in the case of the sovereign debt crisis. Yet again the Franco-German couple played an important role by providing a blueprint for the Recovery Fund and its two leaders, Emmanuel Macron and Angela Merkel, getting directly involved. The answer to the question, who has called the shots and why, most likely would be the same as in the conclusions for the response to the sovereign debt crisis: the Franco-German tandem.

Hence, the findings of this research may hopefully be of use and to the benefit to researchers analysing policy-making in different cases and other fields, and to add to the understanding of decision-making in the EU. There will certainly be no shortage of crises the EU has to respond to in the years ahead to examine – some unknown and unexpected, some currently neglected and disregarded, but all smouldering under the Union's incomplete constitutional architecture.

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ANNEX 3.1 Interview consent form

Informed Consent Form PhD dissertation research

Please complete this form after you have listened to an explanation about the research.

Project Title: The EU's response to the sovereign debt crisis

Researcher: Philip Drauz

Thank you for your interest in taking part in this research. Before you agree to take part, the person organising the research must explain the project to you.

If you have any questions arising from the Information Sheet or explanation already given to you, please ask the researcher before you to decide whether to join in. You will be given a copy of this Consent Form to keep and refer to at any time.

Participant's Statement

I agree that:

- I have read the notes written above and understand what the study involves.
- I understand that my participation is voluntary and that I am free to withdraw at any time without giving any reason and without there being any negative consequences. In addition, should I not wish to answer any particular question or questions, I am free to decline
- I understand that such information will be treated as strictly confidential
- I understand that my participation will be taped and I consent to use of this material
- I understand that my responses will be kept strictly confidential. I understand that my name will not be linked with the research materials, and will not be identified or identifiable
- I agree that my name, job title and place of work may be listed in an annex in the final dissertation, and waive the right to anonymity for this purposes.

- I agree that the research project named above has been explained to me to my satisfaction and I agree to take part in this study.

Signature: Date:

ANNEX 3.2 Interview guide

Interview guide The EU response to the sovereign debt crisis 2010-2012

This questionnaire serves to understand the EU response to the sovereign debt crisis as part of a PhD research project at the School of Governance at Maastricht University and the United Nations University UNU-MERIT. The research aims to analyse the policy response to the sovereign debt crisis at EU level in the period from 2010 to 2012 by looking at two case studies, the setting up of financial assistance mechanisms (Greek Loan Facility, EFSF, ESM) and the reform of economic governance (Six- & Two-Pack, Fiscal Compact). It draws on the literature on new intuitionalism and the role of actors and institutions in the policy process. The research question is "What factors shaped the policy response of actors to the sovereign debt crisis at EU level?"

Semi-structured interviews

Note: the questions, as well as their order, will be subject to change. This is only an indication of the main issues covered in the interview.

No data will be accessed by anyone other than me and anonymity of the material will be protected by using codes rather than name identifiers.

Participants will be sent a transcript of the interview.

Name:

First Name:

Organisation/ Affiliation current:
2010 - 2012:

Position current:
2010-2012:

Responsibilities 2010-2012:

Country of origin:

Today's date:

Do you think there was a specific approach on economic policy among Member States, within EU institutions or the IMF that guided the response to the sovereign debt crisis? If, so, can you describe it? Could it broadly be described as fiscal consolidation cum structural reforms?

To which extent where ideas on economic policy important in shaping the crisis response?

Where material interests (financial, institutional) of the actors more important than their preferences for specific ideational responses to the crisis?
Follow-up:
- did these material interests make the actors convergence on a specific response?

Which actors (persons or organisations) played the most important role in the EU's response to the sovereign debt crisis with regard to setting up the financial assistance mechanisms? (For example, European Commission, European Parliament, Eurogroup, Eurogroup Working Group, European Council, France, Germany, IMF, ECB, others)?
Follow-up:
- Would it be possible to rank these actors according to the impact they had?
- Did they all hold the same views at the start of the crisis? Did their views change, and if so, why and when?

Which actors (persons or organisations) played the most important role in the EU's response to the sovereign debt crisis with regard to reforming economic governance? (For example, European Commission, European Parliament, Eurogroup, Eurogroup Working Group, European Council, France, Germany, IMF, ECB, others)?
Follow-up:
- Would it be possible to rank these actors according to the impact they had?
- Did they all hold the same views at the start of the crisis? Did their views change, and if so, why and when?

- Did bigger Member States have a greater influence in shaping the crisis response?
Follow-up:
- Any exceptions?

- Did financially sound Member States have a greater influence in shaping the crisis response?
Follow-up:
- Do you believe less financially sound Member States where somehow coerced into accepting certain policies?

- Did actors that faced domestic political constraints (sceptical public opinion, judicial or parliamentary scrutiny, others) have a greater influence on the crisis response?

What role did the institutional set-up of EMU play in the response to the crisis?
Follow-up:
- Did it rather enable or hinder the response? In what ways?
- Did it favour a specific choice of set of policy responses over others?
- What was the impact of the SGP, the no bailout clause, monetary financing prohibition?

What role did financial markets play?

What factors other than interests, ideas, capabilities, institutions, domestic issues, financial markets shaped the policy response of actors?

If we look at the final policy response or design and if we go to the core of the issues of setting up financial assistance mechanisms and economic governance reform, what actor(s) do you see as the most significant, and why?

ANNEX 3.3 Questionnaire

Questionnaire: The EU's response to the sovereign debt crisis

This questionnaire serves to understand the EU's response to the sovereign debt crisis as part of a PhD research project at the School of Governance at Maastricht University. The research aims to analyse the policy response to the sovereign debt crisis at EU level in the period from 2010 to 2012 by looking at two case studies, the setting up of financial assistance mechanisms (Greek Loan Facility, EFSF, ESM) and the reform of economic governance (Six- & Two-Pack, Fiscal Compact). It draws on the literature on new intuitionalism and the role of actors and institutions in the policy process. The over-arching question is "What factors shaped the policy response of actors to the sovereign debt crisis at EU level?"

Please note that no data will be accessed by anyone other than the researcher and the results of the questionnaire will be reported in an aggregated format. The anonymity of the material will be additionally protected by using codes rather than name identifiers.

Name:

Organisation/ Affiliation current:
2010 - 2012:

Position current:
2010-2012:

Responsibilities 2010-2012:

Country of origin:

Date:

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1. The response to the crisis can be characterised as mainly "fiscal consolidation-cum-structural reforms"?

- o Strongly agree
- o Agree
- o Neither agree nor disagree
- o Disagree
- o Strongly disagree

If "(strongly) disagree", could you please explain?

2. To what extent was your organisation in favour of this approach (described in question 1) to respond to the crisis?

- ○ Strongly in favour
- ○ In favour
- ○ Neither in favour nor against
- ○ Against
- ○ Strongly against

3. Please indicate the influence of the following actors in the setting up of financial assistance mechanisms ranging from 1 (= not influential) to 5 (= very influential).

European Council	1 □	2 □	3 □	4 □	5 □	
ECOFIN		1 □	2 □	3 □	4 □	5 □
Eurogroup	1 □	2 □	3 □	4 □	5 □	
Eurogroup Working Group	1 □	2 □	3 □	4 □	5 □	
European Commission	1 □	2 □	3 □	4 □	5 □	
European Parliament	1 □	2 □	3 □	4 □	5 □	
European Central Bank	1 □	2 □	3 □	4 □	5 □	
Germany	1 □	2 □	3 □	4 □	5 □	
France	1 □	2 □	3 □	4 □	5 □	
IMF	1 □	2 □	3 □	4 □	5 □	
others, if applicable:	1 □	2 □	3 □	4 □	5 □	

4. Please indicate the influence of the following actors on the reform of EU economic governance rules ranging from 1 (= not influential) to 5 (= very influential).

European Council		1 □	2 □	3 □	4 □	5 □
ECOFIN		1 □	2 □	3 □	4 □	5 □
Eurogroup	1 □	2 □	3 □	4 □	5 □	
Eurogroup Working Group	1 □	2 □	3 □	4 □	5 □	
European Commission	1 □	2 □	3 □	4 □	5 □	
European Parliament	1 □	2 □	3 □	4 □	5 □	
European Central Bank	1 □	2 □	3 □	4 □	5 □	

Germany		1 □	2 □	3 □	4 □	5 □
France	1 □	2 □	3 □	4 □	5 □	
IMF	1 □	2 □	3 □	4 □	5 □	
others, if applicable:		1 □	2 □	3 □	4 □	5 □

5. Economically and financially sound Member States had greater influence on the EU's response to the crisis.

- ○ Strongly agree
- ○ Agree
- ○ Neither agree nor disagree
- ○ Disagree
- ○ Strongly disagree

If "(strongly) disagree", could you please explain?

6. Member States with a larger population had a greater influence on the EU's response to the crisis than smaller ones.

- ○ Strongly agree
- ○ Agree
- ○ Neither agree nor disagree
- ○ Disagree
- ○ Strongly disagree

If "(strongly) disagree", could you please explain?

7. Governments that faced domestic political constraints (e.g. domestic parliamentary or judicial scrutiny) had more influence on the EU's policy response.

- ○ Strongly agree
- ○ Agree
- ○ Neither agree nor disagree
- ○ Disagree
- ○ Strongly disagree

If "(strongly) disagree", could you please explain?

8. Actors that faced a critical public opinion domestically had more influence on the EU's policy response.

- ○ Strongly agree
- ○ Agree
- ○ Neither agree nor disagree
- ○ Disagree

○ Strongly disagree

If "(strongly) disagree", could you please explain?

9. Please indicate the influence of the following domestic features in shaping the response to the crisis ranging from 1 (= not influential) to 5 (= very influential).

national constitutional courts	1 □	2 □	3 □	4 □	5 □
national parliamentary scrutiny	1 □	2 □	3 □	4 □	5 □
national elections	1 □	2 □	3 □	4 □	5 □
national opposition parties	1 □	2 □	3 □	4 □	5 □
national public opinion	1 □	2 □	3 □	4 □	5 □

10. The pre-crisis (before 2010) existing institutional framework of EMU has constrained the crisis response.

○ Strongly agree
○ Agree
○ Neither agree nor disagree
○ Disagree
○ Strongly disagree

If "(strongly) disagree", could you please explain?

11. Please indicate the importance of the following institutional features in shaping the response to the crisis ranging from 1 (=not important) to 5 (= very important).

Deficit and debt rules in the Stability and Growth Pact
1 □ 2 □ 3 □ 4 □ 5 □
"No bail-out" clause of article 125 TFEU
1 □ 2 □ 3 □ 4 □ 5 □
Prohibition of monetary financing of article 123 TFEU
1 □ 2 □ 3 □ 4 □ 5 □
Qualified majority voting in the Council
1 □ 2 □ 3 □ 4 □ 5 □
Central bank independence
1 □ 2 □ 3 □ 4 □ 5 □
Community method
1 □ 2 □ 3 □ 4 □ 5 □

12. The specific features of the institutional framework of EMU had more influence on the crisis response compared to the actors?

- ○ Strongly agree
- ○ Agree
- ○ Neither agree nor disagree
- ○ Disagree
- ○ Strongly disagree

If "(strongly) disagree", could you please explain?

13. Material interests (e.g. financial or institutional) of actors had a greater influence on the policy response than their preferences based on ideas (e.g. specific ideas about the economy or economic policy making).

- ○ Strongly agree
- ○ Agree
- ○ Neither agree nor disagree
- ○ Disagree
- ○ Strongly disagree

If "(strongly) disagree", could you please explain?

14. The material interests of the actors were the fundamental drivers to converge/agree on the policy response.

- ○ Strongly agree
- ○ Agree
- ○ Neither agree nor disagree
- ○ Disagree
- ○ Strongly disagree

If "(strongly) disagree", could you please explain?

15. Financial markets put pressure on the actors to swiftly agree on compromises.

- ○ Strongly agree
- ○ Agree
- ○ Neither agree nor disagree
- ○ Disagree
- ○ Strongly disagree

If "(strongly) disagree", could you please explain?

16. The role of the European Council was important

- ○ On all aspects of crisis response
- ○ On a few important aspects
- ○ Symbolical but not engaged in technical aspects
- ○ Not important at all

17. The role of the Franco-German meetings was important

- ○ On all aspects of crisis response
- ○ On a few important aspects
- ○ Symbolical but not engaged in technical aspects
- ○ Not important at all

18. The Eurogroup Working Group had a significant impact on how the policies to respond to the crisis have been shaped.

- ○ Strongly agree
- ○ Agree
- ○ Neither agree nor disagree
- ○ Disagree
- ○ Strongly disagree
- ○ I don't know

If "(strongly) disagree", could you please explain?

19. If you were to sum up what the most important factor shaping the crisis response was, you would say:

20. Would you be available for a follow-up structured interview of 30'?

- ○ yes
- ○ no

ANNEX 3.4 Questionnaire explainer

General preferences

Q1 The response to the crisis is in the literature predominantly described as fiscal consolidation (or austerity) combined with structural reforms. The question will therefore show to which extent the view of interviewees matches with the mapped preferences of the actors.

Q2 Answers to the question will help cross-check the preferences of the actors. They will also contribute to identifying actors' influence, which is the case if preferences match with crisis response.

Actor influence.

Q3 Q3 aims at measuring the influence of the different main actors in case study 1.

Q4 Q4 aims at measuring the influence of the different main actors in case study 2.

Actor capabilities

Q5 The question addresses proposition/hypothesis 2 and more precisely the influence of sound public finances in crisis response.

Q6 The question addresses proposition/hypothesis 2 and more precisely the influence the size of Member States has on influencing crisis response.

Q7 The question addresses proposition/hypothesis 2 and more precisely the influence domestic factors have on the influence of an actor on crisis response.

Q8 Q8 specifically addresses the impact of a hostile public opinion on actors' influence on crisis response. This is a factor that had been highlighted in the test interviews.

Q9 The question aims at ranking the influence of domestic factors.

Institutional influence

Q10 Besides actors, institutions play an important role in enabling or restraining actors in designing a response to the crisis. This question addresses the impact of the specific institutional design of EMU on the crisis response.

Q11 Q11 aims at ranking the influence of specific institutional features.

Actor specific preferences

Q12 The question directly addresses proposition/hypothesis 1 to verify whether material interests played a greater role in crisis response than ideational preferences.

Q13 Follow-up question to Q12 to see whether material interests were a driver of agreement.

Actor vs institutional influence

Q14 The question tries to explore whether actors or institutions mattered more in shaping the crisis response.

Policy and institutional environment

Q15 Q15 - Q18 aim at measuring the impact specific structural/institutional factors have on the crisis response.

ANNEX 3.5 Questionnaire results

Q1 The response to the euro crisis can be characterised as fiscal consolidation- cum-structural reforms"

Answer choices	Responses in %
Strongly agree	28.57
Agree	64.29
Neither agree nor disagree	0
Disagree	0
Strongly disagree	7.14

Q2 To what extent was your organisation in favour of this approach to respond to the crisis?

Answer choices	Responses in %
Strongly in favour	28.57
In favour	42,86
Neither in favour nor against	21,43
Against	7,14
Strongly against	0

Q3 Please indicate the influence of the following actors in the setting up of financial assistance mechanisms from 1 (not influential) to 5 (very influential)?

Actor	Number of respondents					Influence
	1	2	3	4	5	
European Council	-	-	3	6	6	4,2
ECOFIN	1	4	2	5	1	3,1
Eurogroup	0	0	1	4	9	4,6
Eurogroup Working Group	0	1	0	5	8	4,4
European Commission	0	0	5	5	4	3,9
European Parliament	6	7	0	1	0	1,7
European Central Bank	0	2	3	4	4	3,5
Germany	0	0	2	7	6	4,6
France	0	1	3	7	3	3,9

IMF	0	2	4	5	3	3,6

Q4 Please indicate the influence of the following actors on the reform of EU economic governance rules from 1 (not influential) to 5 (very influential)?

Actor	**Number of respondents**					**Influence**
	1	**2**	**3**	**4**	**5**	
European Council	0	2	2	6	4	3,9
ECOFIN	0	1	4	7	2	3,6
Eurogroup	0	1	1	6	6	4,2
Eurogroup Working Group	0	0	1	7	5	4,3
European Commission	0	0	1	3	10	4,6
European Parliament	1	5	2	3	3	3,1
European Central Bank	0	2	7	1	4	3,5
Germany	0	1	1	6	6	4,2
France	1	3	2	6	2	3,4
IMF	3	6	3	2	0	2,3

Q5 Economically and financially sound Member States had a greater influence on the response to the crisis.

Answer choices	**Responses in %**
Strongly agree	50 %
Agree	35.71 %
Neither agree nor disagree	14.29 %
Disagree	0 %
Strongly disagree	0 %

Q6. Member States with a larger population had a greater influence on the response to the crisis than smaller ones.

Answer choices	**Responses in %**
Strongly agree	7.14
Agree	42.86
Neither agree nor disagree	14.29
Disagree	35.71
Strongly disagree	0

Q7 Government that faced domestic political constraints (e.g. domestic parliamentary or judicial scrutiny) had more influence on the policy response.

Answer choices	**Responses in %**
Strongly agree	14.29
Agree	64.29
Neither agree nor disagree	7.14
Disagree	14.29
Strongly disagree	0

Q8 Actors that faced a critical public opinion domestically had more influence on the policy response

Answer choices	**Responses in %**
Strongly agree	14.29
Agree	50
Neither agree nor disagree	14.29
Disagree	14.29
Strongly disagree	7.14

Q9 Please indicate the influence of the following domestic features in shaping the response to the crisis ranging from 1 (=not influential) to 5 (= very influential).

Domestic feature	**Number of respondents**					**Influence**
	1	**2**	**3**	**4**	**5**	
Constitutional courts	1	2	5	3	3	2,6
Parliamentary scrutiny	0	4	2	5	3	3,5
Elections	0	1	6	6	1	3,5
Opposition parties	2	8	3	1	0	2,2
Public opinion	0	4	2	7	1	3,4

Q10 The pre-crisis (before 2010) existing institutional framework of EMU has constrained the crisis response.

Answer choices	Responses in %
Strongly agree	38.46
Agree	46.15
Neither agree nor disagree	15.38
Disagree	0
Strongly disagree	0

Q11 Please indicate the influence of the following institutional features in shaping the response to the crisis ranging from 1 (=not influential) to 5 (= very influential).

Domestic feature	Number of respondents					Influence
	1	2	3	4	5	
Deficit and debt rule in the SGP	0	4	5	4	1	3,1
No bail-out clause	0	1	2	8	3	3,9
Prohibition of monetary financing	0	1	3	7	3	3,9
QMV voting in Council	0	5	7	2	0	2,9
Central bank independence	0	2	8	4	0	3,1
Community method	2	5	5	2	0	2,5

Q12 The specific features of the institutional framework of EMU had more influence on the crisis response compared to the actors

Answer choices	Responses in %
Strongly agree	0
Agree	28.57
Neither agree nor disagree	35.71
Disagree	35.71
Strongly disagree	0

Q13 Material interests (e.g. financial or institutional) of actors had a greater influence on the policy response than their preferences based on ideas (e.g. specific ideas about the economy or economic policy making).

Answer choices	**Responses in %**
Strongly agree	7.14
Agree	35.71
Neither agree nor disagree	28.57
Disagree	28.57
Strongly disagree	0

Q14 The material interests of the actors were the fundamental drivers to converge/agree on the policy response

Answer choices	**Responses in %**
Strongly agree	7.14
Agree	35.71
Neither agree nor disagree	42.86
Disagree	14.29
Strongly disagree	0

Q15 Financial markets put pressure on the actors to swiftly agree on compromises

Answer choices	**Responses in %**
Strongly agree	50
Agree	42.86
Neither agree nor disagree	7.14
Disagree	0
Strongly disagree	0

Q16 The role of the European Council was important…

Answer choices	**Responses in %**
On all aspects of the crisis response	28.57
On a few important aspects of the crisis response	57.14

Symbolical but not engaged in technical aspects	14.29
Not important at all	0

Q17 The role of the Franco-German meetings was important…

Answer choices	**Responses in** %
On all aspects of the crisis response	35.71
On a few important aspects of the crisis response	50
Symbolical but not engaged in technical aspects	7.14
Not important at all	7.14

Q18 The Eurogroup Working Group had a significant impact on how the policies to respond to the crisis have been shaped.

Answer choices	**Responses in** %
Strongly agree	64.29
Agree	35.71
Neither agree nor disagree	0
Disagree	0
Strongly disagree	0

ANNEX 3.6 List of office holders and number of articles 2010 – 2012[154] in brackets

Institution/Country	Office	Name of office holder	Term in office
European Council	President	Herman Van Rompuy (732)	12/2009 - 11/2014
Eurogroup	President	Jean-Claude Juncker (964)	1/2005 – 1/2013
European Commission	President	Jose Manuel Barroso (817)	11/2004 – 11/2014
	Commissioner ECOFIN	Joaquin Almunia (5)	4/2004 – 2/2010
		Olli Rehn (938)	2/2010 – 7/2014
European Parliament	President	Jerzy Buzek (19)	7/2009 – 1/2012
		Martin Schulz (12)	1/2012 – 1/2017
European Central Bank	President	Jean-Claude Trichet (2000)	11/2003 – 10/2011
		Mario Draghi (1955)	11/2011 – 10/2019
Austria	Chancellor	Werner Faymann (84)	12/2008 - 5/2016
	Minister of Finance	Josef Pröll (48)	12/2008 – 4/2011
		Maria Fekter (157)	4/2011 – 12/2013
Belgium	Prime Minister	Yves Leterme (78)	11/2009 - 11/2011
		Elio di Rupo (21)	12/2011 – 10/2014
	Minister of Finance	Didier Reynders (119)	7/1999 – 12/2011
		Steven Vanackere (20)	12/2012 – 3/2013
Cyprus	President	Demetris Cristofias (0)	2/2008 – 2/2013

[154] Until the end of 2012 the euro area was made up of 17 countries (Latvia joined in 2014 and Lithuania in 2015)

	Minister of Finance	Charilaos Stavrakis (17)	2/2008 – 8/2011
		Kikis Kazamias (13)	8/2011 – 3/2012
		Vassos Shiarly (12)	3/2012 – 2/2013
Estonia[155]	Prime Minister	Andrus Ansip(17)	4/2005 – 3/2014
	Minister of Finance	Jürgen Ligi (5)	6/2009 – 11/2014
Finland	Prime Minister	Matti Vanhanen (17)	7/2003 – 6/2010
		Mari Kiviniemi (27)	6/2010 – 6/2011
		Jyrki Katainen (138)	6/2011 – 6/2014
	Minister of Finance	Jyrki Katainen (89)	4/2007 – 6/2011
		Jutta Urpilainen (40)	6/2011 – 6/2014
France	President	Nicolas Sarkozy (2595)	5/2007 – 5/2012
		Francois Hollande (800)	5/2012 – 5/2017
	Minister of Finance	Christine Lagarde (461)	5/2007 – 6/2011
		Francois Baroin (250)	6/2011 – 5/2012
		Pierre Moscovici (121)	5/2012 – 5/2014
Germany	Chancellor	Angela Merkel (5119)	11/2005 - incumbent
	Minister of Finance	Wolfgang Schäuble (1439)	9/2009 – 10/2017
Greece	Prime Minister	George A. Papandreou (1488)	10/2009 – 11/2011
		Lucas Papademos (381)	11/2011 – 5/2012

[155] Joined the euro area on 1 January 2011

		Panagiotis Pikrammenos[156] (8)	5/2012 – 6/2012
		Antonis Samaras (254)	6/2012 – 1/2015
	Finance Ministers	Giorgos Papakonstantinou (329)	10/2009 – 6/2011
		Evangelos Venizelos (380)	6/2011 – 3/2012
		Philippos Sachinidis (1)	3/2012 – 5/2012
		Georgios Zanias[157] (2)	5/2012 – 7/2012
		Yannis Stournas (1)	5/2012 – 6/2014
Ireland	Prime Minister	Brian Cowen (212)	5/2008 – 3/2011
		Enda Kenny (124)	3/2011 – 6/2017
	Minister of Finance	Brian Lenihan (110)	5/2008 – 3/2011
		Michael Noonan (190)	3/2011 – 6/2017
Italy	Prime Minister	Silvio Berlusconi (1143)	8/2008 – 11/2011
		Mario Monti (1383)	11/2011 – 4/2013
	Minister of Finance	Giulio Tremonti (379)	5/2008 – 11/2011
		Mario Monti (PM quotes)[158]	11/2011 – 7/2012
		Vittorio Grilli (4)	7/2012 – 4/2013
Luxembourg	Prime Minister	Jean-Claude Juncker (see under Eurogroup)	1/1995 – 6/2013
	Finance Minister	Luc Frieden (52)	7/2009 – 6/2013

[156] President of the Council of State acting as head of caretaker government due to failed coalition formation
[157] Caretaker government
[158] He combined the offices of Prime Minister and Finance Minister.

Malta	Prime Minister	Lawrence Gonzi (1)	3/2004 – 3/2013
	Finance Minister	Tonio Fenech (2)	3/2008 – 3/2013
Netherlands	Prime Minister	Jan Peter Balkenende (12)	7/2002 – 10/2010
		Mark Rutte (222)	10/2010 - incumbent
	Minister of Finance	Woulter Bos (5)	2/2007 – 2/2010
		Jan Kees de Jager (230)	2/2010 – 11/2012
		Jeroen Dijsselbloem (88)	11/2012 – 10/2017
Portugal	Prime Minister	Jose Socrates de Carvalho Pinto de Sousa (356)	3/2005 – 6/2011
		Pedro Passos Coelho (188)	6/2011 – 11/2015
	Minister of Finance	Fernando Texeira dos Santos (105)	7/2005 – 6/2011
		Vitor Gaspar (63)	6/2011 – 7/2013
Slovakia	Prime Minister	Robert Fico (45)	7/2006 – 7/2010
		Iveta Radicova (181)	7/2010 – 4/2012
		Robert Fico (42)	4/2012 – 3/2018
	Minister of Finance	Jan Pociatek (4)	2006 – 7/2010
		Ivan Miklos (116)	7/2010 – 4/2012
		Peter Kazimir (29)	4/2012 – 11/2019
Slovenia	Prime Minister	Borut Pahor (18)	11/2008 – 2/2012
		Janez Jansa (75)	2/2012 – 3/2013
	Minister of Finance	Franci Krizanic (13)	11/2008 – 2/2012
		Janez Sustersic (42)	2/2012 – 3/2013
Spain	Prime Minister	Jose Luiz Rodriguez Zapatero (482)	4/2004 – 12/2011

		Mariano Rajoy (747)	12/2011 – 6/2018
	Minister of Finance	Elena Salgado (216)	4/2009 – 12/2011
		Luis de Guindos (206)	12/2011 – 3/2018

ANNEX 3.7 Strategic communication mapping

Policy (key event) /Scale	-2	-1	0	+1	+2
Financial assistance	**No bailout**	**Bailout Strong condition-ality**	**Neutr-ality/ neglect**	**Bailout Soft condition ality**	**bailout**
Data examples	„national solutions“ „help themselves“ „do its homework“	„strict condition-ality“ „moral hazard“ „strict credit conditions“ „strong disincentives“		„against IMF involvement“ „pay a fee to creditors“ “grants rather than loans” “adequate pricing policy” “not overburden countries” “access to lowest rates”	„unconditional transfers“ “debt mutualisation” “pool national debt” “Eurobonds”
Economic Governance	**Very flexible rules**	**Flexible rules**		**Strict rules**	**Very strict rules**
Data examples	“Full national discretion” “National competence”	“governments should have overriding say“ „politics must stay in control“		„ex-ante EU control“ „discuss budget before parliamentary approval“	„EU veto over national budgets“ „loss of voting rights“

		“sensible deficit-cutting path” “growth dimension”		reinforce compliance“ „prevent bad behaviour“ „clear deficit and debt limits“ “strong structure”	„no politcial discretion“ or “automatic sanctions” „withdrawal of EU funds“ „rules-based“ „debt brake“

ANNEX 3.8 Strategic communication scores

Actor	Financial assistance		Economic governance	
	Management score	Financial assistance score	Management score	Economic governance score
European Council	0.38	0.13	0.3	-0.6
	no data	no data	-0.5	-1
Eurogroup	0.73	0.1	0.8	-0.8
	1.75	0	1	0
European Commission	0.26	0.1	0.77	-0.53
	0.5	-0.43	1.33	-0.83
EC Pdt	*-0.15*	*0.15*	*0.73*	*-0.53*
	-0.29	*-0.57*	*1.5*	*-0.5*
EC COMer	*0.56*	*0*	*0.8*	*-0.53*
	1.29	*- 0.29*	*1.25*	*-1*
European Parliament	*no data*	*no data*	*no data*	*no data*
ECB	0.63	-0.3	1.7	-1.2
	0.29	-0.71	-1.33	-1.11
Austria	0.22	-0.48	0.3	- 0.7
	0.33	-0.67	0	-1
Belgium	1.1	0.7	1	-0.5
	1	0	2	0
Cyprus	*no data*	*no data*	*no data*	*no data*
Estonia	0	-0.8	0.5	-0.5
	no data	*no data*	*no data*	*no data*
Finland	-0.23	-0.9	1	-0.86
	-2	-2	*no data*	*no data*
France	0.17	0.57	0.1	-1
	0	-0.5	0.5	-1
Germany	0.1	-0.7	0.86	-1.35
	-0.38	-0.75	1	-1.33
Greece	0.26	0.62	1.2	-0.2
	--0.13	-0.07	1	-1
Ireland	0.5	1.17	0.5	-1
	no data	*no data*	1	-1
Italy	0.71	1.24	0.75	--0.75
	1	0.33	*no data*	*no data*
Luxembourg	*0.7*	*0.08*	*1*	*-1.2*
	1.4	*-0.4*	*1*	*0*

Malta	*no data*	*no data*	*no data*	*no data*
Netherlands	-0.2	-1.125	0.7	-1.6
	-1.33	-1.67	*no data*	*no data*
Portugal	0.88	-0.33	1.07	-0.53
	0.67	-0.33	0	-1
Slovakia	-0.81	-0.36	0.4	-1.4
	-0,6	-0.33	0	-2
Slovenia	0	0	1	-2
	no data	*no data*	1	-2
Spain	0.44	-0.22	1	-0.16
	0.8	-0.4	0	0.33

Summary

The sovereign debt crisis has more than stress-tested Economic and Monetary Union. It became clear that the institutional framework as conceived in Maastricht could neither prevent nor resolve the crisis. Fiscal rules that have not been enforced together with vague coordination of economic policies and the absence of a possibility to financially assist ailing economies had provided a fertile ground for the crisis to erupt and then to spread. Policy-makers in the euro area have addressed these shortcomings by overhauling the rules for fiscal and economic surveillance, and by establishing a permanent financial assistance mechanism. The reform of economic governance and the setting up of the financial assistance mechanisms are significant steps in the process of European integration. Both provide the EU with new instruments in areas that were until now in the primary competence of the nation states. The policy response to the sovereign debt crisis has received, and is still receiving, considerable criticism. The debate mainly looks at the economics of the crisis response and concludes that the euro area needs to integrate further and as long as it is not an optimal currency area it requires new institutional features such as a fiscal union, banking union, safe asset and greater transfers. Few authors discuss the politics behind the policies. Those that do have increasingly tried to explain the response to the euro crisis by more unidimensional approaches such as by analysing the new treaties and regulations, by focusing on specific events such as the Greek bail-out, or by looking through the lens of individual actors such as the European Commission, the European Central Bank or single countries. The objective of this research is to contribute to this debate by providing a different, multidimensional perspective by analysing a combination of various factors and therefore addressing this empirical deficit. This thesis identifies the various factors that played a role in shaping the policy response and analyses them. It argues that the preferences of the actors together with a supporting power political constellation shaped the policy response.

To fill the debate's empirical deficit, the dissertation presents an assessment of the policy response to the sovereign debt crisis by actors at EU level. The analysis consists of two case studies. The first one analyses the policy-making on avoiding the default of euro area countries by establishing financial assistance mechanisms (chapter 4). The second one analyses the policy-making on restoring trust in financial markets by reforming the economic governance system of the euro (chapter 5). In both case studies, first the factors that played a role in shaping the policy response are identified in the negotiating process. This is then followed by an analysis of the various factors and of the role they played in shaping the policy response. The identification and examination of the factors is based on an extensive documentary analysis and draws on in-depths interviews and a questionnaire with actors, who played key roles in the policy-making process, as well as on an analysis of the strategic communication of the actors. The findings of the two case studies are subsequently being compared and the influence of the factors on the

policy response is being assessed. This is complemented by an update of the theoretical explanation (chapter 6). Chapter 7 presents the final conclusions of the thesis and the reflections on policy implications, limitations and avenues for further research.

As outlined above, most commentators have focused on a single actor or event, or an institutional change to explain the response to the sovereign debt crisis. This research has aimed at identifying the factors shat shape the policy response. The empirical findings indicate that a multitude of factors play a role in shaping the policy response to the sovereign debt crisis. First, the results show that the preferences based on material interests such as the protection of economic, financial and institutional interests, too precedence of preferences based on ideas, and allowed for a common policy response to happen. Second, the specific design of the policies has been determined by the capabilities the actors disposed of to influence the negotiations. The size of countries played less of a role than the economic and financial soundness of their public finances. Domestic factors such as judicial or parliamentary scrutiny as well as public opinion could restrain actors at EU level. Intellectual leadership and specific institutional roles (e.g. the brokering role of the European Commission) allowed actors to influence the negotiations. Third, the existing institutional framework enabled rather than restrained the finding of a common policy response by the actors without exercising a significant impact in shaping the policies itself. Fourth, financial markets played an important role as a driver of change by influencing the speed of negotiations and also the choice of policy instruments and their design. Fifth, besides composite actors, several individual actors played an important role in facilitating agreement. Above all this applied to the leaders of France and Germany.

While the research could identify a number of factors that played a role in shaping the policy response, the empirical evidence also allows to draw some lessons with regard to their influence. First, material interests are very important in the formation of preferences of the actors. The best example here is Germany, which was opposed to bailing out other Member States at the onset of the crisis but then made a policy U-turn once its banks and therefore own public finances came under threat. Second, the case studies show no dominant role for ideologies in influencing the policy response contrary to claims made by some commentators. Third, the analysis shows the important role of sound public finances as a capability in influencing the negotiations. Regarded in isolation it was more important than size or economic weight of an actor. However, actors that only possessed this factor were still less influential than actors that disposed of several factors such as size, weight and sound public finances as was the case for France and above all Germany. Fourth, the case studies show the significant influence of the Franco-German tandem based on their economic weight and their ability to build and propose compromises, and set the agenda. Finally, financial markets emerged as a quasi-actor driving policy-makers forward by exercising time pressure to find

agreements. Policy-makers not only tried to agree and communicate on important decision by the end of a weekend before the markets opened, they also tried to anticipate markets reaction to specific policy designs.

The findings also show that due to the lack of crisis management capacities at EU level, the policy response shifted away from the European Commission to the European Council and the resourcefulness of Member States. Among euro area countries, France and Germany emerged as the leaders in the crisis response. France was the actor more influential at the conceptual level and Germany at the operational one.

Valorization

Since its beginning, the sovereign debt crisis that erupted in the euro area in late 2009 early 2010 has attracted great interest across fields. This is not surprising as the euro represents the policy area in which European integration is the most advanced. Moreover, its repercussions have not only been felt by Europeans but across the globe. The architecture of the euro, sharing a common monetary policy but leaving fiscal and economic policy in the hands of individual countries together with the absence of crisis management instruments, not only failed in crisis prevention but also severely hampered the euro area's crisis response. By examining the policy response to the sovereign debt crisis in the EU, the dissertation offers insights into how the EU functions and manages its common currency thereby adding to the existing body of literature on the euro and, economic and monetary union. The dissertation also adds to the growing body of literature on how the EU operates when confronted with a crisis situation. Understanding how the EU manages crisis situations is very relevant with regard to the multiple policy challenges the EU faces. The dissertation offers an understanding how the sovereign debt crisis emerged and how policy-makers attempted to solve it in the absence of an institutional framework for crisis management in the euro area. Understanding the characteristics and functioning of this institutional framework and how actors operate within it, is the kind of knowledge the dissertation aims to provide. This is relevant to policy-makers within the EU but also to those outside the EU that interact with the EU policy-makers. It is also relevant knowledge for financial market actors to better understand the decision-making processes and the constraints policy-makers face but also the adaptability of the EU to unforeseen events, and therefore make more informed investment decisions.

In addition to these more general aspects, I have been able to apply the knowledge gained in the context of my research in my day to day professional work on numerous occasions. Primarily, I was able to use the knowledge gained in advising elected Members of the European Parliament and staff on the economic governance of the euro area. The research has informed the drafting of numerous legislative reports and resolutions of the European Parliament as well as the drafting of amendments to these. In the discussions and negotiations on legislative projects, I was able to use the knowledge gained through my research to advise Members of the European Parliament on the impact of the proposed legislation and the various policy options. Moreover, the insights gained through the research have found their way in background notes, policy papers, manifestos and party programmes at European and national level.

Additionally, I regularly benefitted from the knowledge gained when giving lectures, participating in discussion fora, talking to school classes, providing background to journalists or meeting visitors' groups from all walks of life that came to the European Parliament.

In the future I would like to further build on the insights of the research. On the one hand, as a practitioner with the objective of contributing to a more resilient Economic and Monetary Union. The upcoming review of the economic governance framework will provide ample possibilities before and after it has been introduced in the legislative process. On the other hand, I would like to develop this line of research further with regard to the EU's capacity to respond to crisis regardless of the policy field as hinted at in the dissertation when exploring avenues for future research.

About the Author

Philip Drauz was born in 1974 in Brussels in Belgium. He studied law and international relations at the Universities of Heidelberg (DE), Freiburg (DE), Fribourg (CH), Cologne (DE) and Kent (UK). After gathering work experience in the private sector and with the European Commission, Philip began to work in the European Parliament for the Alliance of Liberals and Democrats for Europe Group (ALDE). He held several positions within the ALDE Group, from policy adviser on the Internal Market and Consumer Protection as well as the Economic and Monetary Affairs Committee, to head of office of the President and head of section of the working group on economic, social and structural policies. Since 2019, Philip is the deputy secretary general in charge of parliamentary work and policy of the Renew Europe Group in the European Parliament.

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