

Who calls the shots and why?

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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 that 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.