



OSNABRÜCK  
**JEAN MONNET CENTRE**  
OF EXCELLENCE IN EUROPEAN STUDIES



**Johanna Jacobsen**  
The Currency of Institutions: EMU  
Development 2010 – 2012

*Osnabrück JMCE Award Series Nr. 07 (2013)*

*Award Series*

**Osnabrück JMCE Award Series Nr. 07 (2013)**

Herausgegeben für das Osnabrück JMCE von

Stefanie Stasche, LL.M.

Diese Arbeit wurde ausgezeichnet mit dem JMCE Award 2013 für die beste Masterarbeit,  
verliehen am 02. Juli 2013.

Jurymitglieder:

Prof. Dr. Thomas Groß

Prof. Dr. Ingeborg Tömmel

© Osnabrück JMCE Universität Osnabrück Seminarstr. 33  
49069 Osnabrück

JMCE Award Series online unter: <http://repositorium.ub.uni-osnabrueck.de/>

*Zitierweise:*

Jacobsen, Johanna (2013) „The Currency of Institutions: EMU Development 2010 – 2012“, Osnabrück JMCE Award Series Nr. 07 (2013).

September 2013

## Contents

<b>Abbreviations</b>		<b>5</b>
<b>1. Introduction</b>		<b>7</b>
1.1	The puzzle of EMU development 2010 – 2012	7
1.2	Literature review	10
<b>2. Theoretical background and methodology</b>		<b>12</b>
2.1	Historical institutionalism	12
2.2	Institutional change	15
2.2.1	Institutional equilibrium and critical junctures	15
2.2.2	Modes of gradual institutional change	16
2.2.3	Explaining gradual institutional change	18
2.3	Institutional legacy and ideas	20
2.4	Process tracing	22
2.5	Hypotheses for EMU development	23
<b>3. The creation of EMU: Institutional structure and rules</b>		<b>25</b>
3.1	The path towards EMU	25
3.2	The European Central Bank	26
3.2.1	Treaty provisions	26
3.2.2	The ECB’s monetary strategy	27
3.2.3	Monetary operations and instruments	29
3.2.4	Institutional features and legacies of the ECB	31
3.3	The coordination of fiscal and economic policy	32
3.3.1	Treaty provisions	33
3.3.2	The Stability and Growth Pact	34
3.3.3	Economic policy coordination beyond the Treaty	37
3.3.4	The role of the Eurogroup	38
3.3.5	Institutional features of fiscal and economic policy coordination	38
3.4	Stability and supervision of financial markets	39
3.4.1	Financial stability	40
3.4.2	Supervision and regulation of financial institutions	40
3.4.3	Institutional features of financial supervision	41
<b>4. EMU development 2010 – 2012: The impact of institutions and ideas</b>		<b>42</b>
4.1	From narrow to broad mandate: The changed role of the ECB	42
4.1.1	ECB activities during the financial crisis	42
4.1.2	ECB activities during the sovereign debt crisis	44

4.1.3	The ECB’s conversion to a lender of last resort.....	48
4.1.4	The ECB’s role conversion: how was it possible?.....	50
	4.1.4.1 Power implications.....	50
	4.1.4.2 Compliance requirements.....	51
	4.1.4.3 Change agents and their ideas.....	53
4.2	Institutional change in fiscal and economic policy coordination.....	58
4.2.1	The bailout funds.....	58
4.2.2	Enhanced coordination of fiscal and economic policy.....	65
4.2.3	Eurozone governance.....	70
4.2.4	A new layer in EMU fiscal and economic policy.....	71
4.2.5	Adding a new layer to fiscal and economic policy coordination: how was it possible?.....	72
	4.2.5.1 Power implications.....	72
	4.2.5.2 Compliance requirements.....	74
	4.2.5.3 Change agents and their ideas.....	75
4.3	Reforming the system of financial supervision.....	81
4.3.1	Reaction to the financial crisis.....	81
4.3.2	Towards a banking union: common financial supervision for EMU.....	83
4.3.3	A European layer for financial supervision in EMU.....	85
4.3.4	Establishing a new layer for financial supervision: how was it possible?.....	85
	4.3.4.1 Power implications.....	85
	4.3.4.2 Compliance requirements.....	86
	4.3.4.3 Change agents and their ideas.....	87
<b>5.</b>	<b>Conclusion.....</b>	<b>90</b>
	<b>Literature.....</b>	<b>95</b>

## Abbreviations

BEPG: Broad Economic Policy Guidelines  
BSC: Banking Supervision Committee  
CAC: Collective Action Clauses  
**CBPP: Covered Bond Purchase Programme**  
CEBS: Committee of European Banking Supervisors  
CEBS: Committee of European Banking Supervisors  
CEIOPS: Committee of European Insurance and Occupational Pensions Supervisors  
CIF: Co-Investment Fund  
EBA: European Banking Authority  
EBC: European Banking Committee  
ECB: European Central Bank  
ECCL: Enhanced Conditional Credit Line  
ECOFIN: Economic and Financial Affairs Council  
ECU: European Currency Unit  
EDP: Excessive Deficit Procedure  
EFC: Economic and Financial Affairs Committee  
EFSF: European Financial Stability Facility  
EFSM: European Financial Stability Mechanism  
EIB: European Investment Bank  
EIOPA: European Insurance and Occupational Pensions Authority  
EIOPC: European Insurance and Occupational Pension Committee  
ELA: Emergency Liquidity Assistance  
EMI: European Monetary Institute  
EMU: European Economic and Monetary Union  
EMS: European Monetary System  
EPM: ECB payment mechanism  
ERM: Exchange Rate Mechanism  
ESAs: European Supervisory Authorities  
ESC: European Securities Committee  
ESCB: European System of Central Banks  
ESM: European Stability Mechanism  
ESMA: European Securities and Markets Authority  
ESR: European Securities Regulators  
ESRB: European Systemic Risk Board  
EU: European Union  
FFA: Financial Assistance Facility Agreement  
FSAP: Financial Services Action Plan  
GDP: Gross Domestic Product

HICP: Harmonised Index of Consumer Prices  
IAP: Internal Auditing Board  
IMF: International Monetary Fund  
JEPP: Journal of European Public Policy  
JCMS: Journal of Common Market Studies  
LTRO: Longer-Term Refinancing Operation  
MB: Monthly Bulletin  
MFI: Monetary Financial Institutions  
MMF: money market funds  
MRO: Main Refinancing Operation  
OCA: Optimum Currency Area  
OMC: Open Method of Coordination  
OMT: Outright Monetary Transaction  
PCCL: Precautionary Conditioned Credit Line  
RTGS: Real-Time Gross Settlement  
SEA: Single European Act  
SGP: Stability and Growth Pact  
SMP: Securities Market Programme  
SSP: Single Shared Platform  
SSM: Single Supervising Mechanism  
TARGET: Trans-European Automated Real-Time Gross settlement Express Transfer  
TEU: Treaty on European Union  
TFEU: Treaty on the Functioning of the European Union  
TSCG: Treaty on Stability, Coordination and Governance in the Economic and Monetary Union  
US: United States

## 1. Introduction

### 1.1 The puzzle of EMU development 2010 – 2012

When the European Economic and Monetary Union (EMU) was created in the 1990s, it was meant to be a milestone of European integration, contributing to the convergence of the European states and the wealth of its citizens. For more than three years, however, EMU has found itself in a severe crisis, threatening to reverse the founders' intentions. It often seemed as if the common currency rather contributed to the division of European elites, the divergence of the European economies, and the distrust of the citizens. From the very start of EMU, many economists (and others) have opposed it, arguing that the European economies and EMU's institutional set-up do not fulfil the basic criteria of an "Optimum Currency Area" (OCA) as established by Mundell (1961) and complemented by McKinnon (1963) and others. When the sovereign debt crisis emerged in 2010 and hit the Eurozone countries as an asymmetric shock, it appeared as if these critics were right. Starting with budgetary problems that emerged in Greece in autumn 2009, the existence of EMU itself soon was put at risk, when market distrust began to spread to other Eurozone countries in 2010. Emerging highly indebted from the financial crisis of 2008/2009, some Eurozone states, notably Greece, Ireland, Portugal, Spain, and Italy, lost or were threatened to lose access to funding from the financial markets. Investors doubted the capability of these states to repay their debt, which put the survival of the euro at risk as the indebted states were threatened to run into default.

However, suboptimal as it might be, EMU was not abandoned in 2010. Instead, EMU leaders reacted in a distinctive way to the crisis. They did not exclude the illiquid Members from the Eurozone, and they did not return to their old currencies. Likewise, they did not built up a veritable currency union with centralized decision-making on fiscal and economic policy and a common budget. Thus, neither did they abolish EMU, nor did they replace it with a totally new institutional structure. Rather, changes to the institutional structure of EMU were introduced step by step, leaving some features of the original set-up in place. With regard to monetary policy, the European Central Bank (ECB) began to apply unconventional measures in the euro crisis, such as unlimited liquidity to Eurozone banks and purchases of sovereign bonds, but its formal structure and tasks remained in place. Regarding fiscal and economic policy, euro area leaders established large stabilization mechanism (the EFSF/EFSM/ESM) and enhanced mutual control and coordination on budgetary and economic decision-making, but did not abolish the principle of Member State responsibility in these fields. Finally, financial supervision of Eurozone banks was supranationalized, but only for the largest banks, hence part of the responsibility was left to the Member States, as before. While these institutional changes are certainly significant and were introduced within a relatively short time horizon, they do not constitute a comprehensive, abrasive policy change, but rather a gradual evolution.

This master thesis aims at exploring and explaining this institutional development of EMU which appeared as a reaction to the financial and sovereign debt crisis. What factors caused this

specific form of monetary and economic institutional development in the Eurozone between 2010 and 2012? In other words, why was there no rapid major overhaul of the institutional structure, but a stepwise, gradual change of institutions?

To analyse why EMU took this specific path in its evolution not only helps to understand the difficulties of economic and monetary integration of the EU, but also indicates the further path its institutional development may take. To this end, the causes for the specific kind of institutional reform of EMU which took place between 2010 and 2012 must be explored.

The theory that will be used to explain EMU's institutional development will be historical institutionalism. In general, historical institutionalism focusses on the impact of institutions built up in the past on current developments. The definition of "institution" usually includes formal institutions and rules of the political system as well as informal rules, procedures and norms. Historical institutionalism has first been developed to explain the differences of many industrial states, assuming that these differences are mainly caused by their different institutional structure. Historical institutionalism does not claim that institutions are the only cause for an outcome, but only see them as a constraint which makes a certain development likely. With regard to other causes, especially the influence of ideas of political actors is acknowledged (Thelen/Steinmo 1992). The theory has also been used to explain European integration, that is, to explain why the political integration within the EU (or Europe) took a certain shape. The assumption here is that the institutions the EU created throughout its integration process constrain its future development. It is thus well-suited to explain the reform of EMU between 2010 and 2012, which constitutes a further step of European integration, and was apparently influenced by earlier institutional decisions.

The concept of path-dependence is central to the theory, indicating that institutions, once established, tend to persist over longer periods of time: Due to lock-in effects and increasing returns it becomes increasingly difficult and costly to change them (Pierson 2004). However, the theory has been criticized of being too determined, that is, to focus too much on institutional continuity than on institutional change. Thus, explaining institutional change became a central field of research within historical institutionalism. While a first concept had focussed on critical junctures, i.e. moments in which institutions are created or radically changed, approaches on gradual, stepwise institutional transformation soon gained attention. Most important is the categorization of different types of institutional change developed by Wolfgang Streeck and Kathleen Thelen in 2005 (Streeck/Thelen 2005a). They identified five different modes of gradual change which could be observed: displacement, layering, drift, conversion, and exhaustion. Thelen extended this classification in 2010 together with James Mahoney, by providing an institutionalist explanation on the appearance of certain types of change in certain institutional environments. They focus on two different variables which might influence the type of change: the power constellations and the compliance requirements with regard to an institution. The impact of power constellations is measured by regarding the potential veto opportunities against institutional change. Compliance requirements are operationalized by examining whether the institutional rules demand strict compliance or whether they allow for reinterpretation. The different combinations of the two variables describe a certain institutional setting, which allows for the development hypotheses on the type of institutional change which is likely to emerge in it. Additionally, a certain setting is likely to come with a certain type of change agent whose change



strategy depends on the institutional context in which he is embedded (Mahoney/Thelen 2010a). This institutionalist approach will be applied to the development of EMU between 2010 and 2012, focussing on three different policy fields where gradual institutional change appeared: monetary policy, fiscal and economic policy, and financial supervision. As this concept can only explain the type of institutional change, but not its concrete content, a constructivist component will be added to Mahoney's and Thelen's theory, by examining the ideas the most relevant political actors have on the appropriate transformation of the currency union. This seems especially important when considering that the field of economic policy is very much influenced by economic ideas, notably monetarism and Keynesianism. Hence, when the strategy of the change agents within the three settings is analysed, the role of their ideas will also be considered to explain the observed outcome fully.

For each of the three institutional settings, i.e. monetary policy, fiscal and economic policy, and financial supervision, the impact of the three independent variables – power constellations, compliance requirements, and ideas – on the dependent variable – institutional development – will be analysed. The strategies of the change agents of implementing their ideas are an intervening variable which pushes the development further in a certain direction. The financial and sovereign debt crisis will be treated as an implicit fourth independent variable; in fact, it is hard to imagine EMU's recent institutional reform without the external pressures which arose from the financial markets. The crisis was an important driver and catalyst for EMU's development, but it only requested *some kind* of reaction, and did not dictate the concrete shape of reform, which is assumed to be influenced by the three variables identified above. Thus, external pressure resulting from the crisis is seen as a driving force in the following, but will be considered only implicitly.

The method used to explain the institutional development of EMU will be process tracing. By tracing carefully the events that led to the process of institutional change within EMU between 2010 and 2012 by looking at broad range of sources, the impact of the different causes for this change can be measured.

The term "EMU" will be used in broad sense in this thesis. It will encompass the core of the monetary union, that is, the common monetary policy, but also the various coordination processes within fiscal and economic policy. In general, it will be used synonymously to the term "Eurozone" or "euro area". EMU only consists of the EU Member States that have adopted the euro, however, this thesis will not be necessarily limited to these states. Developments concerning the whole EU will be considered where appropriate. Likewise, the term "European Central Bank (ECB)" will be used as a *pars pro toto* for "Eurosystem", which consists of the ECB and the national central banks. Finally, the term "peripheral states" refers to the Eurozone states which were hit most by the crisis, notably Greece, Ireland, Italy, Spain and Portugal, while "core states" refers to the more stable Eurozone countries around Germany. "Financial crisis" means the subprime crisis between 2007 and 2010, "sovereign debt crisis" means the crisis in the Eurozone between 2010 and 2012.

## 1.2 Literature review

While the causes and processes which led to the establishment of EMU are quite well explored, there is yet not much research on the currency union's institutional development during the recent sovereign debt crisis. With regard to the stage of the creation of EMU during the 1990s, Kathleen McNamara's book on the development of EU monetary cooperation from the Bretton Woods system to EMU is perhaps the most relevant one. She argued that the different outcomes in the field of monetary policy cooperation in the EU depended strongly on policymakers' ideas (McNamara 1999: 56ff.). There were of course economic pressures on monetary policy, following from Mundell's theory of the "Holy Trinity", which claims that a state can only pursue two out of the three macroeconomic policy goals of fixed exchange rate regimes, autonomous monetary policy, and capital mobility. Under increasing capital mobility as it occurred during the 1970s, states therefore became under pressure to give up either independent monetary policy or fixed exchange rates. McNamara argues that only the appearance of a certain policy idea, the "neoliberal consensus", could drive the European States towards the European Monetary System (EMS) which established fixed exchange rates and restricted monetary autonomy. The neoliberal consensus was a growing approval among EU politicians of monetarist ideas as the right way to conduct monetary policy. As soon as this ideational consensus was established, monetary cooperation within the EU became stable as it had a common basis, and the way to EMU was paved (McNamara 1999).

Another influential study is "The Road to Maastricht" by Kenneth Dyson and Kevin Featherstone from 1999. They examine the political processes in Germany, France, Britain, Italy, and the EU-level which led to the decision to establish a monetary union in Europe. They show how the interaction different national and EU level legacies, beliefs, and interests with regard to economic and monetary policy induced the creation of EMU in its specific form in 1992 (Dyson/Featherstone 1999).

Both studies provide an important insight into the driving forces behind monetary integration in the EU, and in the ideas and traditions which were embedded in EMU during its creation. Other studies analyse the institutional setting of EMU, such as Dyson's book "The Politics of the Eurozone: Stability or Breakdown?" from 2002 in which he identifies the centrality of the ECB, the focus of EMU on "sound money" and "sound finances", and the absence of a common fiscal policy and legitimacy as the major features – and also weaknesses – of the Eurozone (Dyson 1999). Likewise, Anne Brunila, Marco Buti, and Daniele Franco describe the mechanism of fiscal policy coordination of EMU within the Stability in Growth Pact (Brunila/Buti/Franco 2001). Also, a comprehensive collection of and commentary on the most important policy documents of the creation and development of EMU has been provided by Dyson and Lucia Quaglia (Dyson/Quaglia 2010a, 2010b). Literature on EMU is equally vast within economic research. An example is Paul de Grauwe's textbook (first edition), which details the implications of EMU's institutional structure from an economic point of view (De Grauwe 2012a).

Research on the development of the Eurozone during the recent economic crisis has not been as comprehensive. In a descriptive study published in the *Journal of European Public Policy* (JEPP) in March 2012 Marion Salines, Gabriel Glöckner and Zbigniew Truchlewski try to

measure the extent of institutional change in the Eurozone governance, coming to the conclusion that it was only marginal at this point. They did not pay much attention to the reasons for this path-dependent development, and did not examine political actors' ideas (Salines/Glöckner/Truchlewski 2012). In an article in the *Journal of Common Market Studies* (JCMS) of September 2011 David Marsh shortly illuminates ambitions and hopes of EU leaders that spurred the Euro crisis (Marsh 2011). Also in the JCMS, in an article of March 2011 Kevin Featherstone identifies the weaknesses of both Greek and EU governance mechanisms that led to the crisis (Featherstone 2011). Both studies describe how the crisis emerged, but do not offer explanations for EMU's institutional development. Some studies published in the JCMS in September 2012 provide an oversight over the development of the Eurozone in 2011, but also do not offer explanations (Dinan 2012, Gros 2012, Hodson 2012).

Thus, a comprehensive analysis of the types of institutional change which has taken place within EMU between 2010 and 2012 and the institutionalist and ideational causes for this development has not been carried out so far. Therefore, this thesis will address these issues, by examining the institutional reforms carried out within EMU, notably in the fields of monetary policy, budgetary and economic policy, and financial supervision.

The outline of the thesis is as follows: In chapter two, the theory of historical institutionalism as well as the influence of ideas will be described and discussed, and some major hypotheses will be derived. In chapter three, the original institutional set-up of EMU as it has been established in the 1990s will be describe thoroughly, to obtain a template against which the institutional change that appeared ten years later can be measured. In chapter four, the various institutional reforms which happened within the three policy fields will be explored comprehensively, after which, in each area, the impact of the three independent variables and the intervening variable on the type and content of these institutional changes will be analysed. Finally, chapter five draws the conclusion.

## 2. Theoretical background and methodology

### 2.1 Historical institutionalism

The theory of historical institutionalism focusses on the influence of historically grown institutions on political outcomes. The definition of institutions is usually broad: it includes formal institutions and rules of the political system as well as informal rules, procedures and social norms. Historical institutionalism argues that these institutions, developed over time, shape the interests and power positions of political actors. By constraining behavior, therefore, they influence outcome, even though historical institutionalists do not claim that institutions are the only reason for a certain political development (Thelen/Steinmo 1992: 2f.).

Historical institutionalism developed in the 1960s and 70s as a reaction to behavioral approaches that were mainly analyzing the actual comportment of political actors and groups to explain politics, leaving more or less aside the institutional context in which they operate. Institutionalists argued that the behaviour and attitudes of actors could not explain the differences in political outcomes that appeared in different industrial countries despite often rather similar political and economic challenges or interest group constellations. Therefore, country-specific institutional features must have had some influence on different political developments. These institutional features, which were increasingly examined, included for example state-business relations, industrial relations between labour and employers' associations, or interest group influence in policy-making. Such institutional characteristics were perceived as an important filter having the capability to influence political preferences as well as power constellations, and, accordingly, outcomes. Historical institutionalism thereby pays special attention to the process of policy formation in its respective institutional environment (Thelen/Steinmo 1992: 3-7).

While historical institutionalists share the conviction with rational choice institutionalists that institutions structure actors' strategies, they deny that actors always behave rational or have enough knowledge to do so. Their strategical behaviour is considered as being equally based on social rules that define appropriate behaviour. Also, following historical institutionalists, actors' political preferences in a certain institutional context cannot be derived from the assumption of interest maximisation only, but the formation of actors' objectives *itself* is influenced by institutional conditions (Thelen/Steinmo 1992.: 7f.). Therefore, historical institutionalists take "the goals, strategies, and preferences [of political actors] as something to be explained" (Thelen/Steinmo 1992: 9), hence endogenous. Analysing historical processes then helps to explain why certain strategies and goals are pursued, while others are dismissed (Thelen/Steinmo 1992: 9).

Following these assumptions, historical institutionalism supposes that the formation of political coalitions is not determined by similar, given interests of groups, but can change during political processes. The modalities of policy formation thus shape group cooperation. Considering the strong influence institutions can have not only on political strategies, but also on

political actors' goals according to historical institutionalism, Steinmo and Thelen argue that this is why actors assume negotiations on institutional reform so important (Thelen/Steinmo 1992: 9).

Some authors distinguish between more rationalist and more constructivist historical institutionalist analyses, reflecting the principles of the other two 'new institutionalisms', rational choice institutionalism and sociological institutionalism. For the former, institutions reduce uncertainty about the behaviour of others and persist as long as they provide profitable coordination mechanisms. Regarding the latter, institutions embody social norms that define appropriate behaviour, and cannot be changed easily as they are both collective and become seemingly self-evident and uncontested over time (Hall/Taylor 1996: 939f.)

Central to the theory of historical institutionalism is the concept of path dependence. Institutions are considered to persist over longer periods of time, that is, to move forward on a given path without major transformation. Once created, institutions constrain future political options and hence push further development in a certain direction. Paul Pierson identifies a major mechanism that highlights why outcomes often turn out to be path-dependent. His argument is that once a certain institutional structure is established, *positive feedback effects* are likely to occur. This means that it becomes increasingly costly to leave an established trajectory, while staying on it becomes more and more attractive the longer the path exists (Pierson 2004: 20f.). Pierson then points out why positive feedback effects often appear in politics. First, they might be induced by collective action processes inherent to the political sphere. To achieve their goals, actors must coordinate with many other actors, and they will align their behaviour with the expected behaviour of others. Also, establishing new institutional features is more costly than joining existent ones. This enhances the likelihood that institutions already in place will be chosen as arena for political action, thus their successful establishment feeds back positively on their later development. Second, in politics, actors have to commit themselves to the normally coercive institutional rules and structures, thus institutional stability becomes attractive. Third, power asymmetries can be increased by positive feedback, as powerful actors might change rules to their advantage, and marginal actors might join the dominant camp. Fourth, in the highly complex political world, institutionalized ideas can become more and more important as normative templates, and reference to them gets more useful. Ideas thus can become self-reinforcing over time. These four characteristics of political processes make political institutions prone to positive feedback processes, thus increase the probability of path-dependence (Pierson 2004: 30-40). Furthermore, Pierson argues that an institutional turnaround is unlikely in politics, because there are barriers to possible path-changing mechanisms like competition and learning. (Pierson 2004: 40-44).

In general, historical institutionalism seems to be well-suited to explain political continuity over longer periods of time, as well as differences in political development between different countries. It is described as a "midrange theory" that lies between comprehensive macro-theories and single case studies, and does neither focus on state nor on societal characteristics, but on the institutions that shape the interaction between the two (Thelen/Steinmo 1992: 10). These institutions can be the explanation of outcomes but are simultaneously the result of prior political negotiations. Historical institutionalism, therefore, can also help to understand the role of political actors who drive and at the same time are driven by institutional development

(Thelen/Steinmo 1992: 10). Historical institutionalism examines intermediate-level rather than macro-level institutions. Steinmo and Thelen argue that intermediate institutions should be analysed, because they affect the design of macro institutions which then can help to explain outcomes, “but avoiding the structural determinism that often characterizes broader and more abstract [...] approaches (Thelen/Steinmo 1992: 11). The theory of historical institutionalism therefore does pay attention to the modes of interaction which are embodied in institutions and which channel political choices, without leaving aside other important factors such as political actors, ideas and power constellations. In doing so, the historical institutionalist approach is rather inductive, developing assumptions based on empirical observations rather than on ex ante theoretical considerations. Thus, the approach intends to explain political outcomes by analysing how the influence of different variables is structured by institutional features (Thelen/Steinmo 1992: 12f.).

The approach was applied to EU integration by, for example, Pierson in 1996. He argued that the development of the EU must be observed over time to identify the reasons for specific policy outcomes. While EU governments have the power to take decisions and create institutions, they cannot anticipate their consequences, and control gaps might emerge. These institutional control gaps cannot be closed easily: supranational actors might oppose it, but especially, there are usually high institutional barriers to institutional reforms in the EU (unanimity, qualified majority, parliamentary ratification), and the cost of abandoning an existing rule system is often very high. Therefore, political actors face historically grown institutional constraints in their current decisions (Pierson 1996).

Simon Bulmer applies the historical institutionalist approach to the creation of the European Single Act and Market. He argues that the approach is particularly well-suited to examine the European intergation process, because it addresses both the impact of existant institutions and political actors during times of institution creation as well as development. Also, using HI, different policy outcomes can be explained by different institutional features of the policy field, hence its mode of governance. Bulmer also emphasizes the usefulness of the concept of path dependance, which helps to explain the often incremental way of political evolution in the EU. He also highlights the interaction of institutions and ideas: institutions can favor the appearance of certain ideas (and thus policy outcomes), and ideas (or ‘institutional cultures’) can become imbedded in institutions (Bulmer 1998). Nevertheless, most of these articles try to identify conditions that lead to institutional continuity of EU institutions, while leaving aside conditions that might induce institutional change through negative feedback (Pollack 2008: 149-151).

Historical institutionalism, in sum, aims to explain political outcomes by analysing various influencing factors and their interactions in a given institutional context, and therefore accommodates the complexity of social life. But while historical institutionalism for a long time focused on explaining institutional stability, it recently started to pay more attention to moments of institutional reform, breakup or formation, as these not only reveal the actors’ ideas, they also mean the striking of a particular path which allows predictions on political development. Also, examining institutional change helps to understand the interaction between institutions and political actors, who both influence outcomes but face also constraints from earlier decisions (Thelen/Steinmo 1992: 26-28). The impact of institutions as well as institutions themselves can

change, the theory therefore had to be expanded to avoid that the assumption of institutional constraints turns into “institutional determinism” (Thelen/Steinmo 1992: 14f.). In order to explore the different political impact of the same institutions over time, Steinmo and Thelen give a first oversight of possible reasons of change: first, a formerly weak institution can become more influential if the political or socioeconomic environment changes. Second, if power constellations change, existing institutions can be used by new actors to achieve different objectives than before, thus having a different impact. Third, the impact of old institutions can change when they are used by the same actors, who now have different goals and strategies as a reaction to a transformation of the political or socioeconomic context. Fourth, institutions themselves can change. Institutional features can be altered by exogenous factors (that may provoke institutional breakdown or formation), but also by strategic behavior of political actors who may try to improve their power position through institutional development (Thelen/Steinmo 1992: 16f.). In this sense, institutional dynamism can also evolve from new ideas or policy paradigms. The moment of their successful implementation is structured by institutional features, and once these new ideas have become dominant, existing institutions may be reformed according to their spirit. In this context, certain institutional conditions (like competitive party systems) may not foster continuity but institutional change (Thelen/Steinmo 1992: 22-26). Theories on the modes and causes of institutional change have since been further developed, as described below.

## 2.2 Institutional change

### 2.2.1 *Institutional equilibrium and critical junctures*

Often, in historical institutionalism, periods of institutional change have been described as “critical junctures” where one path of institutional development is suddenly left to pursue another path. Reasons for this rather abrupt institutional change are normally seen in external constraints or shocks making further progress on the original path impossible, but also in political agency, which is considered to be able to overcome past institutional constraints in certain periods of time to establish radically new institutional features. Thus, in some historical institutionalist approaches, longer periods of institutional stability from time to time are interrupted punctually by shorter periods of fundamental institutional change induced from outside. Times of continuity are hence seen as times of institutional equilibrium where institutions and their implementation are uncontested (Mahoney/Thelen 2010a: 7). Critical junctures are deemed as important because they describe the process of institutional formation and choice, that is, the beginning of a new path. The institutions established during this process are crucial because they are considered to be the template for further, path-dependent progress.

Consequently, critical junctures can be defined “as *relatively* short periods of time during which there is a *substantially* heightened probability that agents’ choices will affect the outcome of interest” (Capoccia/Kelemen 2007: 348). Periods of change thus should be significantly shorter than the (subsequent) period of institutional stability. Also, during a critical juncture, political actors have more choices than before and after the critical phase, and the choices they make must

have an important impact on further development. Later, actors will be constrained by these decisions, thus the impact of their choices will be smaller again. (Capoccia/Kelemen 2007: 384). This also means that a critical juncture must be short in absolute terms, because the reappearance of institutional constraints becomes more likely over time (Capoccia/Kelemen 2007: 350f.).

Yet these approaches focus on a certain type of institutional change that takes place in a short period of time, is induced exogenously and replaces existing institutions outright. But institutional change does not always have to appear in this form.

### 2.2.2 *Modes of gradual institutional change*

The issue of institutional change has thus been developed further, especially by a contribution from Wolfgang Streeck and Kathleen Thelen in 2005, in which they argue that institutional change often takes place in a gradual way, transforming institutions also endogenously from within over a longer period of time (Streeck/Thelen 2005a). In their article, they first identify four basic types of institutional change, by looking at the process and result of change. The process can be either abrupt or incremental, while the result can either lead to continuity or discontinuity. In case of abrupt change without significant consequences on the institutional setting, they speak of “survival and return”. Abrupt change that leads to institutional discontinuity (in the sense of a “critical juncture” mentioned above) is labelled “breakdown and replacement”. Similarly, incremental change can have no major consequences for existing institutions, a type which is labelled “reproduction by adaptation”. But incremental change can also make important differences in the institutional environment in the long run. This latter type of incremental institutional change called “gradual transformation” is of major interest to Streeck and Thelen (Streeck/Thelen 2005a: 1-9). They relate to institutions as “formalized rules that may be enforced by calling upon a third party”, that is, obligatory rules that are legitimized (Streeck/Thelen 2005a: 10f.). Institutions are therefore defined as regimes, “a set of rules stipulating expected behaviour and ‘ruling out’ behaviour deemed to be undesirable” (Streeck/Thelen 2005a: 12f.). This definition is important, as it reveals possible causes for institutional change: the gap between the formal requirements of a rule and its actual implementation that leaves room for interpretation, and leads to unintended consequences, active reinterpretation or enforcement problems (Streeck/Thelen 2005a: 14f.). A change is fundamental, then, “when a multitude of actors switch from one logic of action to another” (Streeck/Thelen 2005a: 18), that is, when the interpretative gap between the institutional structure and its realization is used to push the actual comportment of actors, resulting from the institutional rule, in another direction than before. This institutional change can be labelled incremental, as institutional structures might persist more or less while the different logic of action leads to different outcomes. In that sense, institutions face permanent and not only punctuated reinterpretation of their mode of conduct by the actors involved, who do so in order to improve their position within the institutional bounds (Streeck/Thelen 2005a: 18f.). Over time, this ongoing struggle between agency and structure can lead to significant change.

Streeck and Thelen then postulate five different modes of gradual transformation: *displacement, layering, drift, conversion* and *exhaustion*.



*Displacement* occurs when an institutionally embedded logic of functioning is gradually replaced by another. The underlying assumption is that more than one of such institutionalized logics can exist in a system, and formerly suppressed ones can become dominant through an incremental process of change, pushed forward either by exogenous or endogenous forces (that is, foreign or domestic supporters of the new institution), or both.

*Layering* describes the process of adding another layer to the existing institution, a layer that embodies a different logic of action and is often referred to as a necessary correction or add-on that does not put into question the old institution. The initial institutional order might stay dominant for some time, due to lock-in effects: abandoning the old system may become increasingly costly, while keeping it may become increasingly profitable. However, the new institutional layer might quickly gain more and more support from actors concerned, to the extent that it marginalizes the older one. This can be a source of important, but incremental, institutional change.

*Drift* occurs when an existing institution is not adapted to real-world developments. To be stable, institutions need to be reformed from time to time to still be able to assume their original purposes in a different environment. If this does not take place due to active or passive political inaction, an institution might formally remain the same, but its actual importance changes. Therefore, an antiquated institution in a moving environment has different consequences and induces different behavior than before, leading to institutional change.

*Conversion* appears when existing institutions are slowly adjusted to serve new purposes. This might happen as a reaction to external pressure, but also through a new power constellation, when newly empowered actors realign institutions to their own interests. Here, the gap between formality and reality of institutions mentioned above can become a source of political disagreement and thus lead to conversion. Streeck and Thelen identify four causes of these gaps: First, unintended consequences might appear, as policy makers cannot foresee the future compartment of the institutions they create. Second, institutions normally contain compromises between coalition partners, and therefore are often ambiguous. This might lead to political struggle over their proper use and consequentially to a gap that allows institutional realignment. Third, actors actively reinterpret rules according to their own interests, and can significantly widen the difference between formal rules and their enactment, thus enabling conversion. Fourth, time can lead to such a gap, as institutions possibly must be adapted to new challenges or are put under the control of newly empowered political actors. Institutions are then likely to be realigned to new ends.

*Exhaustion* happens when an institution gradually breaks down. In this mode, institutions are destroyed from within, where institutional structures themselves facilitate their own decline, or where some institutions become unsustainable vis-à-vis others over time (Streeck/Thelen 2005a: 18-30).

### 2.2.3 *Explaining gradual institutional change*

Based on this typology James Mahoney and Kathleen Thelen developed a model of gradual institutional change in their 2010 book “Explaining Institutional Change: Ambiguity, Agency, and Power”, to account for an explanation of these different forms of institutional change (Mahoney/Thelen 2010b). With that model, they try “to develop causal propositions that locate the sources of institutional change” (Mahoney/Thelen 2010a: 3). The first question they address is what features within an institution allow for institutional change beyond exogenous factors. Their starting point is to perceive institutions “as *distributional instruments* laden with power implications” (Mahoney/Thelen 2010a: 8). Institutions in that sense are designed to allocate resources in a certain way and therefore are frequently object of political struggle, especially when distribution is unequal or resources are considered particularly valuable. Institutions are then the result of the preferences of certain political actors or coalitions, reflecting a particular power distribution. Nevertheless, as noted already above, a certain institutional structure can lead to different outcomes than intended, because they always contain some kind of compromise or conflict that opens up possibilities for contestation and change. Institutions therefore are not by definition stable; instead, most of them are permanently challenged by political opponents (or former coalition partners) with ambitions to reinterpret them.

Thus, one source of institutional change is an alteration of power constellations. Power over institutional features and outcomes can be given to different actors by accustomed political processes; or initially disadvantaged actors may increase their influence on certain institutions by mobilizing resources from other institutions they control. Also, stakeholder groups of an institution over time may start to disintegrate because of contestation of its distributional effects. Or institutionally disadvantaged actors may be encouraged to form a coalition against current institutions and gain the power to challenge them (Mahoney/Thelen 2010a: 8-10).

The other source for institutional change is compliance. Mahoney and Thelen argue that institutions always must be enforced, and that enforcement is always subject to interpretative dissent on the proper implementation of an institutional rule. There is always some leeway between theory and practice that can be used strategically. Political actors will thus use this interpretative ambiguity of institutions to redistribute resources to their own advantage. Compliance problems offer them several opportunities to do so. First, they can use the unavoidable inaccuracy of institutional rules to interpret them in their way. Second, institution builders can only to a limited extent control future interpretations of formal rules. Third, shared implicit understandings among actors of how to interpret institutional rules may vanish over time or be questioned. Fourth, actors who are authorized to enforce and implement institutions have some room for manoeuvre and can weaken or strengthen rules (Mahoney/Thelen 2010a: 10-14).

In sum, power constellations embedded in institutions initiate gradual change, while compliance uncertainties enable it. Possibilities for change therefore are inherent to institutions themselves (Mahoney/Thelen 2010a: 14).

Mahoney’s and Thelen’s next step is to elaborate which one of the modes of gradual institutional change described above typically appears in a certain situation. They first examine

the impact on the modes of change of two different dimensions: the political context with regard to power constellations and institutional characteristics with regard to compliance requirements.

In a political context where there are influential veto players or many veto points that are able to prevent change in institutional structure or implementation existing institutions normally cannot be removed or redirected. Thus, displacement and conversion are unlikely to happen. Instead, the modes drift and layering are likely to occur as they do not aim directly at destroying old institutions or altering their implementation. Concerning drift, powerful defenders of old institutions do not have to be outvoted directly as institutions are preserved, but institutional change is achieved by rejecting their adaption to a new environment. The same is true for layering, where old institutions persist but new ones are added, with the potential of the new institutions to undermine the old ones without directly confronting veto players.

Regarding the dimension of institutional characteristics, the extent to which institutions leave room to interpretation plays an important role. If rules contain a high degree of ambiguity, conversion or drift are probable modes of change. Conversion requires the possibility of using the same institutions to very different ends, thus they must be relatively open to reinterpretation. Drift also demands a broad interpretation scope and a certain laxity in rule enforcement, to make sure that the impact of contested old institutions wanes. When there is not much space between an institution and its implementation, layering and displacement are more suitable modes of change, as they alter the institutional structure itself, not its interpretation (Mahoney/Thelen 2010a: 18-22).

Second, Mahoney and Thelen identify four types of “change agents” that push particular modes of change. The four types derive from actors’ preferences: do they want to keep current institutions or not, and do they follow or violate institutional rules.

The first type, *insurrectionaries*, actively pursues the abolition of the existing institutional environment, and often rejects its rules. Insurrectionaries might be the result of cooperation among groups that are disadvantaged by the current institutional system, and who develop common positions that oppose the old structures. The mode of change they are associated with is displacement.

*Symbionts* can be either parasitic or mutualistic. Parasitic symbionts do not want to eliminate an existing institution, but use it to achieve their interests. Thus they depend on their preservation. At the same time they act against and undermining the inner logic of the institution. Hence parasitic symbionts use compliance gaps between sticky formal institutions and their vague interpretation or enforcement. Consequentially, they are likely to cause drift as a mode of institutional change. Mutualistic symbionts also use existing institutions to their ends, but they try to maintain its logic of function, also by adapting its formal structure. They thus rather generate stability than change.

*Subversives* ultimately wish to replace old institutions, but they pursue a strategy of formal obedience to existing rules in the short run to mask their transformative ambitions. However, they simultaneously try to establish new institutions alongside the old ones, to slowly overcome the latter. Subversives thus can be associated with the mode of layering, but in some contexts also with conversion or drift.

*Opportunists* try to avoid the costs of a strategy that opposes existing institutions, even if they have no explicit preference for keeping it. Thus they do not put into question the current

institutional system, but try to use it according to their own preferences. Therefore, opportunists often contribute to institutional stability. But if they induce change, they are likely to pursue a strategy of conversion, by exploiting institutional ambiguities to change the institution's actual implementation (Mahoney/Thelen 2010a: 22-27).

As a next step, Mahoney and Thelen explore the link between the political context, institutional characteristics and the kind of actors they are likely to generate. Change agents thus are seen as intervening variables that set in motion a certain mode of gradual institutional change.

Combining the first two steps, insurrectionaries are likely to appear in settings where there is not much room for interpretation of a formal rule as well as a low number of veto opportunities. This in line with the strategy of displacement, which describes the gradual removal of the old institutional structure for the benefit of a new one.

Consequently, symbionts might appear in context where veto possibilities are strong, but rule enforcement is weak. Using the strategy of drift, symbionts do not have to abolish the existing system, but they can at the same time use the enforcement gap to reinterpret formal institutions to their own ends.

Subversives, then, might appear in an environment where strong veto possibilities prevent the abundance of the existing institutional system and interpretation gaps are small. Here, mainly the strategy of layering seems to have a chance for success.

Last, where veto possibilities are weak and ambiguous institutions allow for broad interpretation, opportunists are likely to emerge. They will probably use the strategy of conversion, by changing institutional enforcement in line with their own interests, but without having to change the formal structure (Mahoney/Thelen 2010a: 28f.).

### 2.3 Institutional legacy and ideas

The approach by Mahoney and Thelen reflects both strands of historical institutionalism, the rationalist as well as the sociologist one. But it refuses their original assumption that institutions are usually stable. It clearly reflects rational choice approaches of historical institutionalism: actors are seen as utility-maximizers that pursue their own interests. If they are disadvantaged by the current institutional structure, they try to change it according to their own agenda, applying a variety of change strategies. If they benefit from existing institutions, they try to keep them. It depends thus on the distribution of power among defenders and contenders whether institutional change occurs or not. Yet actors are constrained by historically developed institutional patterns that limit or increase their power and make certain change strategies more likely than others. Also, they have to face unintended consequences that result from institutional development. Thus, actors do not (always) have full control and power over institutions and they normally cannot transform them rapidly to their own ends, in case institutional features no longer solve collective action dilemmas.

The approach also mirrors sociological historical institutionalist assumptions, in that it emphasizes the issue of *compliance*, thus differentiates between institutional structure and actual implementation. Yet compliance is not seen as something that is intrinsic to institutions and thus induces stability. Rather, it is considered to be an important source of change, as there is a

compliance gap between a formal institution and its realisation. Institutional rules cannot accommodate all possible real-world situations, and thus will be implemented differently over time. Also, institutions are often ambiguous as they are the result of a compromise, thus some actors might interpret the differently than others. In sum, institutions and institutional rules are usually so open that they are constantly object of reinterpretation. This openness to interpretation can be used strategically by actors and thus often induces institutional change, as it allows for multiple paths of development (Hall 2010: 216-219).

Mahoney and Thelen do not stress explicitly the role of ideas in their model, yet ideas are, as described in the first section, seen as a major cause driving institutional change in historical institutionalism. As Peter Hall points out, both strands of historical institutionalism emphasize the importance of ideas (Hall 2010: 219). In rationalist approaches, actors try to change or keep rules according to their interests. But there is always uncertainty of achieving one's goals through the preferred institutions. Thus, actors need a certain perception or "belief" of what the consequences of the establishment of a new institution will be (Hall 2010: 207f.). Also, when establishing new institutions, actors might refer to "normative beliefs", that is common understandings of the fairness of an institutional outcome (Hall 2010: 211). Coalition formation also not only depends on interests, but also on issues of identity, i.e. an actor might join the group who shares his normative beliefs to the largest extent (Hall 2010:212).

These ideas about institutional outcomes, fairness and identity are crucial when analyzing an actor's behaviour in an institutional setting. In the model by Mahoney and Thelen the goals and interests actors pursue can thus be considered as being framed by ideas.

In sociological historical institutionalist perspective, the influence of ideas on institutional development is even bigger. Rather than as strict rules, institutions are seen as "norms that are always subject to interpretation" (Hall 2010: 216). Where there is room for interpretation and reinterpretation of institutional rules, the actual behaviour of actors will be framed by ideas of how to best implement these rules.

Ideas are thus imaginations of moral requirements and causal relationships. They offer templates of what is "right" in a particular situation, and of what to expect from a certain rule. Ideas are particularly important in the field of the political economy. Here, moral assumptions of the proper role of the state and the market are commonplace, and different schools of thought formulate very explicitly the consequences they expect from a certain political action. Thus, many studies of the political economy refer to the impact of ideas on political outcomes, often alongside with institutions. One example is Peter Hall's description of the shift in economic policy in the United Kingdom under the Thatcher government (Hall 1992). Hall considers ideas, or "policy paradigms", as a major source for this institutional change. He identifies the two ideas that figure most prominently in economic policies: Keynesianism and monetarism. Both ideas embody "different conceptions of how the economy worked" and thus provide different guidelines of how to solve economic problems (Hall 1992: 92). In very general terms, Keynesianism considers state intervention necessary in an unstable economy, unemployment as a result of a lack of demand, and inflation as consequence of high demand or wages. On the contrary, monetarism condemns state intervention, considers unemployment to be structural and inflation a result of expansionary monetary policy (Hall 1992: 92). During the economic crisis of the 1970s, Keynesian politics became more and more questioned, while monetarist ideas became

available as a political alternative (Hall 1992: 95f.). Hall then shows how the specific institutional structure of the UK induced the policy shift from Keynesianism to monetarism.

Another example is Kathleen McNamara's 1999 study on the development of EU monetary cooperation from the Bretton Woods system to EMU. She argued that the different outcomes in the field of monetary policy depended strongly on policymakers' ideas (McNamara 1999: 56ff.). While there were also economic pressures on monetary policy to fix exchange rates (like increasing capital mobility), McNamara points out that only the appearance of a certain policy idea could drive the European States towards the relatively stable European Monetary System (EMS) which established fixed exchange rates and restricted monetary autonomy of the member states. The idea was the rising conviction among EU governments that national monetary policies should follow monetarist theories, which had already been established in the US. The result was the so-called "neoliberal consensus" among them, which ensured a stable commitment to the strict rules of the EMS. This ideational consensus on how to do monetary policy made the creation of the monetary union possible in 1992 (McNamara 1999).

Thus, the ideas political actors hold will be considered crucial to explain the new institutional design of EMU, alongside with the institutional features described above.

## 2.4 Process tracing

The methodology that will be used to identify the causes of EMU development between 2010 and 2012 will be process tracing. In examining political processes, it aims at revealing causal mechanisms between one or more independent variables and a dependent variable, that is to show that certain factors caused a specific political outcome. It tries to analyze all data that might contain relevant information for identifying causal mechanisms, and can therefore be combined with methods of data collection or evaluation (Schimmelfennig 2006). Causal mechanisms can be described as "portable concepts" that "identify relationships between conditions and outcomes that can be applied to other contexts" (Falleti 2006: 5). The different modes of institutional change are such causal mechanisms, which are not only (case-dependent) intervening variables but generalized concepts (Falleti 2006: 5). Process tracing must adapt to the specific form of the underlying causal process leading to a certain result. If a causal process not only contains a variety of explaining variables but explaining variables that interact with each other, the interaction effects in this case should be uncovered by process tracing. Process tracing may also be applied in analyzing path-dependent processes. Here, important decisive moments must be explored, without being deterministic (George/Bennett 2005: 212f.). "Process tracing can assess to what extent and how possible outcomes of a case were restricted by choices made at decision points along the way" (George/Bennett 2005: 212). The methodology can be used either to test hypotheses derived from an more or less holistic theory, or it can be used to reveal new causal processes, thereby developing (or completing) a theory (George/Bennet 2005: 217). Process tracing can produce valid explanations by assessing only a few cases or even a single case. In examining developments over time and from within, it is capable of assessing in depth if a change in certain variables produced a certain outcome. (George/Bennett 2005: 220f.). The application of process tracing requires the search of relevant empirical evidence that verifies assumed causal

relationships. The identification of evidence as relevant depends on “prior knowledge” (Collier 2011: 824), derived *inter alia* from theories that provide explanations of repeatedly occurring relationships. To trace a causal process over time also requires the attentive description of its key points, to provide a comprehensible measurement of change (Collier 2011: 824).

In applying process tracing to the development of EMU between 2010 and 2012 a careful description of the original set-up of the monetary union and its institutional features must be provided. In a second step, the situation ‘after’ must be described, that is, the kind of institutional change that has taken place during the eurozone crisis. Here, the causes of that change must also be singled out to test the hypotheses of the theory. According to the theoretical assumptions, the independent variables are the institutional legacy in terms of power constellations and compliance requirements embodied in institutions and the ideas policymakers hold. Process tracing seems well-suited to examine whether the independent variables identified by the theory really caused the observed development of EMU between 2010 and 2012, as it requires a comprehensive description and analysis of the main decision points which led to the observed outcome. The evidence will be official documents and declarations from the EU and Eurozone in order to describe the reforms which took place; it will be accompanied by declarations, speeches, or statements from the most important policy-makers as well as the related media coverage in order to trace the ideas of these policy-makers.

## **2.5 Hypotheses for EMU development**

When examining the development of EMU during the current crisis, it is necessary to assess what kind of institutional change is taking place. Political actors clearly face constraints in reforming the Eurozone, resulting from the original institutional set-up of EMU established in 1992. Yet important changes have taken place since the spring of 2010.

At first sight, the reforming process of EMU can be seen as a critical juncture. There is exogenous pressure of capital markets to reform it, resulting from a lack of confidence that state debt will be paid back. The period of transformation is likely to remain rather short compared to the longer period of institutional stability after the establishment of EMU (which can also be seen as a critical juncture) that lasted from 1999 to 2010. Also, the current refinements of the monetary union will certainly shape its further progress for a longer period of time. Additionally, it seems as if political actors have much more opportunities to impose reforms compared with the period before.

However, while there might be some exogenous pressure for change, the institutions of EMU themselves also embody sources of institutional change, hence the causes lie partially within the institutional set-up of EMU. Also, even if the changes that have taken place so far are substantial, no radical shift of path has taken place. Many features of the original EMU design persist to a certain extent. Last, the way in which EMU development happened is rather gradual than abrupt, even if the time horizon is relatively short. Political leaders seem to prefer a step-by-step approach to reform EMU rather than a fast overhaul. The small consecutive institutional changes might though add up to significant transformation in the end.

Thus, the concept of critical junctures does not capture the institutional change that appeared in EMU wholly, and must be completed with the concept gradual institutional transformation. The classification of the type of change in the Eurozone allows drawing some hypotheses on the causes of the shape of EMU reform that is taking place currently.

With regard to the European Central Bank, it can be stated that there are many veto possibilities to changes in its formal structure. To change the ECB's mandate or instruments, all Eurozone states would have to agree to change the Treaties. However, the ECB enjoys independence in the conduct of monetary policy, therefore the possibilities to rule into the ECB's decision-making are quite low for outsiders as long as the ECB does not contradict its mandate. The ECB can take decision by qualified majority. Thus, there are not much veto points to a different use of the ECB's monetary policy tools. Likewise, the institutional rules of the ECB such as the objective of price stability, independence or its tasks and instruments are quite general and leave some room for reinterpretation and creative use. Thus, the hypothesis would be that the mode of institutional change that took place is *conversion*.

In the field of fiscal and economic policy within EMU, the veto possibilities to changes in its institutional set-up of national sovereignty and lose EU-level coordination were large. In order to change the institutional setting fundamentally, all Eurozone or even EU governments, their parliamentarians, electorates, and social groups would have to agree. Given that the European economies and welfare states were quite different, the institutional structure could not be changed easily. There were also no compliance gaps in the field of economic and fiscal policy coordination within EMU. The European level has very limited possibilities to rule into national decision-making and could not somehow undermine this. Equally, fiscal policy lied in the hands on the Member States; they had no possibility to obtain funding from the European level (except from the cohesion funds). Thus, the hypothesis can be set up that the type of institutional change which would emerge in this area is *layering*.

Finally, in the field of financial supervision veto opportunities to institutional change were quite high, as every Eurozone country would have lost control over its banking sector. There were also high compliance requirements with regard to the institutional rules: financial supervision was national competence which could not be questioned by EU level coordination bodies. Thus, the mode of institutional change which is likely to appear in such a setting is *layering*.

Another hypothesis is that the concrete content of the institutional change in the three policy fields is determined by the ideas the relevant policy-makers have. While the power constellation and the compliance implications of an institutional set-up are necessary variables to explain the mode of institutional change, they are not sufficient to explain the specific content or spirit of a new layer or the new role achieved through conversion. Thus, the ideas actors held are assumed to explain the development of EMU sufficiently.

The financial crisis and its pressure on the Eurozone countries will be treated as another independent variable which causes or accelerates institutional change. But this variable only demands some reaction on behalf of the policy-makers; it cannot explain the specific type or content of institutional change.



### 3. The creation of EMU: Institutional structure and rules

#### 3.1 The path towards EMU

The idea of creating a monetary union has been a subject in European politics for a long time. The first concrete proposal was the Werner Report of 1970, which pledged for a transition to a monetary union in three stages and for a strong communitarization of economic and fiscal policy alongside a common monetary policy (Dyson/Quaglia: 2010a: 178). The Werner Report has never been realized, but in 1972, after the end of the Bretton Woods system, EU leaders decided to couple their national currencies to a certain extent. The so-called snake allowed for a floating of only 2.25 % of participating European currencies vis-à-vis a reference rate against the US-Dollar. Yet, the snake did not exist very long, as many European currencies were forced to leave the fixed exchange rate regime during the economic and monetary crises of the early 1970's (Dyson/Quaglia 2010a: 180-182). The next attempt to cooperate on monetary issues was the EMS, which was agreed in 1978. In the EMS, exchange rates were allowed to float up to 2.25 % above or under the ECU (European Currency Unit), which was a basket currency of the European currencies involved (Italy obtained the possibility to let its currency float temporarily up to 6 % around the ECU in both directions). In case an exchange rate was diverging from these margins, monetary interventions and economic adjustments were demanded of the respective government, with some assistance from common credit facilities and monetary support programs (Dyson/Quaglia 2010a: 186f.). Although there were some realignments in the exchange rate mechanism in the beginning of the EMS, the system proved to be relatively stable throughout the 1980's (Dyson/Quaglia 2010a: 191).

While visions of a full European monetary union had been on the agenda for some time, the first legal commitment to actually create it was laid down in the Single European Act (SEA) of 1986, a commitment which would have required treaty amendments. Thanks to clear political commitment and a widely shared consensus on the conduct of monetary policy, the plans advanced very quickly. A range of political initiatives, conferences and debates by various European politicians and central bankers took place, negotiating the basic institutional design of the future monetary union. The result was a report by the Delors committee, which proposed a transition to a monetary union in three stages, following broadly the economic and monetary principles of the Bundesbank, whose stability-oriented policy was increasingly seen as a role model (Dyson/Quaglia 2010a: 341-344). Stage I was set to begin in 1990, Stage II in 1994. Finally, with the Maastricht treaty, the establishment of EMU was confirmed in legal terms, by fixing the entry date for Stage III to the beginning of 1999 (Dyson/Quaglia 2010a: 344-347).

The concrete institutionalisation of the EMU was negotiated throughout the 1990's. The crisis of the EMS in 1992/93 led to the reemergence of divergent views on monetary policy principles and raised questions about the functioning of the future EMU and about which countries were ready to join it in Stage III. Nevertheless, the commitment of EU leaders to EMU turned out to be strong, and entering into Stage III in 1999 was reconfirmed. It was decided to

name the new currency “euro” and “cent”. Also, constraints resulting from the conditions for participating in the monetary union were accepted and used strategically by some European governments to impose economic reforms in their countries (Dyson/Quaglia 2010a: 507-512). In the following years, several details of EMU’s institutional structure were determined, like the Exchange Rate Mechanism (ERM II) between EMU and EU members not adopting the euro, the Stability and Growth Pact with its Excessive Deficit Procedure, and the coordination of economic policies. Views diverged most on how strict fiscal rules and control should be, on how much economic coordination was suitable, and on whether responsibility on employment and growth should be included into the EMU framework (Dyson/Quaglia 2010a: 514-518). The question of which states fulfilled the convergence criteria and was able to join the monetary union in Stage III was also controversial. Due to rather resolute fiscal consolidation in most EU member states, however, 12 out of 15 countries were considered ready for accession (Dyson/Quaglia 2010a: 518-521). For the transition to a single monetary policy, the European Monetary Institute (EMI) was created as a precursor for the ECB. The EMI consisted of EU national central banks and took a leading role in preparing Stage III of the monetary union. It managed coordination with financial markets, outlined the future ECB’s monetary strategy, instruments, and payment systems, and served as a consultant for all legislative rules concerning monetary policy (Dyson/Quaglia 2010a: 522f.).

## **3.2 The European Central Bank**

### *3.2.1 Treaty provisions*

The basic structure and task of the European System of Central Banks (ESCB) and the ECB is determined by treaty provisions, more exactly, in the *Treaty on the Functioning of the European Union* (TFEU) and the Protocol IV attached to the treaty, the *Statute on the European System of Central Banks and of the European Central Bank*. With regard to the mandate of the ECB, Article 127 (1) of the treaty states that the “primary objective of the European System of Central Banks (...) shall be to maintain price stability. Without prejudice to the objective of price stability, the ESCB shall support the general economic policies in the Union with a view to contributing to the achievement of the objectives of the Union as laid down in Article 3 of the Treaty on European Union” (TFEU, Art. 127 (1)). Article 3 states, among other things, that the aims of the EU are economic growth and full employment. Article 127 also refers to the basic tasks of the ECB, which are the conduct of monetary policy in general and of foreign exchange operations, the management of foreign reserves of member states and the payment system (TFEU, Art 127 (2)). In Article 128, the right to issue euro banknotes is attributed solely to the ECB and the national central banks (TFEU, Art. 128). Article 130 fixes the independence of the ECB: “[N]either the European Central Bank, nor a national central bank, nor any member of their decision-making bodies shall seek or take instructions from Union institutions, bodies, offices or agencies, from any government of a Member State or from any other body” (TFEU, Art. 130). This is stressed again in Article 282 (3). Article 123 (1) prohibits the direct purchase of public debt by the ECB (TFEU, Art. 123 (1)).

Article 10 and 11 of the Statute annexed to treaties determine that the decision making bodies of the ECB shall be the Governing Council and the Executive Board. The Governing Council consists of the members of the Executive Board and the governors of the national central banks, each of whom has a vote. This one-man-one vote-principle has been pushed forward by German politicians, because they considered it as a commitment to the “collective responsibility of the Governing Council”, rather than voting quotas referring to country size or share in the ECB’s capital (Dyson/Quaglia 2010a: 680). Decisions are taken by simple majority. The Executive Board consists of six members with one vote each and also decides by simple majority. As laid out in Article 12.1, the Governing Council is responsible for the conduct of the monetary policy of the ECB: “The Governing Council shall formulate the monetary policy of the Union including, as appropriate, decisions relating to intermediate monetary objectives, key interest rates and the supply of reserves in the ESCB, and shall establish the necessary guidelines for their implementation” (TFEU, Protocol No. 4, Art. 12.1). The Executive Board is responsible for the implementation of its policy (TFEU, Protocol No. 4, Art. 12.1). Both bodies are chaired by the president (TFEU, Protocol No. 4, Art. 13.1). A less important decision-making body is the General Council, which comprises the President, Vice-President and all Governors from the EU national central banks. It is mainly responsible for the exchange rate mechanism between the euro and other EU currencies, and statistical tasks (TFEU, Protocol No. 4, Art. 45,47). The Statute also determines the functions and operations of the ESCB. To achieve the goals of monetary policy the ECB may conduct several types of transactions, most important open market and credit operations, the latter based on the provision of appropriate collateral by credit institutions. (TFEU, Protocol No. 4, Art. 18). Financial institutions are required to hold minimum reserves on their ECB account (TFEU, Protocol No. 4, Art. 19). The ECB also may provide advice in the supervision of the financial sector, which is in the competence of member states and their national central banks. In relation with article 127 (6) TFEU, however, the Council has the possibility to transfer some financial supervision tasks to the ECB (TFEU, Protocol No. 4, Art. 25).

### *3.2.2 The ECB’s monetary strategy*

Equally important as the basic legal provisions are the institutionalised rules governing the implementation and operationalisation of the ECB’s monetary policy. The first document that laid down the strategy and the instruments is a report by the European monetary institute (EMI) of 1997, the ECB’s predecessor during the preparation of the monetary union in stage II, which outlines the “operational framework” for the future single monetary policy. It is completed by the Monthly Bulletin (MB) from January 1999, issued by the newly created ECB, and by the ECB’s MB from June 2003.

The central goal of monetary policy is price stability. The EMI paper does not yet define the monetary strategy – inflation targeting or monetary targeting – the ECB would pursue to achieve this goal, but points out that both strategies have their advantages and also share some commonalities (EMI 1997: 8f.). In the 1999 MB, a quantitative inflation target is defined, and the ECB states that its monetary strategy will be based on a two-pillar-strategy, taking both account

of the growth of the monetary base and on price developments. Accordingly, price stability is achieved when the Harmonised Index of Consumer Prices (HICP<sup>1</sup>) increases by less than 2 percent over a year. This definition is seen as appropriate to avoid deflation and as being in line with the national central banks initial inflation rates. Price stability in this sense is to be achieved over the medium term, that is, short term fluctuations in price levels resulting from non-monetary developments will not be addressed by the central bank (ECB 1999a: 45f.). By 2003, the definition of price stability was altered to “inflation rates below, but close to, 2% over the medium term” for a number of reasons such as deflation risks, problems with the measurement of price development and different inflation rates throughout the euro area (ECB 2003: 83-86).

The ECB also announces a two-pillar-strategy to achieve the price level defined above. The strategy's first pillar is based on the control of monetary growth in the Eurosystem. The ECB sees money as driving force behind price levels (ECB 1999a: 47). With the term money, the ECB refers to “a broad monetary aggregate” or M3, that is, “not only currency in circulation and the conventional deposit components of broad money, but also both the shares/units of money market funds (MMFs) and debt securities issued by monetary financial institutions (MFIs)” (ECB 1999a: 48). For the growth of this monetary aggregate of the euro area an appropriate ‘reference value’ is determined, which takes into account the intended price increase of less than two percent, as well as GDP growth forecasts and estimates of the velocity of circulation of M3. The reference value for annual monetary growth based on these assumptions is accordingly at 4.5 percent by the ECB (ECB 1999a: 48f.). The central bank points out that short-term deviations of real monetary growth from the reference value will not entail an automatic reaction via a change in interest rates. Rather, the causes for differences in real and intended monetary growth will be assessed by the ECB, which only starts to act if a threat to price stability is identified. These assessments will also be published (ECB 1999a: 48f.).

The strategy's second pillar consists of “a broadly based assessment of the outlook for price developments and the risks to price stability in the euro area” (ECB 1999a: 49). The assessment will be based on a variety of “economic indicators” that are considered to have an impact on inflation. Also, inflation forecasts will be used to determine whether the ECB's monetary policy is adequate (ECB 1999a: 49).

In the light of continuing critique of the monetary pillar, the strategy was reviewed and confirmed by the ECB in 2003. The ECB points out that both pillars are necessary to examine risks to price stability. The monetary analysis should detect inflation risks in the long run, while the economic analysis helps to identify such risks in the short to medium run. Both analyses are cross-checked to guide the ECB's policy (ECB 2003: 79). The ECB states that to achieve price stability in the *medium* term, both pillars are needed. The monetary analysis serves to examine the appropriate ECB policy response to short term price developments identified by the economic analysis and inflation forecasts. The monetary analysis is crucial because of “the close relationship between money and prices over extended horizons”, thus, without it, long-term inflationary risks from monetary developments would be “overlooked or underestimated” (ECB 2003: 86f.).

---

<sup>1</sup> The HICP is a harmonised price index for the Eurozone developed during stage II of EMU.

### 3.2.3 *Monetary operations and instruments*

The ECB's operations and instruments to implement its monetary policy strategy have been outlined for the first time in the EMI report of 1997 and were further specified in the ECB's report of 1998 and the MB of May 1999. The EMI report states that the ECB's monetary operations should follow several principles: they must be efficient in achieving the goals of monetary policy and should adhere to market principles, that is, not to disturb the free play of market forces. Additionally, the ECB should treat all financial institutions equal and be decentralized, in the sense that some operations are delegated to the national central banks to take advantage of their experience in their home markets (EMI 1997: 15 and Dyson/Quaglia 2010: 165f.).

Open market operations are the main instruments of the ECB. They aim at guiding interest rates, providing liquidity to the financial sector and at making monetary policy intentions visible (EMI 1997: 16). Banks are supplied with liquidity via main refinancing operations (MROs) and longer-term refinancing operations (LTROs). In the first case, liquidity is provided in weekly tenders with a maturity of two weeks. In the latter case, liquidity is offered via a monthly tender with a maturity of three months. Weekly tenders aim at regulating interest rates, thus the ECB either fixes the interest rate of the tender or the amount of capital available. With monthly tenders, in contrast, the ECB usually accepts the interest rates at which counterparties bid.

Additionally, the ECB may conduct fine-tuning operations to ease interest rate fluctuations, or structural operations (ECB 1999b: 30f.).

The instruments the ECB uses to conduct its operations are reverse transactions, the issuance of debt certificates, outright transactions, foreign exchange swaps and the collection of fix-termed deposits. Reverse transactions are purchases or sales of eligible assets or credit operations in exchange to the provision of collateral. They are used with all four kinds of open market operations (ECB 1998: 13). Via outright transactions, the ECB "buys or sells eligible assets outright on the market" within fine-tuning or structural operations (ECB 1998: 15). The issuance of debt certificates aims at "adjusting the structural position of the ESCB vis-à-vis the financial sector so as to create (or enlarge) a liquidity shortage in the market" (ECB 1998: 16). They are used within structural operations and embody a debt obligation of the ECB in favour of the holder of the certificate (ECB 1998: 16). Foreign exchange swaps are used within fine-tuning operations to influence interest rate and liquidity in the market. Swaps mean the spot purchase of euros against a foreign currency and the simultaneous forward repurchase at a prefixed date (ECB 1998: 17). Last, a collection of fix-termed means that financial institutions are invited to place deposits for a fixed term and interest at the ESCB. It is used within fine-tuning operations and aims at the absorption of liquidity in the market. (ECB 1998: 18). Usually, the implementation of operational decisions through the use of these instruments is the task of the national central banks (ECB 1998: 13-19).

Another component of monetary policy is the ECB's standing facilities. The *marginal lending facility* provides liquidity overnight at a given interest rate, whereas the *deposit facility* absorbs liquidity by accepting the deposit of counterparties' assets. The interest rates of the standing facilities steer the upper and lower level of the money market over-night interest rate and thus aim at revealing monetary policy intentions (ECB 1999b: 31).

A last tool for the implementation of the ECB's monetary policy is minimum reserve requirements. Most financial institutions established in the eurozone have to hold a certain share (the *reserve ratio*) of some of their balance sheet elements (the *reserve base*) as minimum reserves on their account at the national central banks. The items on the balance sheets that are subject to reserve requirements are defined by the ECB, who also determines the reserve ratio. The reserve base of most financial institutions is calculated on a monthly basis, the maintenance period of the minimum reserves is one month. Some financial institutions may be exempted from the obligation to hold minimum reserves. The reserve holdings are remunerated with the ECB's main refinancing operations interest rate. The ECB may also impose sanctions if the minimum reserve requirements are not met (ECB 1998: 52-57). The minimum reserve system aims at stabilizing money market interest rates and also serves to enhance financial markets' dependence on the ECB's liquidity provisions by creating a liquidity shortage. The reserve ratio has been set at 2 percent (ECB 1999b: 31f.).

Also important for the operationalisation of monetary policy is the determination of eligible counterparties, i.e. financial institutions that may take part in the ECB's operations, and eligible assets that may be deposited as collateral in exchange to ECB liquidity. Eligibility criteria for counterparties are the same for every financial institution to assure equal treatment of banks throughout the eurozone. Most important is the participation in the ECB's minimum reserve system. Also, financial institutions must be financially stable and subject to harmonised national supervision and conform to certain operational requirements. They may participate in the ECB's open market operations and standing facilities only via national central banks. There are no eligibility criteria concerning outright transactions. For some instruments and operations, national central banks may select counterparties by themselves (ECB 1998: 10f.).

There are also certain requirements for the assets used within ECB transactions, to prevent losses for the central bank and to ensure "equal treatment of counterparties and (...) operational efficiency" (ECB 1998: 39). To take account of the member states' different financial systems, there are two tiers of eligible assets which are published on respective lists. Eligibility criteria for tier one assets are determined by the ECB, are valid throughout the eurozone and may underlay all ECB operations. Eligible assets for tier one must be marketable debt instruments of high quality with regard to their rating and safety. For tier two assets, there are minimum eligibility criteria defined by the ECB which are specified by national central banks for assets they consider crucial to their national financial market. Tier two assets may be debt instruments or equities of financially sound entities (ECB 1998: 39-42). Yet, the two tiers were abolished in 2006 in favour of a single list of eligible assets, as the different national criteria are deemed to threaten the level playing field in the eurozone and the system was becoming too intransparent. The ECB points out that its collateral framework must avoid risk on the one hand while ensuring that there are enough eligible assets for the functioning of monetary policy on the other (ECB 2006: 75f.). Accordingly, the original lists of adequate collateral were reviewed and some new types of assets were declared eligible and included in the new list (ECB 2006: 81).

Finally, the ESCB was charged by the treaty with the management of euro area crossborder payments. TARGET (Trans-European Automated Real-Time Gross settlement Express Transfer) is a euro area wide gross-border payment system whose establishment was decided by the EMI in 1995 and realized in 1999. Its aim was to contribute to the development of a

common euro area money market on the one hand, which is crucial for the functioning of monetary policy, and to further ameliorate gross-border payments in terms of safety and efficiency on the other. TARGET allows for the euro area wide transfer of payments via the banks' accounts at their central bank. All payments in euro between EU member states (among market participants and compulsory within ECB monetary operations) can be settled via TARGET immediately and in an unlimited manner. The system was decentralised in the beginning, meaning that national real-time gross settlement (RTGS) systems prevailed and crossborder payments were settled bilaterally by the national central banks concerned, interlinked by the ECB payment mechanism (EPM). The national RTGS systems were harmonized in such a way to ensure a homogenous monetary policy and equal conditions for financial institutions. In 2002, it was decided to replace TARGET by TARGET2, with regard to technical developments, lack of uniformity and high costs within the decentralised system and the possible future participation of the ten new EU members which would make TARGET too complex. With TARGET2, a Single Shared Platform (SSP) for all central banks was established, replacing the various national payment platforms. TARGET2 was expected to be more cost-effective and services concerning the settlement of payments were harmonized (ECB 2004: 59-65). National central banks participating in TARGET2 had to adopt the Harmonised Conditions. Central banks from non-euro EU member states were allowed to take part in TARGET2 by concluding an agreement with a Eurozone central bank (ECB 2007: 3). Payment settlements of national central banks via the TARGET2 system create claims and liabilities of the national central banks vis-à-vis the ESCB (ECB 2009: 221).

#### 3.2.4 Institutional features and legacies of the ECB

The description of the ECB's structure, mandate and policy allows drawing some conclusions on its original institutional set-up. In general, two different central bank models can be distinguished: the *Anglo-French model* and the *German model* (De Grauwe 2012: 151). The former has a variety of equal objectives, such as price stability, growth, high employment and financial stability. Its monetary policy is also controlled by the government to some extent. The latter model defines price stability as the dominant objective, and monetary policy is independent from governments (De Grauwe 2012: 151f.).

The ECB was designed to copy more or less the concept of the German Bundesbank, and therefore following broadly the ideas of monetarist theories. With regard to monetary policy, monetarism assumes that monetary stimulus cannot foster employment and growth but instead will lead to inflation. Unemployment can only be lowered by structural reforms imposed by the government. Accordingly, monetarism claims that the most important task of a central bank is to keep prices stable. The central bank must also be independent from politics, to avoid a – presumably inflationary – pressure to conduct monetary expansion (De Grauwe 2012: 153). These stability-oriented ideas are widely reflected in the ECB's institutional structure and culture. Accordingly, the ECB's mandate is first and foremost to ensure price stability. Other objectives such as growth and employment are subordinate tasks, which may only be pursued if price stability is not affected. The mandate of keeping inflation low is strongly institutionalized as it is

laid down in the EU's treaty and cannot be abandoned easily. Other than the US Federal Reserve, the ECB has not been charged with the objective of providing for financial stability, that is, to be the lender of last resort in times of financial crises.

With regard to the ECB's monetary strategy pillar one, which aims at controlling the monetary base, is clearly dominant to pillar two, which examines economic developments. In several of its documents, the ECB points at the importance of targeting money growth in detecting long-term risks to price stability (ECB 1999a: 47-50, ECB 2003: 82, 86-92). This dominance of the monetary pillar has often been criticized of leading to an overly restrictive monetary policy focussing too much on inflationary risks and neglecting risks of deflation. It is a clear sign of the ECB's monetarist orientation.

Additionally, the ECB is often referred to as the central bank which is most independent in the world. Its institutional independence from eurozone governments is enshrined in the treaty, as well as the interdiction of state financing. The ECB also enjoys strategical and operational independence, thus it is free in its conduct of monetary policy including its own definition of its monetary strategy, the inflation target, and the operations and instruments to be used. Likewise, ECB staff is personally independent. But while the ECB enjoys high independence, it is not equally accountable. The president of the ECB has to report to the European Parliament regularly, but the latter has no influence on the ECB's policy. This could only be achieved through Treaty reforms. Accountability is in effect limited to the provision of price stability, leaving aside the ECB's minor objectives (De Grauwe 2012: 160f.).

Thus, monetarist ideas have strongly been institutionalized in the structure and culture of the ECB. Nevertheless, there is another important institutional feature: the decentralization of the monetary union's system of central banks. Central decision are taken in the Governing Council of the ECB, in which national central bank governors of the euro area participate, and national central banks are charged with the implementation of monetary policy, i.e. they carry out monetary operations in their respective financial markets. They may also undertake other tasks, as long as they don't compromise the ECB's policy (TFEU, Protocol No. 4, Art. 14.4).

These institutional features of the ECB can be seen as its institutional legacy that may influence later decisions. In chapter four, the ECB's monetary policy during the financial and sovereign debt crisis will be analysed, in order to identify institutional changes to the ECB's original institutional structure and the causes for it.

### **3.3 The coordination of fiscal and economic policy**

While monetary policy had been strongly communitarised in EMU, no such centralization has taken place for fiscal policies. Sovereignty on the state budget has remained at the national level, accompanied only by a rule-based mechanism for common fiscal surveillance. The properties of fiscal policy made a communitarisation unlikely: it affects a large range of political decisions and has important distributional consequences. Moreover, policy fields which are influenced most by budget decisions, like social policy and taxation, vary significantly among EU member states, hence decentralisation seemed favourable to address country-specific problems. Fiscal policy thus requires strong legitimisation, a task for which the European level seems to be ill-suited. EU



leaders were therefore unwilling to hand over this core-responsibility to the EU. Consequently, the EU never obtained the right to raise its own taxes, and its budget and spending is of minor importance compared to the member state budgets.

Nevertheless, it was commonly acknowledged that some kind of fiscal surveillance had to be established to make EMU work. The surveillance mechanism that was agreed upon in 1997 was the so-called Stability and Growth Pact (SGP), which operationalized the provisions on the fiscal soundness of future EMU members outlined in the Maastricht Treaty in 1992.

The coordination of economic policy, as set up in EMU, does not even go as far as fiscal coordination. The reasons against communitarisation are similar to those against fiscal policy communitarization: Member States' differential, historically grown tax systems, welfare states and labour markets which made a common policy difficult and hard to legitimise. Additionally, national policy-makers and parties see economic policy as their playing field, as they, to a great extent, derive legitimacy from it. Also, economic policy usually contains contestation of political groups on its direction, and is subject to redistributive disputes (Dyson/Quaglia 2010b: 697f). In the following the institutional set-up of fiscal and economic policy coordination as established in the 1990s will be described<sup>2</sup>.

### *3.3.1 Treaty provisions*

The Maastricht Treaty already had laid down some guiding principles of fiscal surveillance, namely the convergence criteria for accessing stage III of EMU and the Excessive Deficit Procedure (EDP) which would apply in case of deviation from the convergence criteria. Also, a no-bailout-clause was included in the treaty, to avoid moral hazard.

The convergence criteria are laid down in article 109j of the Maastricht Treaty and specified in a protocol attached to the Treaty. Among price stability, narrow exchange rate margins and interest rate convergence one criterion sets conditions concerning a sound financial position of governments with reference to the provisions described below (Maastricht Treaty, Art. 109j(1) and Maastricht Treaty, Protocol on the Convergence Criteria, Art. 2).

Article 104c of the Maastricht Treaty, which outlines the EDP, states that Member States should avoid excessive deficits, state budgets are monitored by the Commission. Two criteria, the ratio of government deficit to gross domestic product (GDP) and the ratio of government debt to GDP, were determined to identify excessive deficits. The annexed Protocol on the excessive deficit procedure sets them at 3 and 60 percent of GDP in article 1. In case of an (probable) excessive deficit, the Commission prepares a report, based on which the Council decides by qualified majority whether a budget is unsound and addresses recommendations with appropriate measures to reduce deficits to the respective government. If the government fails, sanctions in form of non-interest-bearing deposit with the Community or fines can be imposed.

Finally, the no bailout clause is fixed in article 104b of the Maastricht Treaty, which states that the EU or a Member State is not responsible for any liabilities of another government or public entity. Nevertheless, article 103a provides for financial aides by the Community after an

---

<sup>2</sup> Selection of relevant texts is partly based on the selection by Dyson/Quaglia 2010a, 2010b).

unanimous decision of the Council, in case a Member State faces “difficulties (...) caused by exceptional occurrences beyond its control” (Maastricht Treaty, Art. 103a). There haven’t been significant changes to these provisions in the following treaty amendments. In the Lisbon Treaty, article 125 now entails the no bailout premise, while article 122 provides for the exceptional aides.

The legal foundations for the coordination of economic policies in the EU were first laid down in the Maastricht Treaty. Article 102a TEU states that the Member States’ economic policies should reflect the general objectives of the Community listed in Article 2 of the Treaty. Additionally, they should be in line “with the principle of an open market economy with free competition, favouring an efficient allocation of resources, and in compliance with the principles set out in Article 3a” (Maastricht Treaty, Art. 102a), which foresees close coordination of economic policies to complete EMU.

Article 103 TEU determines the procedure of economic policy coordination in the Community. The Council drafts economic guidelines for the Member States and the Community by qualified majority on the basis of Commission recommendations. The European Council discusses and approves the guidelines, based on which a recommendation to the Member States is adopted by the Council by qualified majority. To contribute to greater convergence of economic policies, the economic performance of the Member States and their implementation of the guidelines are mutually surveilled and assessed. In case of non-compliance with the broad guidelines or a risk to the functioning of EMU, the Council may address adequate recommendations to the Member State concerned, which may also be published. Results of the surveillance process should be reported to the European Parliament (Maastricht Treaty, Art 103).

In the Amsterdam Treaty revision in 1997 an employment chapter was included in the legal framework, setting out the procedure for coordinating employment policies. According to Article 109n to 109p, employment policies are to be coordinated to develop a common employment strategy aiming at the promotion of qualified workforce and adaptive labour markets. The Member States and the Community should contribute to these objectives and promote a high level of employment. The coordination procedure is specified in Article 109q. Based on an annual report of the European Council, the Council develops employment guidelines for each Member State. Member States are obliged to deliver information on their employment policy and measures to the Council and Commission, who assess their implementation efforts, make recommendations, and prepare the next annual report based on these assessments. The Council also may initiate cooperation among Member States in terms of exchanging best practices, innovations, and experience (Amsterdam Treaty, Art. 109r). An Employment Committee, consisting of representatives of EU Members and the Commission, was set up to manage cooperation on employment issues by carrying out monitoring tasks and drafting opinions on the Member States’ employment policies (Amsterdam Treaty, Art. 109s).

### *3.3.2 The Stability and Growth Pact*

In the mid-1990s, the German finance minister Theo Waigel – as a reaction to continuing contestation of EMU by the German electorate – proposed to specify and operationalise the

treaty provisions by concluding a new Stability Pact, which was meant to make the commitment for fiscal soundness more credible and thus ensuring the functioning of the monetary union. While the necessity of the pact was widely accepted, EU leaders disagreed on the definition of exceptional economic circumstances which would allow for a temporary deviation from the 3 percent target; and on whether sanctions should be imposed automatically or by Council decision (Dyson/Quaglia 2010a: 515f.).

The SGP consists of a Council Resolution of June 1997 and two Council Regulations of July 1997. In the Resolution, EU leaders point to the importance of sound fiscal policy in order to support the stability-oriented monetary policy as well as growth and employment. Member States are asked to adhere to the budgetary rules, while the Commission is charged with the surveillance of national budgets and the initiation of reports and recommendations. The Council has the task to take decisions and impose obligations or sanctions in case of excessive deficits (Resolution of the European Council on the Stability and Growth Pact 1997).

The two Regulations of the European Council further specify the obligations of eurozone members, other EU members and the Commission. Council Regulation 1466/97 is the so-called preventive arm of the SGP and deals with stability and convergence programs of euro members and other EU states. Euro members are obliged to submit to the Council and Commission a stability programme every year, which entails a plan to achieve a medium-term objective of a balanced or surplus budget, expectations on the development of relevant economic indicators, a description of adequate economic policy measures, and an examination of the probable impact of changes in the economic expectations on deficit and debt. The programs are then assessed by the Commission. Based on a Commission report, the Council decides whether the stability program is in line with the objectives of the SGP, and can demand an adjustment in case of non-compliance. Council and Commission are also charged with the monitoring of the implementation of the programs. In case of a risk of excessive deficit of a Member State, the Council can submit recommendations with appropriate policy measures. Likewise, Member States that do not participate in the euro are obliged to submit convergence programs with similar objectives and a similar surveillance procedure (Council Regulation (EC) No 1466/97).

Council Regulation 1467/97, on the other hand, is the corrective arm of the SGP and clarifies the implementation of the EDP. An excessive deficit of a Member State can be judged exceptional when following from an extraordinary event with major consequences on the state budget or from an important economic decline. It can be considered temporary if forecasts imply that the deficit will soon comply again with the reference value of 3 percent. An excessive deficit caused by an economic decline can only be seen as exceptional by the Commission if GDP has fallen annually by at least 2 percent. However, the Council may, in its decisions, take other variables in account, such as a abrupt downturn or severe output losses. When an excessive deficit is stated by the Commission and the Council, the Council should address recommendations to the state concerned with a deadline of four months to take action and a deadline for the correction of the deficit. Decisions on sanctions in case of non-compliance are to be taken within narrow time frames. The procedure can be held in abeyance if the Member State complies with the recommendations. Implementation is monitored by the Commission and the Council. If sanctions are imposed by the Council, the first step is the requirement of a non-interest-bearing deposit with the Community. The deposit has two components: one is a fix

amount of 0.2 percent of GDP, the other is variable and depends on the size of the deficit. An additional deposit can be imposed if persistent non-compliance is stated in annual assessments. Deposits are transformed into a fine if the excessive deficit has not been corrected within two years after the sanction was imposed. Sanctions can be abolished if significant progress has been made or the excessive deficit has been corrected (Council Regulation (EC) No 1467/97).

The SGP was reformed in 2005 after leading EU politicians and economists increasingly considered the pact to be too rigid and inflexible to deal with the fiscal problems that had occurred in some Member States notably Germany. The idea, promoted mainly by France and Germany, was to allow for more fiscal leeway in certain times for reforms and spending that would foster growth and employment (Dyson/Quaglia 2010b: 535-537). This reflects the criticism of especially French politicians during the negotiation of the SGP, where they insisted that a – albeit rather cosmetic – reference to growth was included in the Stability Pact (Dyson/Quaglia 2010a: 516). With Council Resolutions 1055/2005 and 1056/2005, the two former resolutions were amended, yet not fundamentally as the objectives of 3 and 60 percent of GDP of deficit and debt persisted. The original medium-term objective of national budgets being ‘close to balance or in surplus’ was replaced with a more flexible, country-specific medium-term objective that allows for a deficit of 1 percent of GDP. Additionally, exceptional temporary measures or structural reforms are taken into account that may be costly in the short run but growth-inducing and cost-saving in the future. In its assessment of the adjustment process of a country towards the medium-term objective, the Council should respect economic cycles, that is, adjustment efforts may be higher in times of economic upturn and smaller in downturn. Member States undertaking comprehensive pension reforms may temporarily deviate from their adjustment path or medium-term objective (Council Regulation (EC) No 1055/2005).

With regard to the EDP, an excessive deficit caused by an economic downturn may already be considered exceptional if GDP growth is negative or output losses relative to its potential occur. The Commission is asked to consider a variety of factors relevant to the budgetary positions of Member States when preparing its report, such as expected growth, cyclical conditions, public investment, budget consolidation efforts during an economic boom, overall debt sustainability, implementation of pension reforms, and factors Member States deem especially important for their budget. These factors should also be taken into account by the Council when deciding on the existence of an excessive deficit, as well as in the procedure following the diagnosis of an excessive deficit. The EDP deadlines were stretched, the correction process could be prolonged for one year if unforeseeable economic difficulties with a negative impact on the budget occur. The time frame for the imposition of sanctions in case of non-compliance was also widened (Council Regulation No (EC) No 1056/2005).

In sum, the amendments give more room for manoeuvre for governments to plan their budgets and its adjustment to the medium term objective. Also, the Commission and Council have much more flexibility when judging the sustainability of Member States’ financial positions and in their application of the EDP.

### 3.3.3 *Economic policy coordination beyond the Treaty*

Cooperation on economic policy issues has also been agreed among Member States beyond formal treaty provisions. The Broad Economic Policy Guidelines (BEPG) had been reformed in 2003, now covering a period of three years, to make economic policy more homogenous over time. Furthermore, for the first time, special coordination requirements have been set up for the eurozone alone. Accordingly, structural reforms and more flexible economies were seen as crucial for obtaining investors' confidence and growth. Emphasis was put on the need to stronger coordinate macroeconomic policies in the euro area to render it more resistant to economic shocks and to foster growth. Coherence should be achieved by respecting and implementing the rules on budgetary policy, more cooperation on structural policy, involvement of social partners, and coordinated external representation (Council of the European Union 2003: 4-13). In 2005, the BEGP were merged with the employment guidelines into the Integrated Guidelines for Growth and Jobs (European Commission 2005a: 6f).

Aside the BEPGs, other soft-law coordination processes had been initiated. With the Luxembourg Process, the provisions of the employment chapter of the Amsterdam Treaty were further clarified and institutionalized in 1997. It was agreed to develop common employment guidelines, laid down in verifiable targets, which the Member States transformed in national action plans with quantified objectives and self-imposed deadlines. The implementation of the action plan was monitored annually by the Community. For the assessment, common and comparable indicators were developed (European Council 1997a). Another coordination programme was the Cardiff Process, which sought to promote structural reforms in product, capital and labour markets (European Council 1998: 4-11). In the Cologne Process, the so-called Macro-Economic Dialogue of EU governments, social partners, and the ECB was initiated, with the aim of coordinating wage developments with other economic policy goals. The Luxemburg, Cardiff and Cologne Process together formed the European Employment Pact, which was established by EU leaders in 1999 to combat high levels of unemployment in the EU (European Council 1999: Annex I, 3-13).

Finally, at the Lisbon Council in 2000, EU governments decided to launch the Lisbon Process, according to which the EU had "to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion" (European Council 2000a). With the Lisbon Process, coordination was extended to a variety of other policy fields and matters, such as e-business and information technologies, research and innovation, promotion of SMEs, completing the single market and the integration of financial markets, education, employment policy, social protection and inclusion. Coordination is organised by means of the mechanism that has been developed for employment policy, now renamed as the Open Method of Coordination (OMC), using Union-wide guidelines with policy goals, common indicators and benchmarks, differentiated national implementation plans, and monitoring and peer reviews in the Council to foster mutual learning (European Council 2000a). In 2005, the Lisbon Process was reformed, as political commitment towards it seemed not be very strong and implementation problems occurred. The Commission proposed to stronger support the liberalisation of services, to introduce National Actions

Programmes for growth and jobs, and to establish a “Mr or Ms Lisbon” to better coordinated the process (European Commission 2005b).

#### *3.3.4 The role of the Eurogroup*

The coordination of fiscal and economic policy included all EU countries, not just the euro area. The usefulness for stronger coordination within the Eurozone was sometimes acknowledged, yet the Council in which all Member States took part formally remained the main governance body for coordination. The creation of a counterweight to the powerful centralised ECB was controversial, with France (and some other states) pledging for the establishment of a *gouvernement economique* for the conduct of a common economic and fiscal policy, and with Germany favouring for rule-based coordination. As described above, the coordination model prevailed, not only because of the collective action problems mentioned, but also because Germany feared that a strong centralized body with fiscal responsibility would put central bank independence into question (Dyson/Quaglia 2010a: 761f.). Nevertheless, alongside the official coordination structure, the long-time informal Eurogroup consisting of the eurozone finance and economy ministers has gained some importance in managing economic cooperation in the euro area. The Eurogroup was set up at the European Council in Luxembourg in 1997, though its name was introduced later. The Council Resolution states that the ECOFIN Council has the main responsibility for the coordination of economic policies and the formulation of the BEPGs. However, “[t]he ministers of the States participating in the euro area may meet informally among themselves to discuss issues connected with their shared specific responsibility for the single currency” (European Council 1997b). The name Eurogroup was introduced at the Nice European Council in 2000, welcoming closer coordination in the euro area on “structural matters” (European Council 2000b: paragraph 33). In the following years, the Eurogroup became increasingly important. It was used as a dialogue forum for discussing the euro area’s national budgets, and in 2004 the Eurogroup was given a president. In 2007, fiscal policy recommendations for the euro states were adopted. Contributing to its growing influence, the Eurogroup had a slighter governance structure which made it more efficient for coordination than the big ECOFIN-Council (Dyson/Quaglia 2010a: 764). The Eurogroup was made an official part of the EMU structure by a protocol to the Lisbon Treaty in 2007 (Lisbon Treaty: Protocol on the Eurogroup). Additionally, chapter 3a of the Lisbon Treaty outlined “Provisions specific to Member States whose currency is the euro”, which states that the Council may pass special provisions for euro Members with regard to fiscal coordination and economic performance by qualified majority of euro area states (Lisbon Treaty, Art. 115 A).

#### *3.3.5 Institutional features of fiscal and economic policy coordination*

While monetary policy has been strongly communitarised in EMU, no such supranationalisation has taken place for fiscal and economic policy. Responsibility for fiscal policy remains largely in the hands of national governments, controlled only by an intergovernmental mutual surveillance

mechanism. While coordination within the SGP is stronger than other EU coordination mechanisms due to its obligatory nature and the (theoretical) sanctioning of non-compliance, its implementation prospects were always weak. There is no automatic sanctioning, but the decision to impose sanctions lies with the Council, who has proved to be very reluctant in making use of that instrument. Governments would have to denounce their financially unsound EMU partners, which is unlikely as they might find themselves in the same situation one day, then being dependent on their peers courtesy. In fact, no sanctions have ever been imposed on any Member State. Likewise, the conditions for assessing the Member States' budgets are very loose after the reform of the SGP, allowing for broad interpretations of whether a budget is sound or not, and of whether an excessive deficit is justifiable or not.

The no bailout clause remains also ambiguous, as it forbids taking over responsibility for any Member State's liabilities, but nevertheless allows financial transfers during a severe financial crisis of a state.

The SGP and the no bailout principle clearly reflect the 'stability culture' that has been already apparent in the ECB's institutional set-up. The underlying logic is, on the one hand, to avoid moral hazard of Eurozone governments, a point that was particularly articulated by Germany. Strict fiscal rules were deemed to hinder potential debtor states from taking undue advantage of their participation in the common currency, by adding up high deficits and relying on a bailout by the others. Also, fiscal stability was seen as a prerequisite to monetary stability, as any doubts to central bank independence in terms of monetary financing of unsound state budgets should be prevented (Pisani-Ferry 2006: 830). On the other hand, the idea that demand management, hence public spending by the state especially in economically difficult times, was considered to be ineffective by most political actors in the 1990s. Rather, supply side reforms and fiscal prudence were seen as appropriate measures to induce growth and employment (Dyson/Quaglia 2010b: 533f.).

In economic policy matters the Community lacks any competence beyond mutual monitoring and the issuance of policy recommendations. Economic policy has been seen as too complex and partisan to be centralized. This made EMU vulnerable; economic imbalances in the monetary union could not be addressed appropriately.

### **3.4 Stability and supervision of financial markets**

A last topic EU policy makers had to deal with during the set-up of EMU is the supervision of the financial sector under the new single currency. In face of the growing importance of financial markets and increasing crossborder activities of financial institutions a European (and global) surveillance structure had to be established to identify and eliminate financial risks. Supervision can be divided into supervision of the whole system (financial stability) and supervision of single financial institutions.

### 3.4.1 *Financial stability*

Financial stability deals with the management of systemic risk in the financial system. It may be described as a situation where “the core economic functions of the financial system in channeling savings into investments and providing for an efficient and save payment mechanism” work orderly (Padoa-Schioppa 2002: 20). Article 127 (5) of the TFEU states that “the competent authorities” are responsible for the supervision of the financial sector and for financial stability. These authorities are the supervision bodies of the EU Member States. Thus, while regulatory rules were mostly decided upon at the EU level after EMU was created, supervision as such was carried out by national authorities, sometimes with or solely by the national central banks. This might pose a problem if a risk to financial stability emerges in the EU or eurozone, as national authorities would have to quickly coordinate their policies. The EU level also lacked the competence to control large transnational financial groups, which at the same time could only be supervised to a limited extent by national supervision authorities. Yet a risk to financial stability might also emerge from a single financial enterprise. (Dyson/Quaglia 2010b: 32).

While some central banks were charged with providing financial stability, no such task was given to the ECB. Instead, the provision of Emergency Liquidity Assistance (ELA) for solvent, but illiquid financial institutions is conducted by national central banks which also bear the financial risk. The ECB was thus not meant to be lender of last resort to the financial system when it was established. Nevertheless, the ECB may contribute to financial stability by its market operations, providing additional liquidity to the whole system in times of a crisis (Walter/Bergheim 2008: 2f.).

However, some cooperation fora have been set up at the European level to improve macro-prudential supervisions. Topics on financial stability are dealt with in the Economic and financial Committee (EFC) consisting of representatives of finance ministries; and in Committees such as Banking Supervision Committee (BSC) of central bankers and the Committee of European Banking Supervisors (CEBS) uniting the supervisors of national authorities (Dyson/Quaglia 2010b: 34). Also, some Memorandums of understanding on common crisis management have been concluded between national authorities, central banks, and finance ministries (ECB 2005).

In sum, competence in terms of providing financial stability is very fragmented in the EU and eurozone, being mainly in the responsibility of Member States.

### 3.4.2 *Supervision and regulation of financial institutions*

As described above, financial institutions are supervised by national authorities, that is, compliance with rules is controlled at the national level. Until the end of the 1990s, most regulatory rules were also national, and were mutually recognized by EU Member States. Some non-binding rules were also agreed in international fora, such as the Committee on Banking Supervision at the Bank of International Settlements and the Basel rules on capital requirements of banks (Quaglia 2007: 271f.). However, some harmonized regulatory rules for financial markets were decided upon at the EU level after 1999, to contribute to the completion of the single



market and to accommodate the growing interconnection of the European financial market. The so-called Financial Services Action Plan (FSAP), developed by the Commission in 1999, outlined the regulatory rules required to harmonise financial services in the EU (European Commission 1999) and was endorsed by the European Council in 2000. A Committee chaired by Alexandre Lamfalussy proposed an accelerated procedure for its implementation, with regard to the regulation of securities. The procedure was later expanded to the regulation of banks and insurances (Quaglia 2007: 277f.). According to this procedure, the principal rules of financial regulation were decided upon via the ordinary legislative procedure, where the Council and the European Parliament concluded legal acts on the basis of a Commission proposal (level 1). On level 2, technical issues were further specified using the comitology procedure, where committees of Member State representatives decided upon Commission proposals with qualified majority. Proper implementation and coordination was conducted in the level 3 committees, consisting of officials of national supervision authorities with a vote each and observers from the ECB and national central banks. The level 3 committees also advised the Commission and the level 2 committees (Quaglia 2007: 272). The level 2 committees were the European Banking Committee (EBC), the European Securities Committee (ESC), and the European Insurance and Occupational Pension Committee (EIOPC). The level 3 committees were accordingly the Committee of European Banking Supervisors (CEBS), the Committee of European Securities Regulators (CESR), and the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS). In 2008, qualified majority voting was also introduced in the level 3 committees (Dyson/Quaglia 2010b: 37f.).

### *3.4.3 Institutional features of financial supervision*

Institutionally, supervision of financial institutions was conducted at the national level after the creation of EMU. It was accompanied by some cooperation at the EU level to provide for overall financial stability, but there was no EU macro-framework or central bank mandate for macro-prudential supervision. Only the content of financial regulatory rules was decided upon at the Community level.

## 4. EMU Development 2010 – 2012: The impact of institutions and ideas

So far, the institutional structure of EMU has been described, as it has been established in the 1990s. This original institutional set-up is a template to which the changes that occurred during the sovereign debt crisis between 2010 and 2012 can be compared. To that end, in the following three sections, the institutional reforms within the three policy fields of monetary policy, fiscal and economic policy, and financial supervision and the causal factors which led to this outcome will be examined.

### 4.1 From narrow to wide mandate: the changed role of the ECB

The ECB took a lead in the management of the eurozone crisis and adapted its role considerably. To assess the kind of institutional change that appeared in the ECB's policy, first a detailed description of its activities during the crisis will be provided. In a next step, its institutional legacy from the past will be examined, with regard to power constellations and compliance demands that had been institutionalized within its architecture. It will be shown how its original institutional features allowed for a certain mode of institutional change, and how central bankers, taking advantage of the ECB's institutional options for change, pushed this change into a certain direction in line with the ideas they held.

#### 4.1.1 *ECB activities during the financial crisis*

It makes sense to start the description of the ECB's crisis policy between 2007 and 2009, as its reactions to the financial crisis had already put it on the path it took during the eurozone crisis.

As a consequence of the US subprime crisis, uncertainty arose in the euro money markets since August 2007 and led to a decrease in money market activity and an increase of interest rates. Banks faced uncertain market refinancing opportunities, which threatened their liquidity positions and discouraged them from lending. At the same time, a lack of information on eurozone banks' risk exposure and solvency also caused a decrease in interbank lending. Financial market activity declined to almost zero after the collapse of the US bank Lehman Brothers in September 2008. Banks therefore became exceedingly dependent on central bank funding (ECB 2009b: 76-78).

As a first reaction to money market turmoils the ECB tried to accommodate banks' additional liquidity needs to keep short term market interest rates close to its own refinancing rate. To that end, the central bank also conducted much more LTROs with a maturity of three or six months (ECB 2009b: 78f.). However, after the Lehman collapse and the drying-out of the interbank market, banks started to bid at unprecedented high rates at the ECB's money auctions to ensure that their liquidity needs were satisfied. Thus, to accommodate these needs and to

encourage lending again, the ECB started to cut its MRO rates to historically low levels (ECB 2009b: 86). Also, on October 8, 2008, the ECB decided a change in its monetary policy equipment, by introducing a tender procedure with fixed rates and full allotment for all MROs. This means that all banks obtained the amount of liquidity they needed at the MRO rate set by the ECB. On the same day, the Governing Council decided to approximate the two interest rates of the standing facilities, which provided overnight liquidity or allow for overnight deposits at rates 100 basis points above or respectively under the MRO rate. The aim was to ease overnight refinancing or deposits at the ECB's standing facilities, as with dysfunctional money markets, banks became increasingly dependent on them. The new rates were now set 50 basis points above and under the ECB's MRO rate (ECB 2009b: 80f.). However, the gap between the two standing facility rates was extended again to 200 basis points in January 2009 (ECB 2009b: 85).

On October 22, the ECB also broadened its list of eligible collateral to ensure that counterparties had enough collateral to take part in monetary policy operations. Rating limits of eligible assets were lowered to BBB-, and a broader range of assets were accepted. Additionally, the full allotment procedure was expanded to all LTROs and to US-Dollar and Swiss franc operations (ECB 2009b: 82f.). In May 2009, the introduction of LTROs with a maturity of twelve months and the purchase of euro-denominated covered bonds was decided, in order to keep market rates low, to ease liquidity provision and to encourage lending (ECB 2009b: 86).

Another measure to support eurozone banks' funding opportunities and to encourage their lending to firms was the Covered Bond Purchase Programme (CBPP) the ECB agreed upon in May 2009. Covered Bonds are a major source of funding for banks. The volume of the CBPP, within which the ECB was buying covered bonds on the primary and secondary market, amounted to € 60 billion over a year (ECB 2012b: 27).

As a result from these measures, from October 2008, banks were able to obtain as much credit from the central bank as they wanted, for periods up to six months, with significantly lowered collateral requirements. As the ECB describes it, liquidity provision was "purely demand-driven" (ECB 2009b: 83). Consequently, liquidity provision to eurozone banks almost doubled until the end of 2008. For financial institutions, the Eurosystem became a very important financial intermediary as long as money markets were out of control, and the number of banks participating in the ECB's monetary operations increased significantly (ECB 2009b: 83f.). The ECB refers to measures carried out during the financial crisis as "non-standard in nature" (ECB 2009b: 88). As Paul De Grauwe notes, the conduct of such non-standard monetary policy measures is the acceptance of the role of the lender of last resort by the ECB (De Grauwe 2011a).

Due to a gradual recovery of financial markets and the economy in 2009, the Governing Council of the ECB decided in to stop some of its non-standard measures in the end of 2009 and the beginning of 2010. LTROs with a maturity of twelve and six months were phased out, as well as US-Dollar liquidity provisions. Nevertheless, for MROs the full allotment procedure with fixed rates were maintained, and the MRO rates were kept at a very low level. (ECB: 2011a: 16f.).

#### 4.1.2 *ECB activities during the sovereign debt crisis*

The sovereign debt crisis in the eurozone started in the end of 2009 and led to financial assistance by EU Member States to highly indebted Greece, the establishment of an adhoc bailout fund (ESFS, later ESM), the rescue Ireland and Portugal via that fund, the set-up of strict fiscal and economic adjustment programmes in the troubled states, and the tightening of fiscal and economic rules with a variety of new pacts and agreements. While much of this was established by EU governments and the Commission, the ECB was involved in EMU development during the crisis from the very beginning, not only by offering advice, but also by its using monetary policy tools. The ECB's policy reaction to the debt crisis will be examined in the following.

The ECB noticed rapidly increasing spreads between euro area 10 year government bonds as a consequence of the Greek debt crisis in May 2010. Member States perceived as fiscally unsound by financial market had to pay much higher interest on their debt. In the light of these developments the ECB decided to establish the so-called Securities Market Programme (SMP). With that programme, the Eurosystem was authorized to intervene in eurozone public and private debt securities markets. According to the ECB, the SMP aimed at “ensuring depth and liquidity in dysfunctional market segments and restoring the proper functioning of the monetary policy transmission mechanism” (ECB 2011a: 18). The ECB named three reasons why the transmission mechanism was hampered by the very high yields on government bonds: First, high interest rates on government bonds are likely to be followed by high rates on private bonds, thereby undermining the central bank's intentions with regard to short term interest rates; second, the decrease of public bond prices led to losses in banks' balance sheets and therefore might reduce their lending; third, given that government bonds are used as collateral within ECB monetary policy operations, a lack of liquidity within public bond markets would cause a shortage in eligible assets for banks who intend to refinance themselves at the ECB. Thus, the ECB decided to combat high sovereign bond yields to ensure the proper transmission of its monetary policy decisions to the euro area economy. As its aim was not to widen the monetary base, the SMP was “sterilised”, that is, the additional liquidity provided through it was extracted again from elsewhere (ECB 2011a: 18f.).

In its formal decision on the launch of the SMP, the Governing Council refers to Article 18.1 of the ECB's statute, which allows for outright transactions, i.e. the actual selling or buying of bonds. The SMP is a temporary instrument only to combat market disturbances, the Governing Council decides on the volume of purchases. Based on this decision, Eurosystem central banks may buy up, “on the secondary market, eligible marketable debt instruments issued by central governments or public entities of [euro area] Member States” (ECB 2010: 1). Additionally, Greek government bonds were temporarily accepted as eligible collateral within monetary policy operations by the ECB (ECB 2011a: 99). However, this decision was finally repealed by the ECB in July 2012 (ECB 2012e).

Under the SMP, the ECB bought up government bonds of Greece, Ireland and Portugal until March 2011, when the situation on sovereign bond markets seemed to stabilize again. Yet, in summer 2011, pressures on government bonds spread over to Italian and Spanish bonds. The ECB's monetary policy transmission channel was disturbed again and refinancing opportunities

were hampered. Thus, on 7 August 2011 the Governing Council decided to relaunch the SMP and started to purchase Italian and Spanish sovereign bonds (ECB 2011b: 53). At the end of 2011, the ECB held an amount of government bonds of € 211 billion (ECB 2012a: 77). In a statement on the renewal of the SMP, the President of the ECB welcomes the promise of the Italian and Spanish government to undertake structural reforms and reduce their deficits and points to the necessity of achieving fiscal targets and the functioning of the EU bailout fund. He states that the ECB decided only to relaunch the SMP in the light of these government activities to solve the crisis (ECB 2011c: 8).

In March and July 2011 the Governing Council decided to accept exceptionally and temporarily marketable debt instruments issued or guaranteed by the Irish and Portuguese governments as eligible collateral in its monetary policy operations, after Ireland and Portugal received EFSF bailouts in exchange for adjustment programmes (ECB 2011d, ECB 2011e). The acceptance of these government bonds as eligible assets intends to increase their attractiveness and to improve access to ECB liquidity of their holders, in order to decrease their yields.

As an additional measure, the ECB revived the CBPP in October 2011 to combat ongoing turmoils on the covered bond markets that would possibly hamper bank funding and lending. Another purchase of covered bonds worth € 40 billion over a year was agreed (ECB 2012b: 27). In the meantime, the Governing Council of the ECB usually confirmed the maintenance the fixed-rate-full-allotment procedure for all open market operations in its monetary policy decision. Also, several LTROs with maturities between three and twelve months were constantly announced (ECB 2011f: I-IV).

In December 2011, the ECB decided to introduce two LTROs with an extra-long maturity of 36 months. The aim of this measure was to ensure the eurozone's banks refinancing over a longer timeframe, by offering them as much central bank credit as they wanted over a period of three years. By establishing certainty on the banks' liquidity positions, the ECB intended to increase the banks' provision of credit to firms. Optionally, the amount borrowed from the ECB could be repayed after a year (ECB 2011g: 8). In the first three-year LTRO in December 2011 banks obtained liquidity amounting to € 489 billion, and € 530 billion in the second (ECB 2012a: 75). In an analysis of the impact of the two LTROs the ECB states that they were indeed used by banks for funding, either because of difficulties to obtain market funding or because of lower costs of ECB funding vis-à-vis the market. The ECB also claims that the LTROs mitigated uncertainty in financial markets (ECB 2012c: 38). The LTROs also helped to break the harmful interdependence between banks and troubled sovereigns, lowered market rate and revived interbank lending (Gros 2012: 39f).

At the same meeting, the Governing Council determined the further expansion of the list of eligible assets accepted as collateral in ECB operations. Some kinds of asset backed securities (ABS) and credit claims which are seen as eligible by national central banks were included in the list. With this additional non-standard measure, the ECB intended to facilitate banks' access to the ECB's full allotment liquidity provision by accepting a broader range of assets. Lower barriers to central bank funding should in turn increase bank lending to the economy. To that end, the new asset types included in the list are assets which typically accrue from a bank's lending activities (ECB 2011g: 8).

A last measure was to ease the minimum reserve requirements. The reserve ratio, i.e. the ratio of relevant balance sheet items which banks must hold as a reserve on their central bank account, was lowered from 2% to 1%. The objective was to reduce banks' liquidity needs and to encourage money market activity (ECB 2011g: 9).

The fixed MRO interest rate on central bank credit has been cut several times again between November 2011 and July 2012 to a very low level of 0.75 percent, after having been raised to 1.5 percent in spring 2011 (ECB 2012f: I-IV).

The overall aim of these additional non-standard measures was to improve access to refinancing opportunities for financial and non-financial companies by counterbalancing the negative impacts of the sovereign debt crisis, thereby to contribute to the proper functioning of the euro area money market, which is crucial for the operation of the ECB's monetary policy transmission channel (ECB 2011g: 9).

Yet, while the ECB's monetary policy measures may have calmed down financial market turmoils to some extent, it could not reduce the upward pressure on sovereign bond yields of the peripheral eurozone Member States and the instability of their banking sectors.

Throughout the summer of 2012, the ECB therefore must have come to the judgement that it may be necessary to go a step further. In July 2012 Mario Draghi, the President of the Governing Council of the ECB held a speech at the Global Investment Conference in London, where he announced that the ECB was "ready to do whatever it takes to preserve the euro. And believe me, it will be enough" (Draghi 2012a). In his speech, he refers to the constantly high interest rates charged on some eurozone sovereigns, arguing that this may result from their capital shortages or default risks. However, he also claimed that there might be another reason, which he identifies as "risk of convertibility", meaning the pricing in of the risk of a eurozone break-up and a costly conversion of the euro into national currencies. He states that it would be the task of the ECB, within its mandate, to address this risk, to the extent as it is disturbing the ECB's monetary policy transmission channel (Draghi 2012a).

Consequently, on 6 September 2012 the ECB announced the launch of a new programme to address these problems. It consisted of selective Outright Monetary Transactions (OMT's) in secondary sovereign bond markets in the eurozone, with the aim of restoring their functioning by "unfounded fears on the part of investors of the reversibility of the euro" (ECB 2012d: 7).

Pointing again to the link between sovereign bond markets and banks, the ECB stresses the need to ease pressures on some countries' sovereign bonds to enhance the euro area banks' lending and to improve their funding conditions. As the ECB shows, many banks in the peripheral Member States face much higher refinancing costs compared with banks in the eurozone core countries, which result from reduced interbank lending and capital withdrawal from their sovereigns. Consequently, interest rate decisions by the Governing Council are not transferred to the economy anymore in the troubled countries. The OMT's aim at repairing the monetary policy transmission channel in these countries by buying up selected government bonds on the secondary market (ECB 2012d: 7-10).

With regard to its modalities, the OMT's are strongly conditioned. The ECB will only purchase bonds of Member States under an ESFS/ESM adjustment programme, given that they allow for government bond purchases of the ESFS/ESM on the primary market. OMT's will be conducted by the ECB to the extent necessary with regard to its monetary policy considerations

and as long as the Member State concerned complies with the ESFS/ESM programme's conditions. It was designed for States that may be obliged to undergo an adjustment programme in the future, but can also be used by States currently in a programme as soon as they are able to refinance themselves independently on the market. The OMTs will cover only bonds with a short maturity of one to three years, with the intention to maintain pressure on governments to engage in fiscal adjustment. The ECB excludes senior treatment vis-à-vis private investors in case of a sovereign's default. As the SMP, the OMTs will be sterilised by reabsorption of the additional liquidity elsewhere. Given that bonds are only purchased on the secondary market, that the OMTs are strongly conditional and that the Governing Council decides independently on their use, the ECB sees them as fully compatible with its mandate (ECB 2012d: 10f.). No concrete targets for sovereign bond yields have been published, nor numbers on the desired amount of the bond purchases, which are thus potentially unlimited. As with the SMP, outright purchases of bonds like OMTs are an instrument of the ECB's original monetary policy framework.

As a second measure, the requirements for eligible collateral were eased, now accepting marketable debt instruments and credit claims issued or guaranteed by Member States involved in OMTs or who undertake an ESFS/ESM adjustment programme (ECB 2012d: 11).

Another tool of the ECB's monetary policy framework is used creatively in the sovereign debt crisis, namely Emergency Liquidity Assistance (ELA). While it was designed to provide exceptional national central bank liquidity to temporarily illiquid banks short of eligible assets, its usage has been significantly broadened during the crisis, now helping to also finance illiquid Member States. In Greece, for example, the state funded itself indirectly through ELA in summer 2012, when the further refinancing of the state by the EU was unclear and Greece had to repay a loan. The Greek government issued a so-called Treasury Bill, or T-Bill, a government bond with a short maturity of about three months. The T-Bills were bought by highly instable Greek banks, which could deposit them as collateral at the Greek central bank in exchange for ELA. This was possible because the Governing Council of the ECB agreed to increase the amount of these government bonds that the Bank of Greece may accept as collateral<sup>3</sup> for emergency liquidity from € 3 billion to € 7 billion in August 2012 (Financial Times Online 2012a). This means that only through the extension of ELA Greece was able to obtain refinancing from its banks. As the ECB does not publish information on the use of ELA, the amount of ELA provided under such schemes to peripheral eurozone states remains unclear. Nevertheless, a similar funding scheme for Greece was offered by the ECB in November 2012, allowing for another € 9 billion expansion of eligible assets that could be accepted as collateral by the Greek central bank in exchange for ELA (Frankfurter Allgemeine Zeitung Online 2012).

Finally, the Eurosystem's payment settlement system TARGET2 also led to unexpected developments. Large crossborder payments in euro are settled via the mechanism's single platform at the ECB. Money transfers of national financial institution lead to changes in these banks' accounts at their respective national central banks, thereby creating a net claim or liability of the national central banks vis-à-vis the ECB. Before the crisis, these claims and liabilities were balanced, as every country could raise enough foreign capital inflow to compensate for its

---

<sup>3</sup> Debt instruments issued or guaranteed by the Greek government were not accepted as eligible collateral in ECB operations anymore since July 2012, see (ECB 2012e)

imports. During the eurozone crisis, however, inflows from capital markets dried up and liquidity was withdrawn from states perceived as instable. Instead, liquidity to these countries' banking systems is now mainly provided through the ECB's non-standard monetary policy operations. This means that national central banks of the southern eurozone and Ireland obtain a much larger share of the Eurosystem's additional liquidity than the others. Consequently, their TARGET-liabilities increased, as imports are no longer balanced by capital inflows. The ECB sees the TARGET2 imbalances as a sign of impaired credit provision in the crisis states and points to the necessity of enhanced central bank liquidity to compensate for the liquidity shortage and to ensure the implementation of its monetary policy. According to the ECB, the TARGET2 claims of some national central banks against the ECB do not constitute an enhanced risk exposure, but are only a symptom of reversed capital movements from the periphery to the core. Any default risks and any possible losses are shared by the Eurosystem as a whole, but are counterbalanced by the ECB's collateral requirements (ECB 2012f: 35-37). As eligibility criteria have been watered down considerably during the euro crisis and ECB liquidity is distributed mainly to the peripheral Member States, the overall risk exposure of the Eurosystem and therefore of the core central banks has grown (Buitter/Rahbari/Michels 2011: 11-13). This might be seen as an incentive to avoid a break-up of the Eurozone. When the ECB started to conduct unconventional monetary policy operations during the crisis, it got locked-in to further follow its path.

#### *4.1.3 The ECB's conversion to a lender of last resort*

The kind of institutional change that occurred at the ECB during the EMU crisis between 2010 and 2012 is best described as conversion. According to Mahoney and Thelen, “[c]onversion occurs when rules remain formally the same but are interpreted and enacted in new ways” (Mahoney/Thelen 2010a: 17). The old institutional rules are neither removed nor neglected, but they are used for different purposes.

The original institutional rules of the ECB were its treaty-anchored stability-oriented monetary policy and its monetary policy framework. Formally, these rules prevail, as the ECB did not give up its independence or its task of price stability. It also did not introduce new rules, but instead applied the monetary policy operations and instruments that were given to it when EMU was created. However, the ECB was able to implement its policy in a way that led to a significant broadening of its mandate, namely, to the acceptance of a role as lender of last resort of the eurozone. A lender of last resort can be defined as a “lender to illiquid but most likely solvent counterparties on whatever terms”, no matter if the counterparty is a financial institution or a sovereign (Buitter/Rahbari 2012: 8). To be credible, the lender of last resort must be able to provide – temporarily – unquestionable and unlimited liquidity to the illiquid counterparty (Buitter/Rahbari 2012: 21).

Regarding the financial sector only, the ECB has started to act as lender of last resort when the financial crisis began in 2008, by providing unlimited liquidity to the euro area banking system through the full allotment procedure at very low, fixed interest rates, by LTROs with non-standard maturity and a considerable mitigation of collateral eligibility requirements. Here, the



conversion of the ECB started, as it began to widen its mandate by including the provision of financial stability.

When several eurozone Members in deficit, namely Greece, Ireland, Portugal and later Italy and Spain, had to face severe pressure on the sovereign bonds in 2010 and 2011, putting into question the long-term sustainability of their debt, the ECB started to move into the direction of becoming lender of last resort also for the sovereigns. To this end, it used a range of instruments of its policy framework in a different, extended way, as the term “non-standard measures” already indicates. First, the ECB continued all the measures conducted during the financial crisis, which aimed at providing as much liquidity as wanted to the financial sector. This can be seen as an attempt not only to stabilize banking systems, but also to animate banks and other financials to further invest into sovereign bonds, even if the issuing states are considered illiquid. Second, the liquidity provision of the ECB to the banks was further expanded with the two three-year-LTROs of December 2011 and February 2012, which supplied the financial sector with additional credit of about € 1 trillion at a very low rate, accompanied by a further extension of the eligible collateral list. Some of this liquidity was passed on to the sovereigns, thereby reducing the interest they had to pay on their debt (Buiter/Rahbari 2012: 27f.). But the ECB went even further, third, by applying the instrument of outright purchases to buy up sovereign bonds of troubled states on the secondary market via the SMP. Furthermore, government bonds have been accepted as eligible collateral by the ECB even though the issuing states faced rating downgrades. Buiter and Rahbari, however, argue that the SMP in itself is too restricted to make the ECB a full lender of last resort, as it does not purchase bonds on the primary market, has no means to impose conditionality on the sovereigns to pursue a sound fiscal policy, and might hamper the sovereign’s return to market funding because of the senior creditor status of the ECB (Buiter/Rahbari 2012: 25-27). The SMP also only provided liquidity in an unlimited manner.

Most of these shortcomings, though, have been abandoned with the set-up of the second sovereign bond buying programme OMT. The purchase of sovereign bonds is now limited to Member States which undergo an ESFS/ESM adjustment programme. This was meant to ensure fiscal discipline of these Member States and to avoid moral hazard. Likewise, the ECB assured that it won’t claim senior creditor status on sovereign bonds, thereby avoiding to scare away possible private investors. The only impediment is the restriction of the purchase to secondary markets. However, the assurance of the ECB to purchase government bonds in an unlimited manner if it deems it necessary seems to have calmed down financial markets, which now impose much lower interest rates on Italian and Spanish bonds. The logic behind this is twofold: first, an ECB purchase of bonds of indebted states would reduce interest rates on these bonds by increasing demand, thereby contributing to the long-term sustainability of these countries’ debt and reducing their default risk. Second, as sovereign bonds bought on the primary market can always be passed on to the ECB, the risk financial institutions face by buying such bonds is significantly reduced (De Grauwe 2012: 120). Given that ECB purchases also reduces yields on sovereign bonds and stabilizes (or increases) their prices, depreciation risks on sovereign bonds in the banks’ balance sheets are also limited. Therefore, financial investors now have important incentives to further invest in sovereign bonds of the peripheral eurozone. By breaking the self-reinforcing circle which drives actually solvent sovereigns into insolvency because of mutually reinforcing market distrust in the sovereign’s liquidity, the ECB approved a shift of its role from

a “second Bundesbank” to a lender of last resort for the euro area, and transformed its narrow mandate into a broad one. Of course, its mandate is not as broad as that of the US Federal Reserve, whose monetary policy also addresses employment and growth, and the ECB’s programmes do not contain monetary expansion like in the US. Likewise, the ECB did not abandon its original task of price stability, and always emphasized that all its non-standard measures only intended to repair the monetary policy transmission channel which became impaired by high sovereign bond yields. But the only way to do this was to allow for broadening of its mandate.

#### 4.1.4 *The ECB’s role conversion: how was it possible?*

##### 4.1.4.1 Power implications

According to Mahoney’s and Thelen’s model, institutional change can be explained by power implications embedded in an institution on the one hand. This is operationalized by analyzing whether in a given institutional setting there are many or few veto positions to change. To explain the ECB’s conversion to an extended mandate, the veto opportunities to this institutional change must thus be analysed (Mahoney/Thelen 2010a: 7-10).

At first sight, veto positions to an altering of the ECB’s mandate seem strong. The ECB’s formal structure, its monetary policy goals as well as its tasks are determined by the Treaty. It would be very difficult to change these formal treaty implications, as every EU Member State would have to approve such changes. It is very unlikely that traditionally stability-oriented states like Germany would agree with any changes to the ECB’s structure, which follows broadly the model of the former Bundesbank. Here, path-dependence shows up: an institution’s formal structure, once created, is often very difficult to change. Amendments of the Treaty were thus unlikely.

Beyond formal Treaty provisions, however, the ECB is extraordinarily independent in its monetary policy decisions. Eurozone central bankers can formulate their monetary policy strategy by themselves, they can decide which operation and instrument to use and on what modalities and to what extent. The independence of the ECB thus renders veto opportunities against its monetary policy decisions very weak. In principle, no Member State politician can put into question an ECB decision, given that it does not contradict the rather general Treaty provisions. All decisions are taken exclusively within the Governing Council of the ECB, which decides by qualified majority. Each euro area central bank president has one vote, there is no weighting on capital shares. This majority quorum does not impose high veto positions to change; in principle, just a majority of central bank chiefs has to be convinced to employ monetary policy instruments in a non-standard way. It actually turned out to be too weak for defenders of the institutional status quo to prevent institutional change. Bundesbank representatives (and also critics from other countries) who pledged for the persistence of the old central bank role were simply outvoted when the SMP and OMTs were decided.

Thus, the institutional power implications of the ECB do indeed allow for institutional change, in the sense that its institutional structure is not changed but its rules and instruments

can be used to achieve very different ends. In fact, during the sovereign debt crisis, the ECB did not introduce any new rules, but only applied the instruments it obtained when EMU was created. The ECB was empowered to conduct open market operations in the euro area, and it used this task in an unforeseen manner, by providing huge amounts of cheap liquidity to the eurozone banking sector to stabilize the sovereign bond market. Also, it was charged to demand eligible collateral from banks in exchange for central bank liquidity. The ECB complied with this, but it could define by itself what “eligibility” of assets meant, and used that opportunity during the crisis to ease the standards. Most important, the ECB’s operational framework also foresees the right of outright purchase or sale of bonds. This instrument was applied to a – presumably unintended by its creators – large extent, by purchasing sovereign bonds on the secondary market. This, in turn, does not contradict the Treaty as only direct purchases are forbidden. Thus, the ECB’s institutional power structure allowed for a conversion of the ECB into a lender of last resort. In fact, when EMU was established, it has often been described as an incomplete currency union, as only monetary policy was communitarized while fiscal and economic policies remained a national competence. When monetary policy was supranationalized, the eurozone countries in effect lost control over their currency, which exposed them to speculative attacks and market distrust (De Grauwe 2012: 113, 116). In the crisis, the ECB consequently could use the power given to it to effectually push back financial markets turmoils and threats to the eurozone sovereign’s solvencies. The cause for this institutional change has thus already been imbedded in the ECB’s institutional set-up.

#### 4.1.4.2 Compliance requirements

The second variable which can cause institutional change is the degree of compliance required in an institution. Institutional rules have to be enforced, and there might be a gap between formal rules and their actual implementation, as rules are often ambiguous and leave room for interpretation. Institutional rules may turn out to be too imprecise to cope with unforeseen developments, and may be reinterpreted to serve new objectives. Rules created in the past may also have unintended consequences which their creators could not foresee. Equally, shared understandings of the right implementation of formal rules may vanish over time, and actors charged with the enforcement of rules they have not created may interpret them in their way (Mahoney/Thelen 2010: 11-14). Therefore, it must be examined if the institutional rules of the ECB are open for interpretation or if they have strict compliance requirements.

The overall goal of the ECB, price stability, and consequential features like its independence and interdiction of direct state financing are of course constraining to some extent, but they do not dictate any concrete measures to be taken. The same is true for the ECB’s monetary policy instrumentarium, which provides certain measures but does not instruct what instrument to use when and to what extent. When the sovereign debt crisis came up, central bankers were able to interpret the institutional rules of the ECB in way they deemed appropriate to handle it.

When EMU was created, EU politicians, but especially representatives of Germany were eager to make the ECB a copy of the Bundesbank. Hence, they forbid state financing by the

central bank. However, the rules were so open that the purchase of sovereign bonds on the secondary market could be decided by the Governing Council during the crisis, even though this was against the Bundesbank spirit and is seen as state financing by some politicians. In the Treaty, only the direct purchase of sovereign debt was forbidden, but not indirect purchases on the secondary bond market. The instrument for these purchases, outright operations, was part of the ECB's original policy framework as approved by the Member States. The same is true for the provision of ELA, which was foreseen as exceptional measure for illiquid banks. In the reality of the crisis, though, this rule turned out to be so ambiguous that it could also be applied as interim financing instrument for illiquid states. Likewise, the huge amounts of liquidity that were injected into the financial system through the three-year LTROs, the low interest rates and the full allotment procedure and which aimed at least partly to ease the pressure on sovereign bonds were not anticipated in the past. A strict application of stability-orientated monetary policy would have required a less generous expansion of the monetary base, following the assumption that deviations from the official policy interest rate in peripheral countries was caused solely by market distrust and would best be balanced by further adjustment of public and private budgets to regain confidence.

Equally, the ECB's collateral framework allowed for a broad interpretation of eligibility of assets. This enabled the ECB to include all types of assets it deemed crucial for its non-standard measures to function, even though some these assets would have been rejected in normal times.

Moreover, the ECB was able to argue that its non-standard measures did not put into question its overall goals. In fact, the central bankers stated that their measures were the only way to ensure that the transmission of monetary policy decisions to the economy worked, i.e. its interest rate decisions are passed on to the non-financial sector and households. Only through the proper functioning of this transmission, they argue, could price stability be achieved (see for example ECB 2012d: 7-10, ECB 2011a: 18f.). It is also far from clear if the increase of the euro area's monetary base is inflationary; for example, it can be argued that an increase of the monetary base is not inflationary during a financial crisis as the surplus money is not invested but is held in cash or deposited at the central bank (that is, the money stock M3 has not increased equally). When the economy recovers, the liquidity surplus can be reabsorbed by the central bank. Another argument against sovereign debt purchases is the potential risk these bonds constitute for the central bank and consequentially for tax payers. Such risks, however, come with all monetary operations, and a central bank acting as a lender of last resort for governments can effectively rule out their default. Likewise, there might be moral hazard incentives for government to pursue unsound fiscal policies as soon as the central bank intervenes. This problem, however, also occurs in monetary operations with the private sector, and can be addressed by installing strong authorities supervising the debt issuers (De Grauwe 2012: 121-123). Hence, alternative understandings of the implications of the ECB's non-standard policy were available, which fostered the ECB's institutional conversion.

The same is true for its independence, as the ECB still does not take any instructions from eurozone politicians. Even though its non-standard measures may help the governments of peripheral states and even though they may have been demanded by them, the Governing Council decided independently to conduct them. Regarding the OMTs, for example, there will be no automatic purchase of government bonds if state complies with the conditions. Instead, the

Governing Council decides when and to what extent to intervene. Interventions under the SMP were decided equally independent. Likewise, there is no shared understanding of state financing anymore; a majority of central bankers does not consider the ECB's programmes as state financing.

In sum, the interpretative gaps and the inherent ambiguity of the ECB's institutional rules allowed for a significant broadening of its mandate. Although unforeseen, and also unwanted by some, the rather general institutional rules turned out to also be in line with a different role of the central bank.

#### 4.1.4.3 Change agents and their ideas

So far, three independent variables which fostered the ECB's institutional conversion have been identified, the external pressure of the financial and sovereign debt crisis, the political context (measured in the number of veto opportunities against change) and the institutional properties (measured in extent of compliance demands with the existant structure). The pressure on political actors resulting from the crisis is a necessary condition for the ECB's institutional change, or at least for the speed of the process. Essentially, it is hard to imagine a role change of the ECB without the crisis, as only the very fact that there is a heavy financial crisis justified the conversion of the ECB into a lender of last resort. The political context is also a necessary variable, as it *enables* a conversion of the ECB's institutional setting. The independence central bankers enjoy with regard to their monetary policy decisions is crucial for the ECB's transformation. It is unlikely that such a change would have occurred if eurozone politicians were able to veto the Governing Council's decisions. Likewise, the institutional properties of the ECB are necessary to explain its conversion. The compliance gap between the formal institutional rules and their actual implementation allowed for much broader role of the ECB as anticipated by its creators.

While these variables are necessary for the shift of the ECB's role, they are in themselves not sufficient. They may allow for a conversion, but they do not explain the content of the institutional change, that is, why the ECB actually embraced the role of a lender of last resort. For example, the ECB could have decided not to react to the external pressure, not to use its independence to widen its mandate, and not to redeploy its policy tools to different purposes. A stronger transformation towards the central bank model of the US or the UK is also thinkable to some extent, as the ECB may also foster growth and employment given that price stability is ensured. The ECB, however, only adapted its mandate, now also including the role as lender of last resort. It can be argued that this special manifestation of the ECB's actual policy can be explained sufficiently by the ideas which policy-makers at the ECB hold.

As McNamara (2006) puts it, “[t]he meaning of (...) economic challenges, their interpretation and analysis, will all be mediated by the cultural and ideational setting that policy actors exist within” (McNamara 2006: 807). The ideational setting eurozone central bankers operate within is monetarism. As described above, in monetarist view, monetary policy should focus primarily on price stability. Monetary expansion is seen as an ineffective measure to foster growth and employment, and will only lead to inflation. Higher inflation does not lead to higher employment, on the contrary it is considered to hamper economic growth and employment.

Thus, the central bank should abstain from intervening in the economy and engage in keeping inflation low (McNamara 2006: 808). As shown above, this thinking is widely embedded in the ECB, and it can be assumed that it was shared by most central bankers and ECB officials before the financial and sovereign debt crisis. But when the crisis emerged, they adapted their monetary policy. This process must have been shaped by their perceptions of what was an appropriate strategy to solve the crisis. During the financial crisis, they had to broaden their ideas on the role of monetary policy to some extent, as the ECB temporarily became the most important source of liquidity for the eurozone banks which implied a significant expansion of the Eurosystem's monetary base. However, as the ECB measures inflation risks mainly by regarding at the development of the monetary stock (M3), which declined sharply during the crisis, a significant lowering of the key interest rate (and the increase of the monetary base) did not contradict the ECB's objective of price stability (De Grauwe 2012: 192-194). In order to identify their perceptions of their role during the financial crisis, statements of the most important Eurozone central bankers, notably the ECB President and the central bank governors from Germany, Italy, and France will be analysed.

In February 2009, for example, the then-president of the ECB, Jean-Claude Trichet, stated that while the ECB's main task was to ensure price stability via the determination of the key interest rate and the steering of market rates, an additional task during the crisis was to provide sufficient liquidity to the banking system to ensure the functioning of money markets. He also said that the latter measures were temporary (Trichet 2009a). In July 2009, he said that the ECB's measures during the crisis aimed at increasing credit provision through banks, which could not be achieved via interest rate setting alone. He also stated that "[t]he ECB's enhanced credit support measures are designed in full respect of the euro area macroeconomic framework" (Trichet 2009b). Later, he pointed out that the ECB was able to reduce the key interest rate to 1 percent after inflation dangers had decreased significantly in 2008. He also said that the ECB's non-standard measures, which stabilized the banking system, were crucial for the transmission of the ECB's policy. Additionally, he confirms the willingness of the ECB to end the non-standard measures when the crisis was over, to avoid inflation expectations (Trichet 2009c).

Regarding the eurozone central bank presidents, there is also not much contestation of the ECB's policy during the financial crisis. For example, the then-president of the Bundesbank, Axel Weber, stated that central banks' mandate should also be to ensure the stability of the financial system, as the normal transmission channel of monetary policy may become impaired during a financial crisis. He welcomes the successful liquidity management, the non-standard measures and the monetary easing of the ECB during the crisis. He also points to the need to exit them soon and says that any measures to stabilize the financial system may not question the central bank's price stability task or its independence (Weber 2009a: 5-7, 2009b: 5-7). Equally, Mario Draghi, the president of the Banca d'Italia at that time, praised the use of non-standard measures of the ECB and the lowering of the interest rate, when inflation risks decreased significantly during the crisis. But he also points to the limits of unconventional monetary policy and to exit it in due time (Draghi 2008a: 8, 13-15, 2008b: 4f., 2010: 2). Finally, the president of the Banque de France, Christian Noyer, showed similar perceptions of the role of monetary policy as his colleagues, supporting the lowering of the key policy rate in the absence of inflation risks and the innovative application of monetary policy by the ECB to stabilize the financial system and repair

the transmission channel. He embraces the inclusion of financial stability into the ECB's mandate, as long as price stability is ensured (Noyer 2009: 2-4).

In sum, during the financial crisis, the basic monetarist ideas ECB politicians held were not challenged much, as dramatically decreasing inflation expectations allowed for the easing of the ECB's monetary policy stance. However, they started to perceive large central bank intervention as crucial to ensure financial stability during a crisis. This helps to explain why the ECB turned into a lender of last resort for the financial sector in 2008.

To analyze how the central bankers came to also accept the role of a lender of last resort to eurozone sovereigns, some of their statements to the SMP, the three-year LTROs and the OMTs will be assessed.

In May 2010, Trichet said that the SMP focused solely on the restoring of the monetary policy transmission channel which was impaired by high interest rates on sovereign bonds. He claimed that it did not interfere with price stability as it was sterilized, was decided upon in full independence and was no monetary financing as interventions only took place on the secondary market (Trichet 2010). In September 2011, however, he stated that the ECB "has done all it could to be up to its responsibilities in exceptional circumstances", and that it was up to the governments to be "the ultimate backstop" against market distrust. The ECB should not take over this responsibility from the governments (Trichet 2011).

Bundesbank president Weber, however, criticized the SMP, as he saw the ECB's stability-oriented policy endangered (Der Spiegel 2010). He claimed that the SMP did not have any effect on sovereign bond rates, and that the programme should be stopped as it entailed too much risk and took over government responsibilities (Weber 2010: 4f.). Draghi admitted that buying up government bonds could easily threaten the ECB's independence and contradict the treaty. But he insisted that they were no state financing, only temporarily and aimed exclusively at correcting failures on the sovereign bond markets to ensure the transmission of the ECB's monetary decisions. He also urges governments to adjust their budgets to regain market confidence (Financial Times 2010). Noyer also endorsed the SMP, as it helped to restore the impaired sovereign debt markets after investors had started to fear a eurozone breakup and had stopped their lending activities. With the SMP, The ECB ensured the transmission of its monetary policy. He emphasizes that all government bond purchases were indirect and non-inflationary as they were sterilized. He also stresses that the central bank has to avoid moral hazard (Noyer 2010a: 6f.).

Thus, with the SMP, most central bankers adopted the idea that the ECB had to take over the role of the lender of last resort at least temporarily and to a certain extent, to ensure the functioning of monetary transmission. They do not abandon monetarist ideas; instead, they consider the ECB's purchases of sovereign bonds as compatible with it. This becomes clear by their repeated statement that price stability and independence were not questioned and that moral hazard and state financing were avoided. Likewise, they called for government action to combat the debt crisis. Only the German central bank president did not share this view. Instead, he pledged to keep the ECB's narrow mandate focussing on price stability, but could not convince his colleagues.

Between the three-year LTROs (which were still an attempt to decouple banks' refinancing costs from their sovereigns' soaring bond yields to render monetary policy efficient again without

having to become a lender of last resort to sovereigns) and the announcement of OMTs, central bankers must have changed their perception of the ECB's proper role in the debt crisis. This became already clear when Draghi announced to save the Euro "whatever it takes" and when he pointed to a "convertibility risk" (see above) which could only be addressed by the ECB but was beyond the reach of governments. In November 2012 he stated that "[i]nterest rates do not have to be identical across the euro area, but it is unacceptable if significant differences arise because of the fragmentation of capital markets or the perception of a break-up of the euro area" (Draghi 2012b). According to him, this caused the high sovereign bond spreads which hampered the monetary policy transmission process. Therefore, he called for a "credible support mechanism capable of averting destructive scenarios" which fell "into the mandate of the ECB (Draghi 2012b). He emphasized that OMTs' design circumvented moral hazard problems, denied that it was state financing, and said it did not entail risks concerning price stability, independence or losses. He also highlights the significant improvement of the indebted sovereigns' funding position after the ECB had announced the OMTs (Draghi 2012b).

Bundesbank president Jens Weidmann, however, voted against the OMTs in the Governing Council. In a speech from October 2012, he points to the limited capacities of the central bank, which cannot solve the underlying problems of the sovereign debt crisis – lack of competitiveness and high debt – which have to be addressed by the Member States (Weidmann 2012a). He also said that central banks should not take over fiscal tasks (Weidmann 2012b). Weidmann also saw the stability-oriented monetary policy of the ECB at risk and considered OMTs an inappropriate redistribution of default risks. Equally, he feared that ECB interventions might reduce the pressure for governments to adjust their budgets. The Bundesbank chief also stated that central bank funding should not become standard problem solving. He admitted that ECB interest rate decisions were not passed on to the wider economy equally in all eurozone countries, but insisted that this was solely a result of distrust in some countries capability and willingness to adjust and of a lack of competitiveness. He thought that the saving of the eurozone was a political and not a central bank task, which should focus on price stability (Weidmann 2012c).

The president of the Italian central bank, Ignazio Visco, pointed out that it was the eurozone government's task to implement fiscal adjustments or structural reforms. But he also said that the OMT was necessary to ensure that the transmission of monetary policy was equal in all countries and that it successfully addressed the fear that the eurozone might break up (Visco 2012a: 8). He described the OMT as very effective monetary policy tool, which shrank sovereign bond yields significantly and restored confidence in the eurozone's continuity without even having to be applied (Visco 2012b).

Likewise, Noyer mentioned the "convertibility risk" – the perception of investors that the eurozone is likely to break up – which led to soaring interest rates on peripheral countries' bonds and rendered monetary policy ineffective. According to him, that was the rationale of central bankers to announce the OMT, a potentially unlimited intervention on sovereign bond markets. He argues that the ECB has not given up its task of providing price stability, and that the Treaty allows for purchases of sovereign bonds on the secondary market. Equally, he pointed out that moral hazard incentives for indebted governments were ruled out by the strict conditionality of the OMT (Noyer 2012a: 3f.). He stated that "[t]he OMT will therefore represent a massive and



effective backstop to the unjustifiable increase in sovereign yields (...) and restore the proper transmission of our monetary policy” (Noyer 2012b: 4).

In analyzing the statements of leading euro area central bank chiefs, it becomes clear that they gradually adopted the idea that the only way to ensure the transmission of the ECB’s monetary policy decisions (and to save the euro) was to reduce the spreads between sovereign bond rates, by convincing market participants that it will buy up bonds of peripheral eurozone sovereigns in an unlimited manner if yields become unsustainable. They perceived high sovereign bond spreads as a consequence of market fears that the eurozone might break apart and that the transition to national currencies might impose losses on them. This problem was seen as exogenous and could not be addressed by governments but only by the central bank. Therefore, the ECB had to accept a role as lender of last resort on the sovereign bond market.

However, the central bankers did not abandon their monetarist ideas; instead, they see the ECB’s new role as compatible with price stability, independence, interdiction of monetary financing, and saw no risk of fiscal profligacy. They still do not think that monetary policy should actively engage in fostering growth and employment, but see this as the governments’ tasks, which should engage in further austerity and implement structural reforms.<sup>4</sup> Only the president of the Bundesbank had a different point of view. He sees the ECB’s new role as a deviation from its original mandate, which endangers the ECB’s stability approach. For him, the OMT questions the ECB’s independence, is too close to monetary financing, is too political and might induce governments to pursue unsound fiscal policies. This view, however, was not shared among the other central bankers.

In sum, the examination of the ideas euro area central bankers held allows to explain why the ECB converted to a lender of last resort. As their monetary policy decisions are independent and the ECB’s institutional rules ambiguous enough to allow for reinterpretation, the Member of the Governing Council decided, in the face of the sovereign debt crisis, to use the institutional opportunities for change to implement the idea they perceived as appropriate to combat the crisis. The idea was that only a central bank who acts as a lender of last resort could do this. Mahoney and Thelen refer to this as the phenomenon of “divided elites”, where – in the face of a changing environment – a majoritarian reorientation of actors who possess power within an elite institution may lead to institutional change (Mahoney/Thelen 2010a: 9f.).

According to Mahoney and Thelen, in an institutional setting where veto positions and compliance requirements are low, the type of change agents which are likely to appear are opportunists. Opportunists do not want to abolish existing institutions, but rather intend to exploit their inherent ambiguity and use them to their own ends. The outright abolition of the old institutional rules may be too costly and difficult, but there is room for reinterpretation (Mahoney/Thelen 2010: 26-29). As the analysis of the central bankers’ ideas revealed, the change agents in the field of monetary policy were all central bankers except the representatives of Germany, which were defenders of the status quo. The ECB change agents fit well into the description of opportunist change agents: they never opposed the Eurosystem’s formal structure and rules, but by applying these rules strategically, they converted the ECB into a lender of last

---

<sup>4</sup> This is very different from the US Federal Reserve, who recently announced it would keep its interest rates very low as long as unemployment was above 6.5 percent (Federal Reserve: Press Release December 12, 2012, <http://www.federalreserve.gov/newsevents/press/monetary/20121212a.htm>).

resort, thereby altering its original spirit. It could not be in their interest to violate the Treaty provisions concerning monetary policy and the ECB's approved monetary policy framework. But they had to deal with an unprecedented severe financial and sovereign debt crisis at the same time, and slowly most of them came to the conviction that the original way of conduct of monetary policy was not appropriate anymore. So they actively sought to redeploy the available instruments to new ends, by applying the strategy of institutional change through conversion. The opportunist change agents are thus an intervening variable which further contributed to the appearance of a certain mode of institutional change, namely conversion.

## **4.2 Institutional change in fiscal and economic policy**

### *4.2.1 The bailout funds*

The sovereign debt crisis in the eurozone began to emerge in the end of 2009, when it became apparent that the debt and deficit of Greece was much higher than expected. Financial markets started to doubt that Greece would ever be able to repay its debt, and it was downgraded by the main rating agencies (Featherstone 2011: 199f.). In February 2010 the Ecofin Council still did not see any necessity for Community financial aides for Greece and only demanded it to reduce its deficit. But in March 2010, the eurozone governments recognized the potential need for a Greek bailout. The heads of state or government of the euro area published a common statement in which they declared to be willing to provide financial aides to Greece if this was necessary to ensure overall financial stability of the eurozone. They emphasized that fiscal policy was of the responsibility of national governments, welcomed the reform programme of the Greek government, and considered that Greece would soon regain access to market funding. Financial assistance in the form of bilateral loans and IMF funds would only be granted if market funding became unavailable, if decided unanimously by euro area Member States, and if an adjustment programme was accepted (Euro area Heads of State or Government 2010a). When Greece found itself unable to obtain funding from financial markets in April 2010, the bailout mechanism was activated upon Greek request. Eurozone financial ministers agreed upon financial assistance for Greece, consisting of bilateral loans and IMF support pooled by the Commission. The Commission, the ECB and the IMF were charged to negotiate the conditions of an adjustment programme with the Greek government while euro area states were preparing their disbursements (Eurogroup 2010a). Until 19 May 2010, Greece obtained loans amounting to € 110 billion over three years, € 80 billion of which were provided by eurozone Member States (Eurogroup 2010b) and adopted a reform programme laid out in a Memorandum of Economic and Financial Politics and a Memorandum of Understanding with the Community. It obtained reforms in fiscal policy and austerity measures to reduce the deficit, and economic reforms to regain competitiveness and market confidence. Reform implementation would be assessed on a quarterly basis by the Commission, the ECB and the IMF. Further financial assistance by the Member States depended on measurable reform progress in Greece (European Commission 2010a: 37-90).

However, in May 2010, even though a bankruptcy of Greece had been prevented, market distrust on the soundness of public finances began to spread to other Eurozone countries, which

suddenly faced high interest rates on their bonds. This led to the establishment of the first eurozone bailout fund.

On May 7, euro area heads of state or government decided further measures to ensure financial stability in the eurozone. Beyond announcements to strengthen coordination on economic governance and fiscal commitments, the establishment of a “European stabilization mechanism” was endorsed (Euro area Heads of State or Government 2010b). Its concrete shape was decided by the Ecofin Council on May 9. Finance ministers agreed upon a stabilization mechanism based on Article 122.2 TFEU and an intergovernmental agreement between eurozone Member States. The amount available was set at € 60 billion, to be provided with strict conditionality by the Community, accompanied by IMF loans. In addition, it was decided to set up a “Special Purpose Vehicle” of another € 440 billion of Member State and IMF guarantees (Council of the European Union 2010a: 7). Council Regulation 407/2010, which established the European financial stability mechanism (EFSM) formally, states that Article 122.2 TFEU foresaw Community financial assistance for Member States “in difficulties or seriously threatened with severe difficulties caused by exceptional occurrences beyond its control” (Council Regulation (EU) No 407/2010: 1). In the Regulation, the Council considers the impaired funding conditions of some eurozone countries as such a difficulty, as they are caused by an exceptionally severe economic and financial crisis which raised public debt and deficits and cannot “be explained by economic fundamentals” (Council Regulation (EU) No 407/2010: 1). As the difficulties to obtain funding from markets is considered to be beyond Member States’ control, a common stabilization mechanism providing funding to troubled Members to ensure financial stability in the EU was endorsed (Council Regulation (EU) No 407/2010: 1). Financial assistance is provided as a loan or credit line. Its disbursement is approved by the Council after the amount needed and an adjustment programme has been negotiated between the Commission, the ECB and the Member State concerned. The decision entails credit conditions, economic policy conditions and the approval of the adjustment programme to achieve these conditions. The economic policy conditions are detailed in a Memorandum of Understanding between the Commission and the Member State concerned. The implementation of the adjustment programme is assessed by the Commission and the ECB every six months, with the option of changes to the programme. Funding is provided in instalments, which can be suspended if the economic policy conditions are not fulfilled. The Commission was charged to borrow the funding needed on the financial market once financial assistance has been approved by the Council (Council Regulation (EU) No 407/2010: 2f.).

The EFSM was accompanied by the European Financial Stability Facility (EFSF) to increase the amount of funding available. The EFSF a limited liability company established under Luxembourg law on June 7, 2010. It is charged to raise funds in the market and to pass it on to Member States that have requested Union financial assistance and are undertaking an adjustment programme, supported by additional IMF loans. Eurozone Member States guarantee for up to € 440 billion of the EFSF’s issuance of debt instruments. Each Member State holds shares in the EFSF equally to its share in the ECB’s capital (Eurogroup 2010). Euro area governments charged the Commission to manage EFSF loans and adjustment programmes on their behalf (Euro area Heads of State or Government 2010c). Thus, while the EFSM is a Community instrument, the EFSF is based on an international agreement between euro area governments.

On October 29, the European Council decided to establish a permanent crisis mechanism (European Council 2010a: 2). It was named European Stability Mechanism (ESM) and should have the same purpose as the EFSF, namely, to provide financial assistance to illiquid eurozone states in exchange for an economic adjustment programme. The Eurogroup agreed to adapt rules in order to involve the private sector and to give ESM loans a preferred creditor status. For illiquid but solvent states, the private sector was expected to hold its exposures, in case of insolvency it would be involved in debt restructuring. To that end, it was planned to introduce Collective Action Clauses (CACs) in all eurozone bonds issued from June 2013 on, as a legal basis for negotiations with creditors. By this, private creditors could decide by majority on any debt restructuring measures in case of an insolvent sovereign (Eurogroup 2010d).

In December 2010, the European Council proposed to amend the Treaty to provide for a more valid legal basis of the permanent ESM, which would replace the EFSF and EFSM in 2013 (European Council 2010b: 1). Via the simplified revision procedure, a new paragraph 3 was to be attached to Article 136 TFEU:

“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.” (European Council 2010b: 6)

The simplified revision procedure allows for an amendment of Part Three of TFEU by a unanimous European Council decision after consultation of the European Parliament, the Commission and the ECB and national approval. It was expected to be finished by the end of 2012 (European Council 2010b: 4-7).

On March 11, 2011, the euro area Heads of State or Government agreed upon some central features of the new ESM. Its effective lending capacity was set at € 500 billion. A new instrument for the stabilization fund, interventions on the primary sovereign bond market in extraordinary circumstances, was also agreed. Additionally, the *effective* lending capacity of the EFSF was raised to € 440 billion (Euro area Heads of State or Government 2011a: 3f.). While euro area Member States already provided guarantees amounting to € 440 billion, the effective lending capacity was only about half of that sum, as some of the guarantees were needed to ensure the top-rating of the EFSF. Thus, the Eurozone states increased their guarantees.

These features and the Treaty amendment were approved by the European Council on March 24/25 2011, and the final set-up of the ESM was decided. According to this, the ESM can be activated by a unanimous decision of the Member States in order to safeguard the financial stability of the euro area. It provides financial assistance for Member States facing financial distress against an economic adjustment programme and on basis of a debt sustainability assessment carried out by the Commission, the IMF and the ECB. Its effective lending capacity of € 500 billion is expected to rise by IMF and non-euro Member State support. The ESM will be an intergovernmental organization under public law, based on a treaty between Eurozone Member States and located in Luxembourg (European Council 2011a).

This treaty establishing the ESM among euro area states was approved on July 7, 2011. According to treaty, the purpose of the ESM is to ensure the financial stability of the euro area. For this purpose, it may take up capital from financial markets in order to provide financial

assistance for Member States in financial difficulties against an economic adjustment programme. The ESM will be governed by the finance ministers of the eurozone who form the main decision making body, the Board of Governors. They appoint a Chairperson among their members, which may be the President of the Eurogroup. The European Commissioner for economic and monetary affairs, the President of the ECB as well as representatives of non-euro area EU Member States involved in an ESM operation may participate in the Board of Governors but have no voting rights. The Board of Governors decides unanimously upon the provision of financial assistance, its economic conditions and its pricing structure, the ESM's lending capacity and changes to its capital stock, capital calls, changes to the ESM's instruments, the accession of new members, and the delegation of tasks to the Commission, ECB and the Board of Directors. Some technical details may be decided by qualified majority (80 percent of the votes cast). The Board of Directors consists of representatives of eurozone states and observers from the Commission, the ECB and non-euro states. It votes by qualified majority and supports the Board of Governors. A Managing Director charged with the administration of the ESM is appointed by the Board of Governors. Voting weights in the boards correspond to the Member States subscription to the ESM's capital, which follows the shares of the national central banks in the ECB's capital.

The authorised capital stock was set at € 700 billion, consisting of paid-in capital of € 80 billion and callable capital of € 660 billion which may be requested by the Board of Governors when needed. ESM members are only liable for their respective share in the ESM's authorised capital stock. The maximum lending capacity may be reviewed and adapted by the Board of Governance, if approved by the ESM Members.

For any provision of financial assistance, private-sector involvement should be negotiated, as agreed by the Eurogroup. Financial assistance is granted by the Board of Governors after an assessment of the existence of a risk to the financial stability of the euro area, of the debt sustainability of the Member concerned, and of its financing needs and the appropriate involvement of private investors. The Commission, the ECB and the IMF are charged with the negotiation of a Memorandum of Understanding with the requesting Member, containing the economic conditions and the corresponding adjustment programme to be approved by the Board of Governors. The Managing Director prepares an agreement on financial assistance with its conditions, terms and instruments, which has to be approved by the Board of Directors. The Commission together with the ECB and the IMF is tasked with the monitoring of reform progress, which is a precondition for the further disbursement of financial assistance.

Financial assistance may also be granted as a loan in order to provide short or medium term stability support, the terms and conditions of which are laid down in an agreement signed by the Managing Director. Equally, financial assistance may also be provided via primary market purchases of sovereign bonds of an ESM Member. To fulfil its mandate, the ESM is entitled to borrow on the financial markets. Any profits from the ESM's investments are distributed among its Members or may be transferred into a reserve fund established by the Board of Governors. Losses of the ESM are charged against the reserve fund, against the in-paid capital and finally against the callable capital. Failure to pay of one Member has to be compensated for by higher payments of the other Members. An independent Internal Auditing Board (IAB) is established to ensure the soundness of the ESM's accounts and balance sheet.

The ESM was given full legal personality, and enjoys a great amount of immunity. Disputes on the interpretation of the ESM's rules are settled within the Board of Governors; if their decision is questioned by an ESM Member, the Court of Justice of the EU may be involved to take a legally binding decision.

In the transitional period in which the EFSF and the ESM coexist, the lending of both facilities capacity may not exceed € 500 billion. Financial assistance programmes of the EFSF may be transferred to the ESM. The interest charged on ESM loans consists of the ESM's funding costs plus margin of 200 basis points on the entire loan and an additional 100 basis points on any liabilities outstanding after three years (Treaty establishing the European Stability Mechanism (ESM), 2011).

However, already on July 21, 2011, the agreed institutional features of the permanent rescue fund ESM became subject to renegotiations again. In a meeting of euro area leaders, it was decided to make the EFSF and the ESM more effective and flexible, by approving further instruments. The new instruments were the provision of preemptive loans to Member States threatened by rising refinancing costs, the refinancing of financial institutions via loans to their governments, also without an adjustment programme, and interventions on the primary or secondary sovereign bond market on mutual agreement of the EFSF/ESM Members, if circumstances were extraordinary and financial stability at risk (Euro area Heads of State or Government 2011b: 3).

This extension of the EFSF was ratified in all EFSF/ESM Member States in October 2011. At a Euro summit on October 26, euro area leaders agreed to enhance the EFSF's lending capacity without extending its underlying guarantees. This was considered necessary to preserve financial stability and to avoid contagion among the states facing market pressures. Two options to leverage the fund's capital were approved. The first is a risk insurance attached to each sovereign bond issued, reducing credit risk and thus funding costs. The second option envisages increasing the lending volume by combining private and public funding via Special Purpose Vehicles, which could be used in liaison with the new instruments. Regarding the first option, the Eurogroup agreed on November 29 to provide a partial risk protection of 20-30 percent to bonds issued by a sovereign under a precautionary assistance programme. With regard to the second option, Co-Investment Funds (CIFs) of both private and public resources would be set up, which would buy sovereign bonds in the primary or secondary market. Direct funding would be used primarily for bank recapitalizations. Additionally, the eurogroup adopted guidelines on the application of the new instruments (EFSF Press Release). Precautionary programmes aim at supporting countries still able to refinance themselves, but threatened by market distrust. The procedures to achieve assistance should be faster and less complicated. Three different kinds of credit lines were foreseen, the precautionary conditioned credit line (PCCL), the enhanced conditional credit line (ECCL) and the ECCL including a partial risk protection (ECCL+), the availability of which depending on the receiving country's economic performance. The provision of all credit lines is conditional and the economic and fiscal development of countries receiving them is supervised by the Commission. The Eurogroup decides unanimously on the provision of precautionary assistance, after an assessment of the Commission together with the ECB. IMF support is expected as well. Economic reform conditions and the conditions for financial assistance are specified in a Memorandum of Understanding and in a Financial Assistance Facility

Agreement (FFA) (Eurogroup 2011a). Another new tool was the recapitalization of banks, which intended to stabilize Member States whose funding troubles are caused by instable financial sectors. Financial assistance would be provided in the forms of loans to the government concerned, who would pass it on to the financial sector, given that private or national solutions were not available. Conditions for financial assistance are laid down in a Memorandum of Understanding, referring to reforms of the financial sector and measures towards the financial institutions concerned as well as to the soundness of fiscal policy. Implementation and compliance is monitored by the Commission and the ECB or European supervising authorities. Assistance is approved by the Eurogroup and may solely be used to recapitalize the financial sector (Eurogroup 2011b).

Primary market purchases of sovereign bonds may complement regular financial assistance or a precautionary programme, in order to support the sovereign's access to financial markets. They intend to ensure the full coverage of the sovereign's funding needs, to leverage the EFSF's resources and to reduce public funding, and to ensure the liquidity of the sovereign's bonds in the markets. Primary market interventions of the EFSF would take place at market rates approximately, buying no more than half of the amount of sovereign bonds issued. The bond purchase option should be included in the financial assistance programmes, to be activated by the Eurogroup working group and the Board of Directors unanimously if the programmes' conditions have been met (Eurogroup 2011c).

Finally, the purpose of secondary market purchases was to ensure liquidity in sovereign bond markets and to reduce unsustainable high yields on government bonds. Such purchases have to be approved by the Member States, after an assessment of the ECB detects financial market distress and threats to financial stability of the euro area. The ECB will also give advice on the implementation of the bond purchases. The conditions of an intervention, specified in a Memorandum of Understanding, would require compliance with the adjustment programme for countries having obtained EFSF support, or compliance with the recommendations within EU fiscal and economic coordination for other countries. The Memorandum of Understanding and an FFA laying down the intervention's terms and conditions would be agreed by the Eurogroup working group and Board of Directors. Compliance would be monitored by the Commission and the ECB (Eurogroup 2011d).

At a meeting on December 9, 2011, euro area leaders decided to retain the EFSF's activity in programmes that had already started until July 2013. A reassessment of the EFSF/ESM lending capacity was foreseen for March 2012. The ESM was planned to enter into force in July 2012, after Members representing 90 percent of the ESM's capital shares have ratified it (Euro area Heads of State or Government 2011c: 5f.). However, the ESM only entered into force on September 27, 2012, after the German Bundesverfassungsgericht had confirmed its compatibility with the Grundgesetz.

The new instruments of the revised EFSF were also included into the ESM Treaty. The ESM may now also provide conditional precautionary assistance, bank recapitalization assistance, and sovereign bond purchases on the primary or secondary markets to its members. Additionally, it was agreed in the treaty that ESM support was conditional to the ratification of the new Treaty on Stability, Coordination and Governance in the Economic and Monetary Union. Its lending capacity is still € 500 billion, which may however be reassessed and increased by the Board of

Governors. Also, while the general procedure requiring mutual agreement for the granting of financial assistance was kept, it was complemented by an “emergency voting procedure”. If the Commission and the ECB came to the conclusion that economic and financial stability were at risk without immediate assistance, the accelerated procedure would apply. Decisions by mutual agreement could then be taken by a majority of 85 percent in the two Boards under the emergency voting procedure (Treaty establishing the European Stability Mechanism, 2012).

In March 2012, the maximum lending volume of the EFSF/ESM was reassessed by the Eurogroup and raised to a combined amount of € 700 billion. The lending ceiling of the ESM alone was retained at € 500 billion (Eurogroup 2012a). Euro area leaders confirmed in June 2012 their willingness to apply the EFSF/ESM instruments in a flexible way: they now can also be used by a troubled state without adjustment programmes, if the state complies with the various recommendations of the EU’s economic and fiscal coordination mechanisms. Direct bank recapitalizations by the ESM were also announced, on the condition that a single supervisory mechanism would be established in the euro area (Euro area Heads of State and Governments 2012).

To summarize, when the sovereign debt crisis hit the euro area and threatened financial stability and even the continuity of the euro, European leaders decided to grant financial assistance to each other in a limited manner. To this end, they established the two temporary bailout funds EFSM and EFSF with a lending capacity of € 500 billion, who were authorized to grant loans to EU Member States having trouble to refinance on the market, in exchange for an economic and fiscal adjustment programme. EU actors soon recognized that a permanent stabilization fund would be necessary and that the funds would have to be more flexible and effective. Thus, the permanent ESM was set up among the euro area countries, and the EFSF and ESM obtained a much larger and more flexible range of instruments.

The new stabilization tools were used several times after Greece had obtained financial assistance in spring 2010. In November 2010, Ireland requested support from the bailout funds, which was approved by the Council (Council of the European Union 2010b). In May 2011, financial assistance was granted to Portugal (Council of the European Union 2011a). Spain was the first country profiting from the new EFSF instruments. It obtained financial assistance amounting to € 100 billion in order to recapitalize its banking sector (Eurogroup 2012b). Greece was granted € 164.5 billion of renewed financial assistance from the EFSF in March 2012, after a new adjustment programme had been negotiated. A condition for the successor programme was an appropriate involvement of the private sector, which was achieved by a debt exchange programme of the Greek government (Eurogroup 2012c). The terms and conditions of the financial assistance and adjustment programmes were amended several times to accommodate economic developments. The last amendment took place in December 2012, where Greece’s fiscal targets were attenuated in exchange for enhanced economic and budgetary reforms, to account for strong economic decline and shrinking public revenues (Council of the European Union 2012a).



#### 4.2.2 *Enhanced coordination of fiscal and economic policy*

The euro crisis not only revealed the necessity of euro area wide stabilization mechanism, but also that the existent coordination mechanisms in fiscal and economic policy were not sufficient. After the euro had been created, investors began to move capital to the peripheral eurozone states, as barriers to capital flows had been removed and the eurozone economies were expected to converge due to strict common rules. This, however, led to increasing current account deficits, housing bubbles or increasing government debt, decreasing competitiveness, and rising labour costs in the periphery. Additionally, when the financial crisis erupted in 2008, states not only faced decreasing revenues following from the economic decline, they also had to stabilize banks and finance economic stimulus. This mixture of unstable economic developments and crisis consequences caused a dramatic rise in public deficits and debt. Consequently, growing risk awareness and aversion of investors led to capital withdrawal from the periphery, thereby inducing a mistrust spiral which impaired these countries' access to market funding (Illing/Jauch/Zabel 2012: 156-163). Furthermore, the eurozone countries did not have the possibility to devalue their currencies, which fuelled further mistrust in these countries' capability to repay their debt (De Grauwe 2011).

The EU's fiscal and economic governance structures turned out to be unable to identify, prevent or combat the buildup of such economic imbalances and their consequences for public debt levels. Therefore, when the sovereign debt crisis began to destabilize the eurozone in 2010, EU policymakers initiated several reforms of the old coordination mechanisms.

Euro area leaders recognized the need to strengthen their fiscal and economic coordination framework already in March 2010, and set up a task force to explore necessary reforms (Euro area Heads of State or Government 2010a: 2).

On June 17, 2010, EU leaders agreed on the introduction of a follow-up framework for the Lisbon Strategy, named Europe 2020 Strategy. The strategy had been proposed in a Commission report called "Europe 2020: A European strategy for smart, sustainable and inclusive growth", where specific targets were set out: an employment rate of 75 percent, investment in research and development, and climate, education, and social inclusion targets. These overall targets would then be specified for the individual Member States in country reports. The development of Europe 2020 country reports would be coordinated with the SGP's stability and convergence programmes, thus recommendations for fiscal and economic measures of both initiatives would be aligned. Integrated guidelines are defined by the European Council and are translated into recommendations to the Member States, such as the Opinions on the stability or convergence programmes of the SGP, the BEPGs, and the new Europe 2020 recommendations on employment, business or energy policy. Institutionally, the European Council would initiate targets, which are specified in the different Council formations. The Commission would monitor the implementation by using specific indicators, and issue policy warnings in case of non-compliance (European Commission 2010b). Europe 2020 aimed at fostering growth and employment and sustainable fiscal policy. To the latter end, Member States are urged to quickly consolidate their budgets by cutting public spending in a "growth-friendly" manner (European Council 2010c: 2). The European Council also agreed to reform the SGP at its meeting and to introduce a European semester, a new governance mechanism to strengthen fiscal surveillance

and implementation of budgetary and economic reforms. With regard to economic policy, the establishment of new macroeconomic surveillance mechanisms was agreed in order to better detect negative economic developments (European Council 2010c: 2).

The European semester had been proposed by the Task Force on economic governance appointed by the European Council in March 2010. Its institutional features were approved by the Ecofin Council in September 2010. Accordingly, fiscal surveillance would take place within a six-month cycle, starting in March with an assessment on the economic challenges in the Member States and reform advice by the European Council based on a Commission report. Based on this, Member States would reassess their medium-term budget plans and develop reform programmes for employment and social policy in April. Until the end of the cycle in July, the European Council and the Council would give advice on the national budgets for the following year (Council of the European Union 2010c: 6). The European Semester is thus an ex-ante mechanism, aiming at the prevention of unsustainable fiscal and economic developments.

In October 2010, the Task Force presented a range of other proposals on enhanced economic policy coordination, including a strengthening of the SGP and a new macro-economic surveillance mechanism (Report of the Task Force to the European Council 2010). The report was approved by the European Council, who demanded the application of a “fast-track” procedure to implement the reforms until summer 2011 (European Council 2010a:1). They later became the so-called “six-pack”, a bundle of secondary legislation measures (see below).

In the light of the ongoing euro crisis, the euro area Heads of State or Government decided to establish a new agreement between their countries in March 2011, the Pact for the Euro. Its objective was to strengthen the competitiveness and convergence of the euro area economies by closer economic coordination. Bulgaria, Denmark, Latvia, Lithuania, Poland, and Romania also joined the Pact. Eurozone leaders agreed upon four guiding rules: First, the participating countries committed themselves to undertake economic reforms in line with but going further than the existing EU coordination framework. Second, in some policy areas crucial for competitiveness and convergence, common targets would be defined, to be implemented by the governments. Third, the implementation of the concrete commitments of each leader would be peer-reviewed by the participating Heads of State or Government. Fourth, the completion and integrity of the Single Market would be respected. The overall goals refer to competitiveness, employment, fiscal sustainability and financial stability, to be operationalized by the Members. For each objective, special indicators were approved in order to monitor reform progress, such as wage and productivity development, unemployment and labour participation rates, fiscal sustainability indicators measuring the future impact of pension schemes, health care and welfare systems. Participants also commit themselves to include the provisions of the SGP into national law, and to reform their banking sector. Additionally, closer coordination in tax policies was agreed, in order to combat tax fraud or evasion and to prevent harmful taxation policies. These commitments will be translated into concrete actions every year (European Council 2011: 13-20).

The six-pack of legislative acts aiming at enhanced budgetary control and macroeconomic surveillance entered into force on December 13, 2011. Regulation 1173/2011 only addresses the Member States of the euro area, drawing on Treaty provisions that allow for stronger cooperation of the eurozone in order to safeguard the functioning of EMU. It determines the sanctions within both arms of the SGP to strengthen their implementation. If the Council

decides that a Member State fails to comply with recommendations of the preventive arm to reduce its debt or deficit, the provision of an interest-bearing deposit of 0.2 percent of GDP may be demanded within 20 days. Within the correcting arm, in case of the existence of an excessive deficit or severe non-compliance with the SGP's provisions, the Commission may recommend the Council within 20 days to demand the Member State to lodge a non-interest-bearing deposit of 0.2 percent of GDP with the Commission. The sanctions are recommended by the Commission and can only be prevented within 10 days by a qualified majority vote of the Council rejecting it (reversed qualified majority voting). In both cases, the Council may amend Commission proposals before approving them; the decisions to impose sanctions may be withdrawn or amended in case of exceptional economic circumstances or upon justified request by the Member State concerned. By the same procedure, a fine may be imposed in case of failure to engage in the reduction of an excessive deficit. Additionally, fines may be imposed by a Council decision in case of willful or negligent provision of wrong statistical data. The Commission may undertake all necessary investigations in order to detect wrong statistical information. For Council decisions, only the votes of the euro area Council Members not being subject of the decision will count (Regulation 1173/2011 of the European Parliament and of the Council).

Regulation 1176/2011 refers to the prevention and correction of macroeconomic imbalances in the EU. The rationale behind it is that effective surveillance not only requires the control of budgetary but also of broader economic developments. To detect imbalances, an alert mechanism is established, consisting of a scoreboard of economic indicators whose development in each country is assessed and summarized in an annual report by the Commission. If imbalances are detected, the Commission may conduct a comprehensive, country-specific in-depth review of the economy concerned, also specifying if imbalances are excessive. Imbalances result in Council recommendations correcting these. In case of excessive imbalances, the Council addresses recommendations to the Member State concerned and demands the submission of a corrective action plan within due time. If the Council considers the corrective action plan insufficient, it may recommend amendments. The implementation of the agreed measures is carried out by the Commission, who may also conduct surveillance missions in the countries concerned. If the recommended actions have not been taken, the Council may adopt a decision declaring non-compliance, accompanied by new recommendations. The decision is prepared by the Commission and may only be rejected by the Council with qualified majority (Regulation 1176/2011 of the European Parliament and of the Council).

Regulation 1174/2011 aims at strengthening the implementation of measures against such macroeconomic imbalances in the eurozone. If non-compliance is established by the Council within the excessive imbalances procedure of Regulation 1176/2011, the Council may impose an interest-bearing deposit on the eurozone country concerned. If two successive Council decisions or recommendations are disregarded, a fine may be imposed. The decisions to impose sanctions are also taken by reversed qualified majority vote (Regulation 1174/2011 of the European Parliament and of the Council).

Regulation 1175/2011 intends to improve surveillance and coordination of budgetary and economic policy. Each euro area Member State or state participating in the ERM2 sets out its own medium-term budgetary objective, which corresponds with the deficit limit of 3 percent of

GDP but leaves room for public spending within this margin. Generally, the budgetary objective should be in line with a deficit between -1 percent of GDP and balance/surplus. The stability programmes of euro area countries should, among other things (such as pension liabilities), outline the budgetary objective and the adjustments necessary to achieve it and must be submitted until the end of April to be in line with the provisions of the European Semester. The Council and Commission assess the target and the related implementation measures, thereby paying special attention to the annual improvement of budgetary positions which should be at least 0.5 percent of GDP. In order to achieve the budgetary target, annual public expenditure may not exceed or should even be lower than annual GDP growth, unless it is balanced by higher public revenue. Temporary deviations from the adjustment path may be allowed if major structural or pension reforms are undertaken. Implementation is monitored by the Commission. In case of severe deviation from adjustment towards the budgetary target, the Council may establish non-compliance of the Member State concerned. Basically, the same provisions apply for the convergence programmes of EU Member States not participating in the euro. The last section of the Regulation sets out minimum requirements for statistical data and the national statistical authorities and allows for surveillance missions in the Member States of the Commission to collect statistical data on their economic development (Regulation 1175/2011 of the European Parliament and of the Council).

Regulation 1177/2011 amends Regulation 1467/1997 on speeding up and clarifying the implementation of the excessive deficit procedure. A deviation from the reference value for government debt (60 % of GDP) is only tolerated, if the debt level is decreasing constantly or if forecasts indicate that it will sink appropriately in the following years. In case of an excessive deficit, the Member State concerned must take action within six months or, in urgent cases, within three months. Until that deadline, the Member State concerned has to submit a report on the actions taken, including intended public expenditures and revenues. The excessive deficit should be corrected to the reference value of 3 percent within the following year, and should decline annually by at least 0.5 percent of GDP. Monitoring is carried out by the Commission and the Council. To that end, the Commission should be in a permanent dialogue with the Member States, including missions to assess economic development. If the state concerned fails to comply with the Council recommendations, a fine should be imposed as a rule. It may reach up to 0.5 percent of GDP in case of ongoing non-compliance. The whole process was speedified (Regulation 1177/2011 of the European Parliament and of the Council).

Finally, Council Directive 2011/85 aims at establishing common rules for the Member States' budgetary frameworks (e.g. accounting and statistics procedures, forecasts and budgetary planning, numerical rules). Statistic and accounting data must be subject to internal control and independent audits. They must be published regularly. Macroeconomic and budgetary forecasts should be realistic and up-to-date and should take into account alternative scenarios. They should not vary significantly from other sources' forecasts (such as the Commission's). The methodology should be public and be reviewed regularly. Member States must also provide a medium-term budgetary framework covering the following three years. The rules should apply to the general government as well as to all its sub-sectors (Council Directive 2011/85/EU). In sum, the SGP had been sharpened and strengthened significantly. Not only deficits over three per cent, also debt levels over 60 per cent of GDP may be sanctioned. Control of budgets is denser and ex-

ante, budget deficits must be corrected faster, and sanctions may be imposed earlier. Also, macroeconomic developments are now monitored in the Eurozone, and binding rules and sanctions have been introduced. With the reversed qualified majority voting rule, decisions are taken almost automatically.

Following pressure from Germany to establish an even stronger control mechanism of national budgets, at least in the eurozone, the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG, also called Fiscal compact) was agreed on 9 December 2011. The overall goal was to move closer to a “genuine ‘fiscal stability union’” (Euro area Heads of State or Government 2011c: 2). All Member States of the euro area as well as all other EU Member States signed the Treaty, except the United Kingdom and the Czech Republic. Because of the reluctance of these two countries to accept its provisions, the Treaty was not included into the exiting framework, but established alongside existent EU Treaties and law.

According to the TSCG, budgets must be in balance or surplus. This is the case if the structural balance is in line with the SGP’s medium-term budgetary target, not exceeding a structural deficit of 0.5 percent of GDP. This target may be set at 1 percent if debt is significantly below the 60 percent margin and where there are no long-term risks to fiscal soundness. An automatic correction mechanism applies in case of a severe deviation from the medium-term objective. This correction mechanism, based on common principles, must be enshrined in national law, preferably at the constitutional level. Non-compliance may entail a complaint at the Court of Justice of the EU. Failure to comply with the Court’s decision might also lead to sanctions, amounting to up to 0.1 per cent of GDP. The Contracting Parties also commit themselves to engage in appropriate adjustment towards the medium-term objective if debt exceeds 60 percent of GDP. Member States in an EDP commit themselves to submit a budgetary and economic partnership programme outlining the actions to be taken, in line with EU law under the SGP, to be approved by the Council and Commission. Plans of the intended public debt issuance of each country must also be submitted to Council and Commission. With regard to economic governance, all states agreed to discuss and coordinate all economic policy measures ex-ante among themselves. The TSCG entered into force on January 1, 2013 (Treaty on Stability, Coordination and Governance in the Economic and Monetary Union).

After the newly elected French President François Hollande and his socialist party had urged for a European plan to stimulate growth and employment attenuating the negative consequences of austerity, a “Compact for Growth and Jobs” was agreed at the European Council in June 2012. In its decision, the Council expressed its willingness to foster growth, while at the same time emphasized that budgetary consolidation and structural reforms were necessary. Some actions are to be taken at the national level in line with the Europe 2020 strategy, such as investment in “future oriented areas”, increasing competitiveness, or combatting unemployment. At the EU level, about € 120 billion were activated in order to stimulate growth: The European Investment Bank’s (EIB) capital was raised increased by € 10 billion, which allows for an additional lending of € 60 billion and potential further investment of up to € 180 billion. Also, the launch of project bonds was brought forward (European Council 2012a: 7-11), which had already been decided on 11 July 2012 (Regulation 670/2012 of the European Parliament and the Council). To that end, up to € 4.5 billion were set out for investment in pilot infrastructure projects, to be extended if the pilot phase is successful. Furthermore, capital from the EU’s

Structural Funds has been dedicated to support youth employment, small and medium sized enterprises and research and innovation. Another € 55 billion of the Fund's capital had been set out for growth-fostering measures in the current EU budget (European Council 2012a).

On request of the European Council, the Presidents of the European Council, the Commission, the ECB and the Eurogroup presented a report on the further development of EMU in June 2012, named *Towards a genuine Economic and Monetary Union*. With regard to fiscal and economic policy, an “integrated budgetary framework and an integrated economic policy framework” were proposed, in order to achieve greater coordination of national politics and improved enforcement of EU rules (President of the European Council 2012a: 3). The European Council asked its President at its June meeting to develop a roadmap on the implementation of the report (European Council 2012a: 3). This roadmap was published in December 2012. On a first stage towards a fiscal union, it foresaw the finalization and enforcement of the agreed reforms on fiscal coordination, including ex-ante cooperation on economic policy measures. On the second stage, the conclusion of contracts between Member States and EU bodies on the implementation of structural reforms was proposed, which could be accompanied by temporary financial assistance. Finally, the third stage would foresee the introduction of an EU-level automatic insurance mechanism against negative economic shocks, interlinked with sound economic budgetary policy requirements (President of the European Council 2012b: 4f.). The European Council of 14 December 2012, however, did not approve this roadmap. It only asked its President to further examine the ex-ante coordination of economic policy, the contracts on reforms, and “solidarity mechanisms” to accompany such contracts (European Council 2012b: 1-5). Thus, any unconditional, automatic transfers (e.g. from common unemployment insurance or a common crisis budget) at the European level were ruled out for the moment.

In sum, fiscal and economic policy coordination became denser for all EU Member States. They committed themselves to the goals of the Europe 2020 strategy and are subject to the European semester, which foresees ex-ante coordination of economic and budgetary policy plans. The rules of the SGP and EDP were sharpened and accelerated, and all states participate in the excessive imbalances procedure. All decisions on economic developments of the Member States within the SGP and EDP will now be taken almost automatically. Non-euro countries are however not subject to the enhanced sanction mechanisms. But almost all Member States committed themselves to the provisions of the TSCG, which will turn the rules of the SGP into national law and provides for dense ex-ante coordination of economic reform plans. For the euro Members, sanctions within the SGP and EDP now apply earlier within the preventive arm already, and failure to correct an excessive macroeconomic imbalance is also sanctioned. With the Euro Plus Pact aiming at the improvement of competitiveness, economic developments in euro area countries are now also monitored much more accurately by the use of indicators.

#### 4.2.3 *Eurozone governance*

Apparently, the Eurogroup gained, alongside with the meetings of the euro area Heads of State or Government, much more important role during the euro crisis. The stability funds EFSF and ESM as well as the enhanced coordination framework of budgetary and economic policy within

the Eurozone were mainly negotiated in the euro area leaders' meetings, the Eurogroup, and the working group level. Only for measures concerning the whole EU, the Council and European Council were the main decision-making bodies.

On the summit on October 26, 2010, euro area leaders decided to put the governance structure of the Eurozone on a new basis. To that end, meetings of the euro area Heads of State or Government were formalized. So-called "Euro Summits" would take place at least two times a year, outlining the basic strategy of Eurozone fiscal and economic coordination. The Euro Summit would get its own President. The Eurogroup was confirmed as main body of the management of the euro area, and charged with the preparation and follow-up measures of the Euro Summits. The President of the Euro Summit would meet regularly with the Presidents of the Commission and Eurogroup, eventually accompanied by the Presidents of the ECB, the European Supervisory Authorities (ESAs) or the EFSF/ESM Managing Director. At the working level, the Eurogroup working group was strengthened, as well as the Economic and Financial Committee (EFC) and the Council General Secretariat in order to provide coherent advice to the Presidents of the Euro Summit and Eurogroup (Euro area Heads of State or Government 2011d: 9, 11-13). The new governance structure was also anchored in the TSCG. (Treaty on Stability, Coordination and Governance in the Economic and Monetary Union).

#### *4.2.4 A new layer in EMU fiscal and economic policy*

The way the institutional set-up of fiscal and economic policy coordination changed comes closest to the mode of layering. According to Mahoney and Thelen, layering occurs when new rules are introduced alongside old ones, eventually also changing the latter's nature (Mahoney/Thelen 2010a: 16f.).

During the euro crisis, the old rules on fiscal and economic governance within EMU were not abandoned. Neither a fiscal union with a single euro area budget, nor any kind of euro-area-wide automatic insurance mechanism against negative shocks were established. Likewise, responsibility for budgetary and economic policy still lies with the Member States, only constrained by commonly established rules. The European level does still not decide how much is spent on what reform, but only controls the overall limits and developments. Equally, there was no break-up of the Eurozone, which would have implied the abolition of all institutional rules on budgetary and economic policy. There were, however, significant changes to the original institutional structure. But instead of full communitarization or complete abolition, a new layer was added to the existing rules.

The new layer consists, on the one hand, of the bail-out funds or stability mechanisms EFSF/EFSM and ESM. They did not question the general distribution of responsibilities, but provided a limited common funding mechanism for states that could not refinance themselves or had severe difficulties to do so. Dependence on the funds is considered to be temporary, access to them is strictly conditional and subject to thorough assessment of the state's needs and of risks to the Eurozone's financial stability. The stability mechanisms are a minor layer of budgetary policy alongside the traditional one, which is also mirrored by the fact that the funds were

established *on top* of the existing EMU framework instead of within them, in the form of intergovernmental agreements or treaties.

On the other hand, the new budgetary and economic surveillance and coordination mechanisms also constitute part of the new layer. With their comprehensive ex-ante surveillance of reforms and budgets, establishment of thoroughly controlled common economic indicators, common statistical rules, and sharpened automatic sanctions in case of an excessive deficit or economic imbalance, the EU level coordination mechanisms now follow a new logic. They now really have the potential to rule into national policy-making, however without taking over the national actors' responsibilities on the concrete content and implementation of measures. Alongside the traditional layer of Member State-owned economic and fiscal policies, a truly European layer has been attached.

#### 4.2.5 *Adding a new layer to fiscal and economic policy coordination: how was it possible?*

##### 4.2.5.1 Power implications

One cause for institutional change may be, according to Mahoney and Thelen, the power implications enshrined in an institution. In order to assess the impact of power constellations on institutional change, the veto possibilities with regard to the institution have to be examined (Mahoney/Thelen 2010a: 7-10).

It is apparent that EMU's institutional structure regarding fiscal and economic policy would be very hard to change. To merge national budgets into one single EU or Eurozone budget and the various welfare and social insurance institutions into a single one would have required enormous efforts on part of European policy-makers. Large parts of the Treaties would have to be reformed, which would not only require dense negotiations of governments and parliaments, but would most likely also have to become subject of national referendums. Veto possibilities were therefore very large, or almost insurmountable, at least in the short run. This constitutes a legacy from the past: when EMU was created, no effective mechanisms to control fiscal and economic policies were established. Furthermore, the creation of EMU had unintended consequences such as the disappearance of market control on sovereign lending, as investors began to consider all euro states as economically similar and financially stable. These shortfalls, in turn, allowed for the build-up of large imbalances and caused rising deficits and debt levels of eurozone's periphery. If there had been a serious common competence for fiscal and economic policy, it would have been easier to persuade EU/eurozone politicians and citizens to also resolve the crisis together. But when the euro crisis erupted, willingness to perceive it as a common problem were rather low, as any decisions concerning macroeconomics and budgets had been taken on a national level. For many actors, it seemed inappropriate to communitarize fiscal and economic policies *after* severe imbalances and deficits had been built up. Also, the question on how to legitimize fiscal decisions on the EU level is unresolved, meaning that citizens and parliamentarians would probably lose influence. Consequently, it would have been very hard to persuade all holders of veto positions to accept a unified EU fiscal and economic policy.



Therefore, if they wanted to save the Eurozone with an institutionalized financial assistance fund, change agents had to circumvent the barrier of a major Treaty overhaul. The barriers to the establishment of a bounded common stabilization fund were much lower. The necessary institutional changes only required the approval of the euro area governments and parliaments, as they could be presented as measures which would not fundamentally alter the EMU's institutional structure but which would only complete it. Given ongoing pressure from financial markets and the potentially high losses in case of a euro break-up, majorities for the Eurozone stabilization funds could be mobilized.

The full communitarization of economic and fiscal policy would also be hampered by veto positions. National parliaments would most likely lose much influence on economic policy and budgetary decisions, and citizens would face the replacement of the existing welfare institutions with unfamiliar ones. Especially citizens in the periphery might oppose the imposition of fundamental reforms by the EU-level, perceiving the crisis rather as a result of unfavourable macroeconomic developments than as a consequence of failed internal reform. Additionally, budgetary and economic reforms would require a very high level of legitimization and discretion, which would be very hard to establish at the European level. Therefore, a full supranationalization of fiscal and economic policy would equally have faced many veto positions. Therefore, it was unlikely that change agents would take this path. Rather, they would extend the existing rules with new ones. To that end, new provisions were included in the SGP and EDP, requiring stricter control and sanctioning but leaving the old structure in place. Likewise, the coordination of economic policy within the Europe 2020 strategy and the European Semester copies the old form of institutionalization of the Lisbon strategy and the OMC. However, new rules have been added, such as the ex-ante coordination of economic policy reforms and of budgetary plans. Within the Eurozone, new pacts like the Euro Plus Pact and the TSCG have been concluded alongside the original coordination structure, not questioning it, but requiring additional commitments of the Eurozone Members in terms of mutual control and coordination of fiscal and economic policy. Acceptance of EU or Eurozone governments and parliaments for these reforms were not particularly hard to obtain, as it could be argued that they would not question national responsibility for fiscal and economic policy in principle but would only improve coordination on the EU level.

While the development of fiscal and economic policy coordination and the stabilization tools within EMU can be seen as an add-on of a European layer on the original institutional set-up, this new layer however has already started to rule into the old one. The volume of the stabilization funds became very large, and their tasks were constantly extended, so that the sheer amounts of financial assistance payments and guarantees some Eurozone countries have to provide might question their fiscal autonomy.

For the benefitting countries, the influence of the new layer is even stronger, resulting from the growing interdependence between policy coordination and the bailout funds. For example, assistance from the ESM can only be requested from a country participating also in the TSCG, which imposes strict fiscal rules. Also, any form assistance from the funds is conditional, meaning that countries asking for help virtually lose their sovereignty over fiscal and economic policy. While the coordination mechanisms formally still leave room for national policy-making, this is not the case for countries receiving EFSF/ESM assistance. The FFAs concluded between the

funds and the benefitting countries comprise very strict and concrete reform proposals for all relevant policy fields, which must be implemented if the country wants to obtain further assistance. The FFAs often refer directly to the respective country's obligations within the fiscal coordination mechanisms, which must be respected in exchange for financial assistance. Thus, benefitting countries have considerably lost influence on their economic and fiscal policy. According to Mahoney and Thelen, actors are usually tied to more than one institution, which may allow them to transfer their greater power within one institution to another (Mahoney/Thelen 2010a: 9). This might be the case for the core Eurozone countries, which can impose strict fiscal and economic reform requirements on the peripheral countries as these are dependent on the formers' participation in the funds.

#### 4.2.5.2 Compliance requirements

The other variable which can explain institutional change are the compliance requirements embedded in an institution (Mahoney/Thelen 2010a: 10-14). If compliance requirements are high, there is not much room for interpretation of how to apply institutional rules. If compliance requirements are lax, enforcement or implementation space might be used for institutional change.

When EMU was created, fiscal and monetary policy was divided, leaving fiscal policy in the hands of national governments. This separation was also anchored in the Treaty, which only foresaw mutual control of national budgets, coordination of economic policies and in principle the prohibition of bailouts. This means that there is not much room for reinterpretations of the institutional rules. The Treaty does not provide for the build-up of a common budget and common fiscal policy at the EU level, and does not comprise any leeway to establish such institutions within its framework.

Because the Treaty simply did not allow for any communitarization of budgetary policy within the EU framework except for loans in extraordinary circumstances, the new EU/euro area bailout funds had to be established alongside the existent EU and EMU institutions, by setting up special intergovernmental agreements among the Eurozone states. (Only the Greek Loan Facility and the EFSM use the loophole of the Treaty as a basis, but they could only serve as interim solution and were not sufficient to combat the euro crisis.) Accordingly, the EFSF was set-up as a company under Luxembourg law, established by an international agreement of the euro area governments. The ESM was established by a new treaty among Eurozone states. To get a legal basis for this, the TFEU was amended and a new article allowing for the set-up of a Eurozone fund was included applying an accelerated amendment procedure. This "extra" status of the bailout funds and the amendment of the Treaty are clear signs of institutional change by layering.

Likewise, the responsibility for budgets and economic policy was clearly assigned to the national level during the creation of EMU. The Treaty does not leave much space for exploiting its letter, thus no single economic policy could be established at the EU level. So any change had to be achieved by introducing additional rules, such as Europe 2020, the European semester or the partly revision of the SGP and EDP. However, the Treaty did allow for closer cooperation of the Eurozone countries, thus it provided for the establishment of a new layer of economic

governance within the euro area. While euro area states are still subject to the EU level coordination mechanisms, they are at the same time subject to additional Eurozone cooperation commitments which are much stronger, such as the Euro Plus Pact, the TSCG, the excessive macroeconomic imbalance and deficit procedures with their stricter sanctions. Additionally, the governance structure has been adapted to the new circumstances, by launching the Euro Summits and appreciating the Eurogroup. This new governance layer has been attached to the existent one consisting of the European Council and the Ecofin Council.

#### 4.2.5.3 Change agents and their ideas

Two necessary independent variables to explain the mode of institutional change that appeared within the fiscal and economic governance structure of EMU have been identified so far. As veto positions to a major Treaty reform a very strong and the Treaty provisions themselves do not allow for alternate interpretations, institutional change had to be achieved by establishing a new layer alongside the existent one. The third independent variable is of course the financial crisis and the sovereign debt crisis. If financial markets were to function normally and the imbalances within the Eurozone had not caused market distrust, it would very unlikely that EMU would have been transformed in the way it had been. Without financial market distrust, all Member States would most likely still be able to refinance themselves, thus there would have been no necessity to create bailout funds. Likewise, market trust would have been interpreted as a proof for the sustainability of EMU's fiscal and economic governance structure. Thus, the euro crisis set in motion the whole reform process, whereas the institutional features of EMU budgetary and economic policy coordination defined the form that development took, namely layering.

Again, all three independent variables are necessary to explain the kind of institutional change that took place within EMU's institutional set-up during the euro crisis. But to sufficiently explain its content, the ideas the most important policy-makers must be analysed. The content of the new layer clearly follows the monetarist policy paradigm. Financial assistance from the bailout funds is conditional on strict austerity measures and structural reforms, the coordination mechanisms demand balanced budgets, structural reforms, and efforts to increase competitiveness. According to the monetarist doctrine, these measures are the only way to restore growth and to regain the market's confidence: the crisis was caused solely by political failure and not by economic developments beyond political control, thus it must be solved by determined political action. The market is usually seen as the best arbitrator to judge failure or success. Thus, in the following, some government declarations or speeches of the Heads of State/Government and the Finance ministers of three big Eurozone countries, namely Germany, France, and Italy will be analysed, in order to extract the most important ideas they had on the organisation of financial assistance and economic governance during the euro crisis, and how the spirit of the new layer was influenced by them.

Starting with Germany, Chancellor Angela Merkel has always been quite reluctant to the establishment of bailout funds or mutual assistance (Spiegel Online 2010b). In May 2010 she stated with regard to financial assistance to Greece that any support must be based on four principles: first, debt reduction in the supported state, second, the IMF must be involved, third,

inability to obtain funding from market, and fourth, Union assistance must be the last resort to maintain EMU. (Merkel 2010a). In a declaration concerning the EFSM/EFSF, she said that she wanted all European countries to adopt a “stability culture” with sound fiscal policy, and opposed any kind of automatic transfers (“Transferunion”) because it would reduce incentives for consolidation. She considered this to be enshrined in the EFSM/EFSF agreement, which foresaw an adjustment programme and left control over the provision of assistance with the Eurozone states. She defined high debt levels as the cause for the crisis. She also demanded denser economic policy coordination and a sharpening and stricter enforcement of the SGP, as well as the inclusion of the stability culture – which had proven its value in Germany – in the Europe 2020 strategy. She emphasized her willingness to preserve the euro, which she saw as the protection of the European idea (Merkel 2010b). In March 2011, the Chancellor called EMU the core of European integration, which was indispensable and served German interests. With regard to the reform of EMU, she called for more stability, improved competitiveness and a balance between solidary and individual responsibility. To that end, she welcomed the strengthening of the SGP and EDP and the introduction of the sanctioned excessive imbalance procedure. Additionally, she emphasized the necessity of structural reforms to strengthen competitiveness as laid down in the Euro Plus Pact which was initiated by Germany. Merkel also welcomed the ESM and its new legal basis for it, stressing that assistance was strictly conditional on tough adjustment efforts of the benefitting state and that it provided for private sector involvement. She also rejected any common liability for the debt of other Member States (Merkel 2011a). During negotiations concerning the ESM, Merkel pledged for private sector involvement in case of a debt restructuring to be enshrined in the ESM treaty (Bloomberg 2011a). In December 2011 she approved the new instruments of the EFSF/ESM. She also welcomed the agreement on her proposal on the TSCG, which she sees as a first step towards a “stability union” in which fiscal rules become legally binding. Again she stated that the crisis was caused by high sovereign debt, which was the result of mistakes in the set-up of EMU. She considered these shortfalls to be addressed by the TSCG. Merkel also called for the generation of sustainable growth in the Eurozone without additional borrowing (Merkel 2011b). In June 2012, she rejected proposals in the report on the future of EMU on common debt issuance and a common budget of the Eurozone, stating that this kind of common budgetary accountability inappropriate and would have to come with stronger mutual budgetary control (Merkel 2012a). She also strongly approved the conditionality of the ESM, which grants financial assistance only to Member States who have ratified the TSCG with its strict fiscal rules (Merkel 2012b).

With regard to France, it was then-President Nicolas Sarkozy who initiated the establishment of a stabilization mechanism in May 2010. While he had first pledged for Eurobonds, he later proposed the introduction of large stabilization funds (Der Spiegel 2010). He welcomed the funds, stating that they would help to fight against financial market speculation. He approved the strengthening of the SGP and called for a “gouvernement économique” of the Eurozone. He also expressed his willingness to reduce public spending and to implement structural reforms in France, in order to regain competitiveness (Sarkozy 2010). He embraced the functioning of the bailout funds, which provide financial assistance only against adjustment efforts. He also welcomed the leverage of the EFSF in 2011, which increased the fund’s lending capacity. He called for greater economic coordination of the Eurozone and appreciated the

sanctioning of excessive deficits or economic imbalances (Sarkozy 2011a). He stated that France and Germany would never let the Eurozone break up, as the single currency was one of the most important symbols of European integration (Sarkozy 2011b). Sarkozy demanded closer coordination of fiscal and economic policies to achieve greater convergence and competitiveness (Sarkozy 2011c).

Prime Minister François Fillon also called for a *gouvernement économique* of the Eurozone's leaders, established as a permanent institution to organize the euro area's economic policy and to withstand speculative attacks (Fillon 2010a). He also stated that the euro crisis was caused by too high sovereign debt levels resulting from the financial crisis. He welcomes the stabilization funds which he sees as a proof of European solidarity and consensus. He also approves a reform of the SGP and higher sanctions. He stated that the Euro was irreversible and advantageous for Europe (Fillon 2010b). For France, Fillon sees a necessity to reduce its deficit and increase its competitiveness in line with the Euro Plus Pact, in order to realign the French economy with the German economy (Fillon 2011). France also pledged, against German reluctance, for providing the EFSF/ESM with new instruments like precautionary assistance or bond purchases, which was realized in July 2011, bringing the funds closer to a "European Investment Fund" (Spiegel Online 2011c). François Baroin, French Finance Minister in 2011/2012, welcomed together with his German colleague Wolfgang Schäuble enhancement of the EFSF's/ESM's lending capacity by introducing new instruments, in order to avoid contagion of market distrust from Greece to other peripheral Eurozone states (Baroin/Schäuble 2011). While he was then talking of precautionary programmes, bank recapitalizations and secondary market purchases of sovereign bonds, he later called for the involvement of the ECB in the extension of the EFSF, by giving the stabilization fund a banking license which would allow it to receive funding from the central bank (Bloomberg 2011b). This was clearly against the German position, which feared an increased risk exposure of the ECB. Likewise, Baroin pledged for an increase of the combined lending capacity of the two bailout funds EFSF and ESM to one trillion euros for a transitional period, which the German Finance Minister rejected (Spiegel Online 2012d).

In 2012, the newly elected French President François Hollande stated that he wanted to renegotiate the TSCG in order to include a growth component. He also demanded Eurobonds (Der Spiegel 2012). The growth component was later decided by the European Council as the Growth Pact. He called (together with his Spanish colleague) for stronger coordination of economic and budgetary policies based on "solidarity". To increase solidarity in the Eurozone, he pledged for more risk-sharing and communitarization (Hollande/Rajoy 2012). French Prime Minister Jean-Marc Ayrault called the Growth Pact indispensable for Europe to return to growth and argued that Europe needed a "reorientation" of its strategy towards growth. He welcomed the relaxation of the conditions for the use of the EFSF/ESM instruments agreed in June 2012, which he considers indispensable for the stabilization of the Eurozone and the return of investors' confidence (Ayrault 2012a).

Regarding Italy, then-Prime Minister Silvio Berlusconi supported the French initiative to set up a large bailout fund in May 2010 (Der Spiegel 2010). He also was, together with Sarkozy, one of the first to support the granting of bilateral financial assistance to Greece (Spiegel Online 2010b). Then-finance minister Giulio Tremonti criticized Germany for its reluctance to provide

financial assistance to Greece (Spiegel Online 2010c). In December 2010, Tremonti pledged (together with Luxembourg Prime Minister Jean-Claude Juncker) for the introduction of Eurobonds, issued by a European Debt Agency. About half of the Eurozone's debt should be issued in Eurobonds. They argue that a partial communitarization of debt issuance would improve market access of highly indebted Member States without leading to moral hazard (Juncker/Tremonti 2010). Tremonti however also accepted significant fiscal consolidation efforts for Italy (Spiegel Online 2011a).

Mario Monti, who became Prime Minister in Italy in 2012, stated that he approved budgetary discipline and strict fiscal rules. Equally, he argues for structural reforms, e.g. of labour markets or pension systems. But he also demands more room for public investment within the budgetary rules, and favours Eurobonds, that is, common debt issuances by Eurozone states (Monti 2012a). In January 2012, Monti pledged for an extension of the ESM's volume to one trillion euros and again called for the introduction of Eurobonds (Spiegel Online 2012b). He successfully argued for a more flexible use of the EFSF/ESM instruments (especially primary market purchases of sovereign bonds) on the Euro Summit in June 2012, against German resistance. The EFSF/ESM may now intervene in favour of Member States complying with the SGP without conditions such as an adjustment programme (Spiegel Online 2012c). Monti also implemented an ambitious austerity and structural reform package in Italy in 2012, and stated that reforming the economy and fiscal discipline was most important for the highly indebted Eurozone states to resolve the crisis. According to him, this "will allow them to emerge stronger, grow again and create jobs" (Monti 2012b). However, he also argued for counterbalancing the austerity measures of the periphery at the European level by rendering the stabilization tools more effective and by supporting growth and employment. Otherwise, he feared, the peripheral economies would get trapped in a "vicious circle" where austerity measures lead to lower growth and consequently to lower state revenues and higher debt, which would again demand stronger austerity measures (Monti 2012d: 238).

When regarding the Eurozone's policy-makers statements and positions, it becomes clear that they had varying perceptions of how the crisis would have to be resolved properly. They agreed only on the continuity of the Euro, perceiving the abandonment of the common currency as a failure of the process of European integration itself. Thus, the break-up of the euro was never an option for them. This idea of the euro as a symbol for European integration helps to explain sufficiently why the euro persisted despite huge adjustment pressures and bailout risks.

Perceptions on how to save the euro however were quite different. Two different points of view started to emerge during the euro crisis, one advanced by the core countries around Germany and the other by peripheral countries around France and Italy. Germany was quite reluctant to any kind of financial assistance to other Eurozone countries (there were even plans to throw Greece out of the Eurozone). When it was urged by other states to provide bilateral loans to Greece and to contribute to the EFSM/EFSF, it only did so on several conditions. The conditions aimed at keeping the risk and accountability of Germany low, e.g. by involving the IMF, by making any provision of assistance dependent on a sovereign decision, or by demanding strict adherence to an adjustment programme from countries receiving benefit. It was also Germany which tried to bail in private investors in case of debt restructuring. It rejected any form of automatic financial assistance without mutual control of spending, be it Eurobonds or

automatic transfers of the EU level to troubled countries. Likewise, common accountability for individual countries' debt or a common Eurozone budget beyond the conditioned assistance was opposed by Germany. Germany clearly wanted the indebted states to do as much as they could to resolve their budgetary crisis by themselves. The German diagnosis of the roots of the crisis was that it was caused by political failure in the peripheral states, which did not react to negative economic developments and built up large deficits and debt levels. Thus, their recipe to solve the crisis was to demand strict austerity from the indebted countries to regain their competitiveness, meaning large spending cuts and structural reforms. Only if they accepted the austerity path, they could count on financial assistance from the stabilization funds. To better control each other's spending and economic policy Germany argued for a much denser coordination of policies and a much stricter application of budgetary rules. The strengthened coordination aimed at imposing Germany's "stability culture" – fiscal soundness and competitiveness – to the rest of EMU. "Stability" was seen as a solution to the debt crisis and a means to avoid further bailouts.

The other group of countries, notably France and Italy, pledged for stronger communitarization of debt and spending from the very beginning of the crisis. They initiated the support for Greece and the establishment of the stabilization funds. Constantly, they also demanded the introduction of Eurobonds, which would mean a common accountability for a part of the Eurozone's debt issuance. France also promoted its "gouvernement économique", which was meant to be a common intergovernmental institution planning the Eurozone's economic policy. The instruments of the bailout funds EFSF/ESM was also broadened on French initiative, leading potentially to a greater communitarization of debt. France even wanted to go further, by enabling the funds to receive ECB funding. France and Italy did not see high debt levels as the sole cause for the crisis, even if they acknowledged that debt and deficits had to be reduced. They also perceived market irrationality and contagion as drivers of the euro crisis, and therefore asked for more flexible and larger stabilization mechanisms and common debt issuance. The former conservative governments of France and Italy were not opposed to structural and fiscal reforms, but their successors were more sceptical to the superiority of the austerity recipe. Hollande and Monti joined the calls for more solidarity at the European level, such as Eurobonds. But they also asked for more public investment to foster growth and employment. While they may deem some structural and fiscal reforms a necessity to render their economies competitive again, they also share the perception that austerity leads to contraction of the economy and therefore must be counterbalanced by public investment at the EU and national level.

These ideas can explain the specific shape the new European layer of fiscal and economic policy assumed. The idea of solidarity and common accountability was strongly promoted by the countries around France and Italy, and its successful implementation led to the establishment and development of the stabilization funds. The "German" ideas of individual responsibility and of the superiority of the stability culture led to the strong conditionalization of financial assistance and the enhanced mutual control of fiscal and economic policy.

Due to the particular power constellation, the institutional change was particularly shaped by German ideas on how to solve the crisis. Accordingly, no Eurobonds or automatic transfers were introduced, and the Growth Pact is rather weak. As Germany contributes the largest share of financial assistance in absolute terms, the bailout funds would not work without it. Thus,

leaders of the peripheral states and France accepted the austerity doctrine and the stability culture in return for the stabilization mechanisms. In fact, the monetarist idea of adjustment by austerity had already been enshrined in the Maastricht Treaty and the fiscal rules when EMU was created. These institutional rules constrained the Eurozone government's spending opportunities, while at the same time monetary policy competence was given to an independent central bank focussing on price stability. If, in such an institutional setting, one country faces a negative economic shock such as the euro crisis, it would have no means to counteract the crisis by fiscal expansion, at least if it is already indebted and if there are no supranational transfers. Equally, it cannot react with currency devaluation to regain competitiveness. Thus, that country would have to choose the path of internal devaluation, meaning a reduction of internal price levels by cutting public spending and wages and introducing structural reforms (Krugman 2012). Given that Germany was not willing to abandon independent monetary policy or to establish a large Eurozone budget with automatic transfers, it was quite likely that the new layer would be marked by the idea of austerity as a means to resolve the sovereign debt crisis. This is an example of how ideas which had been institutionalized in the past shape future institutional development. The "Keynesian" ideas of irrational markets and public investment to counter economic contraction promoted by France and Italy never had much chance to be imposed.

Mahoney and Thelen suggest that the mode of institutional layering may often come with a specific type of change agents, the subversives. Subversives want to replace existent institutions, but do not oppose it openly. They rather obey the institutional rules, while at the same time trying to establish new rules alongside the old ones, hoping that the latter may gradually lose support (Mahoney/Thelen 2010a: 25f.). After the assessment of the policy-makers' ideas it becomes clear who the change agents were. With regard to the stabilization funds, it were clearly the peripheral states and France who wanted to change the existent institutional structure. They pledged for much greater communitarization of debt through Eurobonds, for large fiscal transfers, and a flexible use of the stabilization tools. Other countries, notably Germany, were defenders of the status quo. Thus, the old structure could not be abandoned easily, and the change agents who wanted a larger supranationalisation of fiscal policy pursued the strategy of layering in order to achieve their goals partly. Regarding economic and fiscal coordination, mainly Germany was a change agent: it tried to impose its stability culture in the Eurozone and demanded strict austerity for any financial assistance. The easiest way to do so was to ask for a new European coordination layer inspired by these ideas.

EMU's change agents, however, correspond to the category of subversives only partly. They certainly did introduce a range of new rules on top and alongside the old ones, which have already started to rule into the existing institutional structure. However, even in the long run it cannot be claimed that they want to abolish the old structure outright. Rather, they want the Europeanization of fiscal and economic policy only to the extent necessary to maintain the monetary union, i.e. to obtain a certain amount of control over each other's budgets and policies and to have a common stabilization fund to share the burden of the debt crisis. They may be described as subversives only to some extent as they introduced the new European layer in a step-by-step approach, often disguising the real influence this layer may obtain in the long run. They behaved subversive, because they did not always lay open that Europeanization may become greater than could be seen on the surface, even though they did not want to abolish the



old structure. But the change agents and their strategy can be seen as an intervening variable which further contributed to the establishment of a new layer: due to constraints from earlier institutional decisions, they had to act alongside the existent institutional structure in order to produce institutional change.

### **4.3 Reforming the system of financial supervision**

Already during the financial crisis of 2008/09 EU policy-makers decided to improve the coordination of their national financial supervision authorities, in order to increase their capability to detect and address cross-border risks to financial stability. However, during the euro crisis, new threats to financial stability emerged, resulting from close interdependence between Eurozone states and their banking sector. These threats required a new governance structure at least within EMU, which went far beyond the previous one. In the following, the reform of the European financial supervision during the financial crisis will be described shortly, followed by an examination of the progress of financial supervision governance within EMU during the sovereign debt crisis.

#### *4.3.1 Reaction to the financial crisis*

The new European System of Financial Supervision consisted of three new European Supervision authorities (ESAs), the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA), and the European Insurance and Occupational Pensions Authority (EIOPA). Additionally, a European Systemic Risk Board (ESRB) was established. The ESAs replaced the existent Committees of national authority representatives.

The EBA was set up by Regulation 1093/2010 of the European Parliament and the Council and is based in London. Its rationale was to intensify coordination of financial supervision of banks, enhance mutual trust between the national authorities, and to ensure equal application of EU law, in order to properly address the dense financial integration of banks within the single market and the risks that may occur from it. Its tasks are, inter alia, to contribute to common supervisory standards, banking regulation, and homogenous application, to recommend best practices, to analyse market developments, and to foster harmonization with regard to systemic risk monitoring, bank recovery or resolution plans, depositor and investor protection. To that end, the authority may draft technical standards and issue recommendations to the national authorities or opinions to EU bodies. Its recommendations are inly binding if the authority concerned does not comply with EU law, in an emergency case, or in case of disagreement of national authorities. If the national bodies fail to comply, the EBA may address binding decisions directly to financial institutions. It may also prohibit or constrain specific financial activities temporarily if they threaten financial stability. However, no decision may question the Member States' fiscal responsibility. In order to contribute to the coordination of supervision, the EBA may collect information and carry out supervision activities and stress tests

of financial institutions. It may also assess the systemic risk of the financial system or of individual banks.

It is governed by the Board of Supervisors, consisting of a Chairperson, representatives of national supervisory bodies and observers from other EU institutions meeting at least twice a year. It takes all decisions related to the EBA's tasks, by simple or qualified majority. The EBA is administered by the Management Board, consisting of six voted Members of the Board of Supervisors and the Chairperson. The Chairperson prepares all meetings and chairs both bodies. An Executive Director is responsible for the daily management of the EBA. Finally, the EBA is advised by a Banking Stakeholder Group. It has a Board of Appeal together with the other ESAs providing legal advice.

Additionally, a Joint Committee of European Supervision Authorities was established to coordinate their work, consisting of the Chairpersons of the ESAs, representatives from the ESRB, the Commission, and ESA-Sub-Committees (Regulation 1093/2010 of the European Parliament and of the Council).

The ESMA has basically the same tasks as the EBA concerning securities. Thus, it should contribute to the coordination and harmonization of the supervision of securities within the EU and ensure equal application of related EU law. It may inter alia propose common technical standards for supervision, foster consumer protection, and issue guidelines or opinions. Its decisions are only binding for national supervisory authorities in the cases described above. The ESMA also collects information and organises cooperation and peer reviews between the national supervisory bodies. It also carries out stress tests of financial market participants and supervising activities concerning securities markets, and monitors systemic risk. Its governance structure copies the EBA's structure (Regulation 1095/2010 of the European Parliament and of the Council).

Similarly, the EIOPA is charged with the coordination of supervision and regulation of the insurance sector and occupational pensions. It manages cooperation in its field with the same tasks and competences as the two other bodies, and has an identical governance structure (Regulation 1094/2010 of the European Parliament and of the Council). All three ESAs were established on 1 January 2011.

The ESRB was charged with the macroprudential surveillance of the EU's financial system, in order to impede or address systemic risk coming from it. The ESRB collects all necessary information and may issue warnings or recommendations with regard to systemic risk to the Union as a whole, the ESAs, the Member States or their supervisory authorities. It may also address the Council. The addressees have to inform the ESRB and the Council on the actions taken in response to warnings or recommendations. The ESRB may also decide to publish its decisions. It coordinates its actions closely with the ESAs and international institutions. It is governed by a General Board, taking all decisions, and a Steering Committee, preparing the Boards work. They are supported by a Secretariat and two advisory Committees for scientific and technical issues. The ESRB is chaired by the President of the ECB which leads the meetings of the General Board and the Steering Committees, and has two Vice-Chairs. The General Board consists of the President of the ECB, all national central bank presidents, a Member of the Commission, the Chairpersons of the ESAs and of the Advisory Committees. Representatives of the national supervisory authorities and the President of the EFC may take part without voting

right. The structure of the Steering Committee is similar (Regulation (EU) No 1092/2010 of the European Parliament and of the Council).

In sum, while coordination had been improved and a common oversight body had been established at the EU level, banking supervision still lay mainly in the hands of national authorities. It was their task to supervise, control, and to close insolvent financial institutions. The European authorities have only very limited rights to rule into national decision-making. Thus, changes to the EU's institutional structure with regard to financial supervision had only been marginal.

#### *4.3.2 Towards a banking union: common financial supervision for EMU*

The idea to communitarise the supervision of the banking sector came up in 2012, when it became apparent the many of the euro area states in financial troubles were deeply intertwined with their financial system. During the financial and the sovereign debt crisis, the interdependence between states and their banks led to vicious circle, where troubled banks had to be recapitalized by their governments, which in turn built up large deficits. The following mistrust of investors on the states' solvency led to decline of sovereign bond prices, which required balance sheet adjustments on behalf of the banks, which were the main holders of government bonds. This mutual destabilization induced ever greater funding problems of states and banks, and therefore significantly increased the probability of their default. The rationale behind a common supervision system was to break this vicious circle, by lifting bank supervision, recapitalization and restructuring to the EMU/EU level.

In their report on the future of EMU of June 2012, the Presidents of the European council, the Commission, the ECB and the Eurogroup recommended the establishment of an integrated financial framework within the EU/EMU. To that end, they proposed the set-up of a single European banking supervision and a common deposit insurance and resolution framework. Supervisory powers should be given to the European level, preferably the ECB. A common deposit guarantee would add a "European dimension" to the national deposit insurance systems. A common resolution scheme would be funded by and applied to all banks supervised by the European authority. For both schemes, the Presidents suggest a financial backstop by the ESM (President of the European Council 2012a: 4f.)

Euro area leaders acted partly on these suggestions. On the Euro Summit of 29 June 2012, they decided to weaken the destabilizing interdependence between banks and states by establishing a Single Supervising Mechanism (SSM) on the EMU level, as a precondition for allowing for direct recapitalizations of banks via the ESM. Direct bank recapitalizations by the stabilization fund would avoid an increase of sovereign debt if a bank bailout was necessary. The ECB should be involved in the SSM (Euro area Heads of State and Governments 2012).

On 12 September 2012, the Commission published its proposal on the SSM. It suggested that a major share of macro-prudential supervision of Eurozone banks should be transferred to the ECB. National authorities would prepare and implement ECB decisions, and would have to follow its instructions. Non-euro-area states were foreseen to also participate in the SSM, if they declared to comply with ECB instructions. Its supervisory tasks should be separated from

monetary policy tasks. A Supervisory Board would carry out the ECB's supervisory tasks (European Commission 2012).

Finally, the Ecofin Council decided upon the establishment of the SSM on 13 December 2012. According to its decision, the ECB would, assisted by national authorities, be charged with the authorizing and withdrawing authorization of banks, assessing banks' holdings, controlling compliance with EU laws on capital requirements and banking activities, assessing the appropriateness of the banks' management and risk coverage and imposing additional requirements, conducting supervisory reviews and stress tests, supervising cross border bank holdings, and intervening if banks fail to meet requirements. To that end, the ECB would be able to issue guidelines and recommendations, and to take decisions. It also would have the right to demand higher capital buffers and stricter measures from financial institutions than national authorities.

The SSM will consist of the ECB and national authorities. The ECB would be responsible for all significant financial institutions in the Eurozone, that is, those whose total assets are worth more than € 30 billion, or whose total assets amount to more than 20 per cent of their state's GDP. Additionally, banks may be declared significant by the ECB upon request of national authorities, especially when the share of the bank's cross-border assets and liabilities is large. It is also responsible for all banks being subject to direct financial assistance from the stabilization funds, and in general for the three most significant banks in each Member State. The ECB may address instructions to national authorities or control institutions directly. EU states which have not adopted the euro may decide to cooperate closely with the SSM, if accepting ECB instructions to their national authorities.

The ECB should be allowed to demand any information needed from national authorities and carry out investigations and on-site inspections of financial institutions, the latter approved by a judicial authority if necessary. National authorities may assist and participate in the inspections. The ECB may also impose sanctions on financial institutions not complying with the relevant EU law.

The agreement foresees independent action of the ECB, but also accountability to the European Parliament, the Council, and the national parliaments on a regular basis or on request.

Finance ministers also agreed upon a strict separation between the ECB's monetary policy and supervisory tasks. Both tasks should be carried out by different staff. The Governing Council of the ECB should have different agendas and meetings with regard to both tasks. A Supervisory Board, consisting of four representatives of the ECB and representatives from all national authorities, a Chair, and a Vice-Chair from the Executive Board of the ECB, will execute the supervisory tasks of the ECB. It takes its decisions by simple or qualified majority, which are then passed on to Governing Council. They are considered approved unless the Governing Council rejects them. The ECB should take over Eurozone financial supervision by March 2014 (Council of the European Union 2012b).

The European Council approved the institutional set-up of the SSM, and called for a rapid agreement on the proposal for the Recovery and Resolution Directive and the Deposit Guarantee Scheme Directive. However, it also demanded the Commission to present a proposal on a single resolution mechanism for all Member States taking part in the SSM, in order to ensure financial stability, and to resolve banks orderly without overly reliance on taxpayers' money. It

should focus on assistance from the financial sector. Thus, bank resolutions in the Eurozone should not only follow common rules, but should be carried out by a common authority (European Council 2012c).

It is unclear how the single resolution mechanism would look like. The Presidents of the European Council, the Commission, the ECB and the Eurogroup recommended in their report on the development of EMU of December 2012 the establishment of such a common mechanism, which would be executed by a single resolutions authority. Within bank resolutions of banks supervised by the SSM, the shareholders and creditors would be bailed in and the banking sector would contribute through a support from European Resolution Fund financed by the banks. The single resolution authority would be financially backstopped by the ESM (President of the European Council 2012b: 6-8) Plans to europeanize national deposit guarantee schemes seem not to be developed further at the moment.

#### *4.3.3 A European layer for financial supervision in EMU*

It is not clear yet how the SSM will work in practice, that is, how much responsibility will be taken over effectively by the ECB and how much of the day-to-day supervision will still be done by national supervisory authorities. However, the establishment of the SSM certainly constitutes a new layer of financial supervision in EMU.

All large banks, all large banks with cross-border activities and all banks that will receive ESM assistance in the future will be supervised directly by the ECB, or indirectly by instructions from the ECB to the national supervisory authorities. The national authorities will keep their responsibility for smaller banks, which presumably do not constitute a potential risk to financial stability within EMU. A part of the responsibility for bank supervision has thus been transferred to the European level. Thus, the old institutional structures are not abandoned fully, but remain in place, while a new European layer is added. With regard to macroprudential oversight over the Eurozone's financial stability, the European layer is now particularly strong: not only are the three ESAs and the ESRB constantly monitoring it, the ECB as the new single supervisor for large banks will also have a real oversight over the euro area's financial system quite independently from national authorities.

If a common resolution mechanism and common deposit insurance will be introduced, they are likely to also constitute an additional layer instead of replacing the national structures outright, as they would most likely only be applied to banks under the SSM.

#### *4.3.4 Establishing a new layer for financial supervision: how was it possible?*

##### *4.3.4.1 Power implications*

The model on explaining institutional change presented above claims that one cause for institutional change are the power implications with regard to existent institutional set-up,

measured by the extent of veto possibilities. Thus, it must be examined if veto possibilities to a change of the original institutional structure are weak or strong (Mahoney/Thelen 2010a: 7-10).

The institutional structure of financial supervision within EMU is an example for a “lock-in” of long established rules. Financial supervision had always been carried out by national supervisory authorities (including national central banks), while the European level never had much influence. Thus, national authorities had obtained an in-depth knowledge of their country’s financial system and its needs and risks, and had developed sophisticated methods to supervise them. To outright abolish these institutions would on the one hand have come at very high costs, as a new central supervision authority could never obtain the required knowledge within a short time frame. This might have led to control gaps or inadequate supervisory decisions. On the other hand, leaving these institutions in place becomes increasingly profitable, as they can rely on their growing experience, especially during the financial crisis. Here, a path-dependent development can be observed. This is mirrored by the ESAs, which introduce an enhance coordination structure and very limited intervention opportunities of the new European bodies, but which do not question the overall responsibility for supervision of the national authorities.

Veto possibilities with regard to an abandonment of the Member-State-based financial supervision structure within EMU were accordingly rather strong. All Eurozone governments and parliaments would have to agree, and national supervisory authorities would also be involved. It can be assumed that not all Eurozone government wanted to replace their national supervisory bodies with a central European one. Many EMU policy-makers also did not want to lose their influence on some of their country’s medium-sized banks. Holders of veto positions would also have strongly opposed a replacement, as they would have had to fear disadvantages for their financial sector. Thus, an outright abolition of the national supervisory structure was very unlikely. However, there were opportunities for institutional change. Rather than replacement, a share of competences between a common supervisory body and the national authorities was likely, as it appeared with the establishment of the SSM and the empowering of the ECB with supervisory tasks. This layering avoided the high costs of a replacement, but however also constitutes a major change to the institutional structure of financial supervision in EMU. The overall financial stability and the supervision of the most important financial institutions are now the responsibility of the new single supervisor, the ECB. Potential veto holders could not prevent this kind of change. The layer of national supervision is still in place, while it is completed by a European layer, responsible for the supervision of the most important banks. It seems as if the new layer will be rather strong, but it remains to be seen how much it will effectively rule into the old one.

#### 4.3.4.2 Compliance requirements

Institutional change may also be explained by the compliance requirements inherent to an institution. These requirements can be strong or weak, thus allowing for rather low or high implementation or enforcement gaps within institutions which can be exploited (Mahoney/Thelen 2010a: 10-14).

There has not been much room for reinterpretation of the original institutional set-up of financial supervision in EMU. Financial supervision was clearly the responsibility of the national authorities. The early coordination committees of national supervisors or the ESAs created in 2010 had no real opportunity to rule into national decision-making. It was impossible for them to supervise banks or require them to introduce additional measures by bypassing the national bodies. The ESAs had a small ambiguity gap, as they obtained the right to impose instructions on national authorities in some limited cases. However, they were still highly dependent on the national bodies' cooperation with regard to information and enforcement. Thus, strong compliance requirements were strong, demanding strict adherence to the distribution of competences, which only foresaw coordination tasks for the European level. Any institutional change could thus not be implemented by questioning the old rules, but rather by circumventing them. According to Mahoney and Thelen, compliance gaps can emerge where the institutional rules created in the past turn out to be insufficient to address current developments. In this case, institutional change “to accommodate the new reality” may take place through “rule creation” (Mahoney/Thelen 2010a: 11). This is what happened to financial supervision governance in EMU: the system, based on national competences, did not provide for a solution of the interdependence problem of Eurozone banks and their sovereigns. Thus, decision-makers created some new rules, establishing the SSM, without however completely abandoning the old, locked-in system. Change agents could reasonably argue that some changes to the original institutional structure were needed in order to address newly emerged challenges, while defenders of the status quo could argue for the increasing returns of the old system. The easiest institutional change in this setting was to introduce a new European layer on top of the old financial supervision system.

#### 4.3.4.3 Change agents and their ideas

The three independent variables, that is, financial market distress, power implications, and compliance requirements within the institutional set-up of banking supervision, are all necessary variables to explain the institutional development of EMU financial supervision. They can explain why the strategy to change the old system was layering. But in order to explain the specific content of supervision reform, the ideas of EU policy-makers have to be assessed. To that end, statements and declarations of the Heads of State or Government or the ministers of Finance of three important Eurozone countries – Germany, France, and Italy – will be explored.

With regard to Germany, Merkel declared the establishment of a common supervision a prerequisite for direct recapitalization of banks by the ESM, and spoke out in favour of the ECB as common supervisory authority (Merkel 2012b). Finance minister Wolfgang Schäuble pledged for a strict separation between monetary policy and supervisory tasks, thus the Governing Council should not take final decisions. He also rejected plans to put all Eurozone banks under the control of the new SSM (Spiegel Online 2012a). He wanted only the largest banks to be supervised by the ECB. Germany also tried to delay the final decision on the SSM, as it was sceptical towards direct bank recapitalizations by the ESM. Schäuble stated that the decision on the SSM could not be taken quickly, and that additional measures were necessary to allow for

direct bank bailouts of the ESM (Financial Times Online 2012b). Schäuble especially was against the supervision of small, public German banks, and doubted that a European body would be capable to supervise all 600 banks of the Eurozone properly. He also stated that Treaty amendments would be necessary to separate between the ECB's tasks (Financial Times Online 2012c). Germany was particularly concerned that the independence of the ECB would be questioned if it took over supervisory tasks, for example if monetary tightening is delayed because of the weakness of the banking sector (Spiegel Online 2012e).

French President Hollande, on the opposite, favoured a single supervision for all Eurozone banks carried out by a common authority consisting of national supervisors. He called for a quick decision on the SSM, in order to allow for the possibility recapitalize banks directly via the ESM which would end the mutual destabilization between sovereigns and their banking systems (Hollande/Rajoy 2012). Ayrault welcomed the introduction of a SSM for all banks of the Eurozone, and strongly pledged for the ECB to become the single supervisor. He called the interdependence between banks and indebted sovereigns a vicious circle which must be broken by direct recapitalization from the ESM (Ayrault 2012a).

French Finance Minister Pierre Moscovici accordingly welcomed the SSM and argued for a complete shift of decision-making power to the ECB, and for a common supervision of all Eurozone banks (Moscovici 2012a). Moscovici also demanded a rapid decision on the SSM, stating that it was urgently needed to solve the problems of banks and states (Financial Times Online 2012b).

Italian Prime Minister Monti also called for the rapid establishment of the SSM and welcomes the related capability of the ESM to recapitalize Eurozone banks directly (Monti 2012c). In fact, it was mainly him who pushed through the direct recapitalization of banks by the ESM. For this, he accepted the establishment of a single supervisor at the European level (Spiegel Online 2012f). Italian Finance Minister Vittorio Grilli stated that the establishment of the single European supervision was a major precondition to solve the crisis (Council of Foreign Relations 2012). In order to complete the monetary union, to stabilize the euro, and to break the destabilizing interdependence between banks and sovereigns, a full banking union must be set up according to him (Grilli 2012).

The change agents that are likely to appear in institutional settings with strong veto positions and low ambiguity, such as the financial supervision system in the EU before the crisis, are subversives. Following the theory, subversives want to abolish the existent institutional structure, but do not openly oppose them. Rather, they establish new institutional rules alongside the old ones, with the intention of gradually phasing out the latter (Mahoney/Thelen 2010a: 25f.). The analysis of policy-makers' ideas has shown that the main drivers of institutional change were the representatives of the peripheral states together with France. In order to be able to shift responsibility for their – partly highly indebted – banks to the European level, they pledged for the establishment of the SSM. Once a single supervision is set up, the way not only to direct bank recapitalizations of the ESM, but also to a common deposit insurance and a common bank resolution fund was paved. This would mean a decoupling of banks from their sovereigns and decreasing funding costs for the latter. Thus, they argued for a comprehensive supranationalization of banking supervision. The change agents from the south were not really subversive during negotiations; they opposed the existent, nationally fragmented system quite



openly. But they accepted the introduction of new rules without abandoning the old ones, and might try subversively to undermine the old structure in the future.

On the contrary, Germany was rather a defender of the status quo. While it could not prevent direct bank recapitalizations by the ESM, it could delay them, by asking for the SSM. Also, Germany wanted to prevent the supervision of all banks by the ECB, not only because it doubted its capabilities to so, but also because a possible future deposit insurance and resolution fund would then also be restricted to the largest banks. Thus, German accountability for other states' banks would remain limited. These different ideas can explain the content of the new European banking supervision system, which adds a European layer to the existent national one.

## 5. Conclusion

Between 2010 and 2012, only ten years after its establishment, EMU suffered a devastating sovereign debt crisis, which put its continuity at risk. However, other than many of its critics predicted, the Eurozone survived, and did not lose one of its Members. Others might have hoped that EMU would turn into a veritable currency union with a full-fledged political union, but EMU did not follow this path equally. Instead, in the three main fields of monetary policy, fiscal and economic policy, and financial supervision, EMU underwent a gradual transformation, establishing new institutional features but leaving some of the original rules in place.

When the monetary union was built up in the 1990, it obtained a distinctive institutional set-up. With regard to monetary policy, the new European Central Bank was designed after the model of the German Bundesbank. Accordingly, it was highly independent from politics, its superior mandate was to maintain price stability, and direct state financing was forbidden. While monetary policy was strongly supranationalized, no such supranationalization took place for fiscal and economic policy. Instead, the competence for budgets and economic policy remained national, only loosely coordinated at the European level. Fiscal policy was coordinated by a sanctioned rule-based approach, which demanded balanced budgets and the avoidance of excessive deficits. Economic policy was only coordinated intergovernmental, without any binding commitments. Finally, macroprudential and financial supervision was the responsibility of the Member States. The original structure of EMU was strongly influenced by monetarist ideas, which demanded monetary as well as fiscal soundness.

During the sovereign debt crisis, significant changes appeared in each of the three areas. Already during the financial crisis, the ECB started to apply “unconventional” monetary policy measures, in order to calm down financial markets. During the sovereign debt crisis, these unconventional measures were significantly extended, as many Eurozone countries were threatened to lose access to financial markets and had to face very high yields on their bonds. With the Securities Market Programme, the ECB started to buy up sovereign bonds of the indebted Member States on the secondary market, and it tried to increase bank lending to sovereigns by providing as much liquidity as needed to the financial sector. However, as these measures turned out to be effective only in the short run, the ECB made its most important step in September 2012: it announced the unlimited purchase of sovereign bonds if their yields would exceed a certain, unspecified limit. This announcement was enough to dispel market distrust, and it constitutes the acceptance of a new role of the ECB: a conversion into a lender of last resort for the Eurozone governments. With this conversion, the ECB left its formal structure as defined by the Treaties in place, but it changed its spirit: away from the narrow Bundesbank model to a broader mandate which put an effective backstop to market distrust in sovereigns by acting as lender of last resort.

Likewise, changes in fiscal and economic governance appeared. When some of the euro area states, notably Greece, were threatened to default, two large bailout funds, the EFSM and the EFSF, were established. They provided temporary financial assistance to the troubled states,

which were in return forced to implement strict adjustment programmes, requiring massive fiscal austerity and structural reforms. Likewise, the coordination and mutual control of fiscal and economic policy was enhanced within the Eurozone, but also within the EU as a whole. Fiscal rules were tightened and sanctions were sharpened, control mechanisms were enhanced. Within the Eurozone, a variety of new agreements on denser cooperation of fiscal and economic policy were agreed, such as the Euro Plus Pact and the TSCG. These developments led to the establishment of a new European layer of fiscal and economic policy. While the old layer, i.e. national responsibility for the content and implementation of budgets and economic reforms, was not questioned, the new layer has a different logic. It may effectively rule into national decision-making, constituting a significant institutional development to the original set-up.

Finally, a new European layer was also added to the system of financial supervision within the euro area. While the Member States remain some competences, notably over smaller banks, the largest Eurozone banks will be supervised by a single European supervisor, the ECB. Also, macroprudential supervision of risks to financial stability is now mainly a European task.

How was this gradual development possible? Obviously, the debt crisis and the pressures from the financial markets were one reason for the reform of EMU. But this just set in motion the whole process; it cannot explain its shape. Instead, the institutional structure of EMU, as developed in the past, turned out to be decisive for the type of institutional change that appeared in three policy fields of the Eurozone between 2010 and 2012. Additionally, the concrete content of the development was marked by the ideas of the relevant policy-makers.

As the model by Mahoney and Thelen on institutional change suggested, certain types of institutional change are likely to occur in certain institutional settings. The characteristics of an institutional setting can be described by looking at its power implications with regard to veto positions against change, and the extent of compliance gaps between formal rules and their implementation.

In the field of monetary policy, veto positions to change were strong only at first sight. It is indeed difficult to change the formal frame of monetary policy, which is enshrined in the Treaties. The overall goal, price stability, has to be delivered by the ECB, its independence has to be maintained, and its instruments and operations are given. These formal requirements on the ECB's action cannot be changed. However, the ECB enjoys great independence in the conduct of its monetary policy, i.e. it can decide independently on which strategy to pursue and which instruments to use in a certain situation. Such decisions can be taken with qualified majority within the Governing Council of the ECB. Thus, with regard the implementation of monetary policy, the ECB faced no significant veto positions. Accordingly, it could use the instruments given to it in a very different way as foreseen, thereby converging itself into a lender of last resort. No Eurozone politician could prevent the ECB to apply its instruments to a different end as before. The institutional set-up therefore allowed for a certain type of institutional change, conversion, which does not require changes to the formal structure or new rules but seeks for a different enactment of the old rules. The compliance requirements of the ECB's institutional rules were also rather weak. The overall goals and instruments of the ECB were clear, but their concrete application left much room for manoeuvre to the central bankers. For example, the instrument of outright purchases was used to buy up government debt on the secondary market, and the eligibility criteria for assets were watered down in order to include sovereign bonds of

indebted states. The main refinancing operations were also used in an unprecedented manner to provide liquidity to the financial markets. Likewise, the provisions on emergency liquidity were so open that they could be used for interim financing of states. The ECB could reasonably argue that its unconventional measures did not question its independence, were no risk to price stability and did not constitute state financing. Thus, the loose compliance requirements also allowed for institutional change through conversion, that is, a different implementation of existing rules.

The institutional setting was quite different with regard to fiscal and economic policy coordination. The veto possibilities to large changes were quite high, as not only all governments, but most likely also the citizens and social partners of all Eurozone economies would have to be convinced. Given the large differences between the historically grown economies and welfare states and the legitimation problem of European level, it was unlikely that all holders of veto positions would agree with abrasive changes such as a central economic policy and a common Eurozone budget. Thus, changes to the institutional structure could only be introduced alongside or on top of the old one, not questioning the latter. Compliance requirements were also quite dense. The clear distribution of responsibilities did not offer many possibilities for the European level to rule into national decision-making, and no fiscal transfers or common fiscal policy between the Member States were foreseen by the Treaties (beyond the limited EU budget). Any changes had to be achieved alongside the old institutional structure, as the latter did not allow for changes from within. Thus, institutional change through layering was likely. The new European layer consisted of the stabilization funds and the enhanced fiscal and economic policy coordination, which did not abolish the old structure.

The institutional setting of the financial supervision system of EMU is similar. Every EU government is a potential veto holder. As the national supervision systems were quite differentiated and sophisticated, it would have been very costly to abolish and replace them, thus it was likely that veto holders would oppose such fundamental changes. Likewise, compliance requirements were strict; before the crisis, financial supervision was the competence of the Member States, the EU level had no interpretative gap which would have allowed it to rule into national supervisory decisions. Thus, any institutional change had to be promoted alongside the old structure, notably through layering. The new European layer of banking supervision does leave some of the responsibility to the national level.

Important for the distinctive development of EMU between 2010 and 2012 is also the degree of political agency. They adapted their change strategies to the institutional setting they found, leading to an “opportunistic” change strategy within monetary policy and a “subversive” change strategy in the field of fiscal and economic policy and financial supervision. More important, with their ideas on how to solve the crisis, the political actors of the Eurozone shaped the concrete content of EMU reform during the crisis. While the different types of institutional change of EMU’s institutions were influenced by EMU’s original set-up, the specific spirit of each of these changes was caused by the policy-makers’ ideas. Concerning monetary policy, the majority of central bankers gradually adopted the idea that the ECB had to be turned into a lender of last resort for the whole financial system if they wanted their monetary policy decisions to work. They did not abandon their monetarist perceptions, but they dismissed the Bundesbank idea of a narrow central bank mandate focussing on price stability only. Instead, they shaped the

ECB's conversion, by implementing the idea of a broader mandate which would establish the ECB as the only effective backstop against market speculation.

Regarding fiscal and economic policy coordination, two different ideas on the causes for and the appropriate solution of the crisis occurred. The two ideas reflected broadly the different perceptions of monetarism and Keynesianism, the former one promoted by a group of countries around Germany and the latter by the peripheral states and France. Germany saw the responsibility for the crisis lying primarily within the states concerned, and hence pledged for individual efforts to solve the crisis. It saw fiscal profligacy and failure to reform as the main causes for the crisis, thus its recipe was to impose strict fiscal austerity and structural reforms on the crisis states to increase their competitiveness. Within the coordination mechanisms, it tried to promote its "stability culture" to the other states. While the other group accepted the need for a certain fiscal consolidation, it had quite different ideas on the causes of the crisis and its solution. They pledged for a greater communitarization of budgets, in the form of stabilization funds or Eurobonds, as they saw it as the only way to withstand market speculation against the Eurozone. For them, political failure was not the only reason for the crisis, but also irrationality on the financial markets and uncontrollable economic developments. Their recipe was thus greater common accountability for debt and spending. They also started to question the monetarist austerity doctrine, and argued that only additional public investment would lead to growth and employment. These different ideas can explain the establishment, but also the specific content of the new layer consisting of the bailout funds and the enhanced policy coordination. As Germany obtained a dominant role during the negotiation process, the new layer was mainly inspired by the German stability culture. The monetarist ideas focussing on monetary and fiscal stability had already been institutionalized in the original set-up of EMU, thus their abandonment was unlikely during the crisis.

During the reform of financial supervision in the Eurozone, ideas on how to organize it were also differentiated. When Germany had to accept that direct recapitalization of banks by the ESM were necessary to solve the banking crisis, it demanded a single supervisory mechanism as a precondition, in order not to lose control over the ESM resources. But it wanted to restrict common supervision to the largest banks, as it doubted the ECB's capability to supervise all 600 Eurozone banks, feared a loss of ECB independence, and wanted to maintain control over its small and medium-sized banks. Also, with regard to a possible future communitarization of deposit insurance systems and bank restructuring funds, Germany wanted to keep the number of commonly supervised banks low, as the future reforms would most likely also be limited to them. France and Italy, on the contrary, wanted to include all banks into common supervision, and pledged for an important role of the ECB. Their hope was to stop the mutual destabilization of banks and Eurozone countries and reduce the latter's funding costs, by establishing a common accountability for the supervision and stability of the whole banking sector. Thus, they pledged for direct ESM support to banks and common supervision by the ECB. These different ideas may explain the set-up of the new European financial supervision layer and its content.

The theory of historical institutionalism seems well-suited to explain the distinctive development of EMU between 2010 and 2012. In focussing on the influence of past decisions on current institutional development as well as on the important role of political agency and ideas with regard to institutional change, the theory was able to capture the causes of EMU's recent

reform. The model by Mahoney and Thelen on institutional change explains very well the different types of institutional change which appeared within EMU during the sovereign debt crisis between 2010 and 2012. The different institutional settings, as established during the creation of EMU, led to the different outcomes of conversion and layering in the three policy fields. Even though change was partly induced from the outside, the institutions themselves contained certain features which allowed for institutional change, notably, a certain extent of veto opportunities to change and compliance requirements. The hypotheses can be confirmed.

The main finding is thus that EMU's original institutional structure as it was established in the 1990 constrained its current development, in that it provided for specific types of gradual institutional change to occur. Additionally, while political actors may accept institutional constraints from the past, they nevertheless do drive institutional change and shape its form and content with their ideas. Finally, the conclusion can be drawn that even within a critical juncture, such as the sovereign debt crisis, institutions may be changed rather gradually than abrupt and fundamentally. Even if there is considerable exogenous pressure which demands quick reactions, a major overhaul of institutions is in no way obligatory. Instead, the different types of gradual transformation are more likely to appear, if institutional constraints from the past exist. The institutional decisions taken during the sovereign debt crisis will probably equally shape EMU's future development. In fact, many developments have already become locked in: Once the Eurozone governments and the ECB had granted support to troubled euro Member States, they could not easily depart from this path, as risks have been taken over and large resources had been invested. This is true for the TARGET balances, which induce further ECB support to the peripheral states, but also for the stabilization funds.

In 1999, Kathleen McNamara noticed that the neoliberal consensus among European states, which made the EMS possible, still existed and would most likely lead to the establishment of EMU. But she also stated that this "elite-level" consensus might still be questioned in the future, "for EMU both exacerbates and makes visible what was previously obscured, that is, the social costs of neoliberal reform and the democratic deficit inherent in European integration more generally" (McNamara 1999: 175). She feared that the strict adjustment requirements imposed by the establishment of the common currency, notably fiscal retrenchment, structural reforms, and the limited mandate of the ECB, would soon start to undermine public acceptance of the monetary union, especially in the face of high unemployment. During the first years of EMU, these doubts seemed to be unfounded, as the developments on the international financial markets (the "easy money" period) somewhat mitigated and postponed the adjustment pressures. Regarding the current crisis, however, McNamara was right to some extent: the narrow mandate of the ECB was broadened, and the austerity doctrine gets more and more contested among citizens and EMU politicians. But the neoliberal consensus is still in place, as it was strongly institutionalized in EMU's structure, and it cannot be abandoned easily. The currency of ideas has turned into the currency of institutions.

## Literature

- Amsterdam Treaty (Treaty of Amsterdam amending the Treaty on European Union, the Treaties establishing the European Communities and relating Acts), 10.11.1997. Abrufbar unter: <http://eur-lex.europa.eu/en/treaties/dat/11997D/htm/11997D.html>.
- Ayrault, Jean-Marc (2012a): Débat sur les résultats du Conseil européen des 28 et 29 juin 2012, au Sénat, 05.07.2012. Abrufbar unter: <http://www.gouvernement.fr/premier-ministre/debat-sur-les-resultats-du-conseil-europeen-des-28-et-29-juin-2012-au-senat>.
- Baroin, François/Schäuble, Wolfgang (2011): Our plan will rescue Greece and protect Europe. Financial Times, 28.07.2011. Abrufbar unter: <http://www.ft.com/intl/cms/s/0/7eed8756-b947-11e0-b6bb-00144feabdc0.html#axzz2J6aS3hCq>.
- Behnke, Joachim/Gschwend, Thomas/Schindler, Delia/Schnapp, Kai-Uwe (Hrsg.) (2006): Methoden der Politikwissenschaft: Neuere qualitative und quantitative Analyseverfahren. Baden Baden: Nomos.
- Bloomberg (2011a): Germany Says Private-Sector Role in Stemming Crisis Ensured by IMF Rules, 07.12.2011. Abrufbar unter: <http://www.bloomberg.com/news/2011-12-06/germany-says-private-sector-role-in-stemming-crisis-ensured-by-imf-rules.html>.
- Bloomberg (2011b): Baroin Says ECB Role Bolstering EFSF Remains 'Best Solution', 19.10.2011. Abrufbar unter: <http://www.businessweek.com/news/2011-10-19/baroin-says-ecb-role-bolstering-efsf-remains-best-solution-.html>.
- Brunila, Anne/Buti, Marco/Franco, Daniele (2001): The Stability and Growth Pact: the Architecture of fiscal policy in EMU. Basingstoke (u.a.): Palgrave Macmillan.
- Buiter, Willem H./Rahbari, Ebrahim/Michels, Jürgen (2011): The implications of intra-euro area imbalances in credit flows. CEPR Policy Insight No. 57. Abrufbar unter: <http://www.cepr.org/pubs/PolicyInsights/PolicyInsight57.pdf>.
- Buiter, Willem H./Rahbari, Ebrahim (2012): The European Central Bank as Lender of Last Resort for Sovereigns in the Eurozone. In: Journal of Common Market Studies 50 Annual Review. 6-35.
- Bulmer, Simon (1998): New institutionalism and the governance of the Single European Market. In: Journal of European Public Policy 5(3). 365-386.
- Capoccia, Giovanni/Kelemen, R. Daniel (2007): The Study of Critical Junctures: Theory, Narrative, and Counterfactuals in Historical Institutionalism. In: World Politics 5(3). 341-369.
- Collier, David (2007): Understanding Process Tracing. In: Political Science and Politics 44(4). 823-830.
- Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States. Abrufbar unter: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2011:306:0041:0047:EN:PDF>.
- Council of Foreign Relations (2012): A Conversation with Vittorio Grilli, 14.12.2012. Abrufbar unter: <http://www.cfr.org/italy/conversation-vittorio-grilli/p29672>.

- Council of the European Union (2010a): Press Release/Extraordinary Council meeting/Economic and Financial Affairs, 10.05.2010. Abrufbar unter: [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ecofin/114324.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/114324.pdf).
- Council of the European Union (2003): Council Recommendation of 26 June 2003 on the broad guidelines of the economic policies of the Member States and the Community (for the 2003-2005 period) (2003/555/EC). Abrufbar unter: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2003:195:0001:0054:EN:PDF>.
- Council of the European Union (2010b): Council implementing decision on granting Union financial assistance to Ireland, 07.12.2010. Abrufbar unter: [http://eurozone.europa.eu/media/596758/st17211-re01.en10\\_decision\\_ie.pdf](http://eurozone.europa.eu/media/596758/st17211-re01.en10_decision_ie.pdf).
- Council of the European Union (2010c): Press Release, 3030th Council meeting, Economic and Financial Affairs, 07.09.2010. Abrufbar unter: [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ecofin/116306.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/116306.pdf).
- Council of the European Union (2011a): Council implementing decision on granting Union financial assistance to Portugal, 20.05.2011. Abrufbar unter: [http://eurozone.europa.eu/media/596828/implementing\\_decision\\_portugal\\_17\\_may\\_11.pdf](http://eurozone.europa.eu/media/596828/implementing_decision_portugal_17_may_11.pdf).
- Council of the European Union (2012a): Council Decision amending Decision 2011/734/EU addressed to Greece with a view to reinforcing and deepening fiscal surveillance and giving notice to Greece to take measures for the deficit reduction judged necessary to remedy the situation of excessive deficit, 03.12.2012. Abrufbar unter: [http://eurozone.europa.eu/media/861061/cd\\_greece\\_4.12.12.\\_st15649.en12.pdf](http://eurozone.europa.eu/media/861061/cd_greece_4.12.12._st15649.en12.pdf).
- Council of the European Union (2012b): Proposal for a Council Regulation conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions - Consolidated text, 14.12.2012. Abrufbar unter: <http://register.consilium.europa.eu/pdf/en/12/st17/st17812.en12.pdf>.
- Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies. Abrufbar unter: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:1997:209:0001:0005:EN:PDF>.
- Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure. Abrufbar unter: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:1997:209:0006:0011:EN:PDF>.
- Council Regulation (EC) No 1055/2005 of 27 June 2005 amending Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies. Abrufbar unter: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2005:174:0001:0004:EN:PDF>.
- Council Regulation No (EC) No 1056/2005 of 27 June 2005 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure. Abrufbar unter: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2005:174:0005:0009:EN:PDF>.
- Council Regulation (EU) No 407/2010 of 11 May 2010 establishing a European financial stability mechanism. Abrufbar unter: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2010:118:0001:0004:EN:PDF>.
- De Grauwe, Paul (2011): Managing a fragile Eurozone. Voxeu. Abrufbar unter: <http://www.voxeu.org/article/managing-fragile-eurozone>.



- De Grauwe, Paul (2012): *Economics of Monetary Union*. 9<sup>th</sup> edition. Oxford: Oxford University Press.
- Der Spiegel (2010): *Wir haben nur einen Schuss*, Ausgabe 20/2010. Abrufbar unter:  
<http://www.spiegel.de/spiegel/print/d-70500987.html>.
- Der Spiegel (2012): *Judo am Abgrund*, Ausgabe 22/2012. Abrufbar unter: <http://www.spiegel.de/spiegel/print/d-85913048.html>.
- Dinan, Desmond (2012): *Governance and Institutions: Impact of the Escalating Crisis*. In: *Journal of Common Market Studies* 50 Annual Review. 85-98.
- Draghi, Mario (2008a): *Combating the global financial crisis - the role of international cooperation*, HKMA Distinguished Lecture, 16.12.2008. Abrufbar unter:  
[http://www.bancaditalia.it/interventi/integov/2008/draghi\\_161208/Draghi\\_161208\\_HKMA.pdf](http://www.bancaditalia.it/interventi/integov/2008/draghi_161208/Draghi_161208_HKMA.pdf).
- Draghi, Mario (2008b): *Financial Stability and Growth: The Role of the Euro*, Milan, 10.10.2008. Abrufbar unter:  
[http://www.bancaditalia.it/interventi/integov/2008/int\\_171008/en\\_draghi\\_NBER\\_171008.pdf](http://www.bancaditalia.it/interventi/integov/2008/int_171008/en_draghi_NBER_171008.pdf).
- Draghi, Mario (2012a): *Speech by Mario Draghi, President of the European Central Bank at the Global Investment Conference in London*, 26.07.2012. Abrufbar unter:  
<http://www.ecb.int/press/key/date/2012/html/sp120726.en.html>.
- Draghi, Mario (2012b): *The monetary policy of the European Central Bank and its transmission in the euro area: Speech by Mario Draghi, President of the ECB, Università Bocconi, Opening of the academic year 2012-2013*, Milan, 15 November 2012. Abrufbar unter:  
[http://www.ecb.int/press/key/date/2012/html/sp121115\\_1.en.html](http://www.ecb.int/press/key/date/2012/html/sp121115_1.en.html).
- Dyson, Kenneth/Featherstone, Kevin (1999): *The Road to Maastricht. Negotiating Economic and Monetary Union*. Oxford: Oxford University Press.
- Dyson, Kenneth (2002): *The Politics of the Eurozone: Stability or Breakdown?* Oxford: Oxford University Press.
- Dyson, Kenneth/Quaglia, Lucia (2010a): *European Economic Governance and Politics. Commentary on Key Historical and Institutional Documents, Volume I*. Oxford: Oxford University Press.
- Dyson, Kenneth/Quaglia, Lucia (2010b): *European Economic Governance and Politics. Commentary on Key Policy Documents, Volume II*. Oxford: Oxford University Press.
- EFSS Press Release (2011): *Maximising EFSS's capacity approved*, 29.11.2011. Abrufbar unter:  
<http://www.efsf.europa.eu/mediacentre/news/2011/2011-015-maximising-efsf-capacity-approved.htm>.
- Euro area Heads of State or Government (2010a): *Statement by the Heads of State and Government*, 25.03.2010. Abrufbar unter: [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/113563.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/113563.pdf).
- Euro area Heads of State or Government (2010b): *Statement of the Heads of State or Government of the euro area*, 07.05.2010. Abrufbar unter:  
[http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/114296.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/114296.pdf).
- Euro area Heads of State or Government (2010c): *Decision of the 16 euro area Member States*, 16.06.2010. Abrufbar unter: [http://eurozone.europa.eu/media/596658/conclusions\\_eu\\_16\\_.pdf](http://eurozone.europa.eu/media/596658/conclusions_eu_16_.pdf).
- Euro area Heads of State or Government (2011a): *Conclusions of the Heads of State or Government of the Euro Area of 11 March 2011*. Abrufbar unter:  
[http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/119809.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/119809.pdf).

- Euro area Heads of State or Government (2011b): Statement by the Heads of State or Government of the Euro Area and EU Institutions, 21.07.2011. Abrufbar unter:  
[http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/123978.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/123978.pdf).
- Euro area Heads of State or Government (2011c): Statement by the Euro area Heads of State or Government, 09.12.2011. Abrufbar unter:  
[http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/126658.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/126658.pdf).
- Euro area Heads of State or Government (2011d): Euro Summit statement, 26.10.2011. Abrufbar unter:  
[http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/125644.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/125644.pdf).
- Euro area Heads of State and Governments (2012): Euro Area Summit Statement, 29.06.2012. Abrufbar unter:  
[http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/131359.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/131359.pdf).
- Eurogroup (2010a): Statement on the support to Greece by Euro area Members States, 11.04.2010. Abrufbar unter:  
[http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/113686.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/113686.pdf).
- Eurogroup (2010b): Statement by the Eurogroup, 02.0.2010. Abrufbar unter:  
[http://www.consilium.europa.eu/uedocs/cmsUpload/100502-%20Eurogroup\\_statement-sn02492.en10.pdf](http://www.consilium.europa.eu/uedocs/cmsUpload/100502-%20Eurogroup_statement-sn02492.en10.pdf).
- Eurogroup (2010c): Terms of reference of the Eurogroup: European Financial Stability Facility, 07.06.2010. Abrufbar unter: [http://eurozone.europa.eu/media/596648/eurogroup\\_statement\\_on\\_efsfs.pdf](http://eurozone.europa.eu/media/596648/eurogroup_statement_on_efsfs.pdf).
- Eurogroup (2010d): Statement by the Eurogroup, 18.11.2010. Abrufbar unter:  
[http://eurozone.europa.eu/media/596738/statement\\_by\\_the\\_eurogroup\\_28\\_nov.pdf](http://eurozone.europa.eu/media/596738/statement_by_the_eurogroup_28_nov.pdf).
- Eurogroup (2011a): EFSF Guideline on Precautionary Programmes, 29.11.2011. Abrufbar unter:  
[http://www.efsfs.europa.eu/attachments/efsfs\\_guideline\\_on\\_precautionary\\_programmes.pdf](http://www.efsfs.europa.eu/attachments/efsfs_guideline_on_precautionary_programmes.pdf).
- Eurogroup (2011b): EFSF Guideline on Recapitalization of Financial Institutions (FIs) via loans to non-programme countries, 29.11.2011. Abrufbar unter:  
[http://www.efsfs.europa.eu/attachments/efsfs\\_guideline\\_on\\_recapitalisation\\_of\\_financial\\_institutions.pdf](http://www.efsfs.europa.eu/attachments/efsfs_guideline_on_recapitalisation_of_financial_institutions.pdf).
- Eurogroup (2011c): EFSF Guideline on Primary Market Purchases, 29.11.2011. Abrufbar unter:  
[http://www.efsfs.europa.eu/attachments/efsfs\\_guideline\\_on\\_primary\\_market\\_purchases.pdf](http://www.efsfs.europa.eu/attachments/efsfs_guideline_on_primary_market_purchases.pdf).
- Eurogroup (2011d): EFSF Guideline on interventions in the secondary market, 29.11.2011. Abrufbar unter:  
[http://www.efsfs.europa.eu/attachments/efsfs\\_guideline\\_on\\_interventions\\_in\\_the\\_secondary\\_market.pdf](http://www.efsfs.europa.eu/attachments/efsfs_guideline_on_interventions_in_the_secondary_market.pdf).
- Eurogroup (2012a): Statement of the Eurogroup, 30.03.2012. Abrufbar unter:  
[http://eurozone.europa.eu/media/678952/eurogroup\\_statement\\_30\\_march\\_12.pdf](http://eurozone.europa.eu/media/678952/eurogroup_statement_30_march_12.pdf).
- Eurogroup (2012b): Statement by the Eurogroup, 20.07.2012. Abrufbar unter:  
[http://eurozone.europa.eu/media/776104/eg\\_statement\\_spain\\_20\\_july.pdf](http://eurozone.europa.eu/media/776104/eg_statement_spain_20_july.pdf).
- Eurogroup (2012c): Eurogroup statement, 21.02.2012. Abrufbar unter:  
[http://eurozone.europa.eu/media/678792/statement\\_on\\_greece\\_21\\_february\\_2012.pdf](http://eurozone.europa.eu/media/678792/statement_on_greece_21_february_2012.pdf).
- European Central Bank (1998): The Single Monetary Policy in Stage Three: General documentation on ESCB monetary policy instruments and procedures. Abrufbar unter:  
<http://www.ecb.europa.eu/pub/pdf/other/gendoc98en.pdf>.
- European Central Bank (1999a): Monthly Bulletin January 1999. Abrufbar unter:  
<http://www.ecb.europa.eu/pub/pdf/mobu/mb199901en.pdf>.

- European Central Bank (1999b): Monthly Bulletin May 1999. Abrufbar unter:  
<http://www.ecb.europa.eu/pub/pdf/mobu/mb199905en.pdf>.
- European Central Bank (2003): Monthly Bulletin June 2003. Abrufbar unter:  
<http://www.ecb.europa.eu/pub/pdf/mobu/mb200306en.pdf>.
- European Central Bank (2004): Monthly Bulletin April 2004. Abrufbar unter:  
<http://www.ecb.europa.eu/pub/pdf/mobu/mb200404en.pdf>.
- European Central Bank (2005): Press Release: Memorandum of Understanding on co-operation between the Banking Supervisors, Central Banks and Finance Ministries of the European Union in Financial Crisis situations, 18.05.2005. Abrufbar unter:  
[http://www.ecb.int/press/pr/date/2005/html/pr050518\\_1.en.html](http://www.ecb.int/press/pr/date/2005/html/pr050518_1.en.html).
- European Central Bank (2006): Monthly Bulletin May 2006. Abrufbar unter:  
<http://www.ecb.europa.eu/pub/pdf/mobu/mb200605en.pdf>.
- European Central Bank (2007): Guideline of the European Central Bank of 26 April 2007 on a Trans-European Automated Real-time Gross settlement Express Transfer system (TARGET2) (ECB/2007/2) (2007/600/EC). Abrufbar unter: [http://www.ecb.int/ecb/legal/pdf/l\\_23720070908en00010070.pdf](http://www.ecb.int/ecb/legal/pdf/l_23720070908en00010070.pdf).
- European Central Bank (2009a): Annual Report 2008. Abrufbar unter:  
<http://www.ecb.europa.eu/pub/pdf/annrep/ar2008en.pdf>.
- European Central Bank (2009b): Monthly Bulletin July 2009. Abrufbar unter:  
<http://www.ecb.europa.eu/pub/pdf/mobu/mb200907en.pdf>.
- European Central Bank (2010): Decision of the European Central Bank of 14 May 2010 establishing a securities markets programme (ECB/2010/5) (2010/281/EU). Abrufbar unter:  
[http://www.ecb.int/ecb/legal/pdf/l\\_12420100520en00080009.pdf](http://www.ecb.int/ecb/legal/pdf/l_12420100520en00080009.pdf).
- European Central Bank (2011a): Annual Report 2010. Abrufbar unter:  
<http://www.ecb.europa.eu/pub/pdf/annrep/ar2010en.pdf>.
- European Central Bank (2011b): Monthly Bulletin September 2011. Abrufbar unter:  
<http://www.ecb.europa.eu/pub/pdf/mobu/mb201109en.pdf>.
- European Central Bank (2011c): Monthly Bulletin August 2011. Abrufbar unter:  
<http://www.ecb.europa.eu/pub/pdf/mobu/mb201108en.pdf>.
- European Central Bank (2011d): Decision of the European Central Bank of 31 March 2011 on temporary measures relating to the eligibility of marketable debt instruments issued or guaranteed by the Irish Government (ECB/2011/4) (2011/227/EU). Abrufbar unter:  
[http://www.ecb.int/ecb/legal/pdf/l\\_09420110408en00330034.pdf](http://www.ecb.int/ecb/legal/pdf/l_09420110408en00330034.pdf).
- European Central Bank (2011e): Decision of the European Central Bank of 7 July 2011 on temporary measures relating to the eligibility of marketable debt instruments issued or guaranteed by the Portuguese Government (ECB/2011/10) (2011/410/EU). Abrufbar unter:  
[http://www.ecb.int/ecb/legal/pdf/l\\_18220110712en00310032.pdf](http://www.ecb.int/ecb/legal/pdf/l_18220110712en00310032.pdf).
- European Central Bank (2011f): Monthly Bulletin November 2011. Abrufbar unter:  
<http://www.ecb.europa.eu/pub/pdf/mobu/mb201111en.pdf>.
- European Central Bank (2011g): Monthly Bulletin December 2011. Abrufbar unter:  
<http://www.ecb.europa.eu/pub/pdf/mobu/mb201112en.pdf>.

- European Central Bank (2012a): Financial integration in Europe, April 2012. Abrufbar unter:  
<http://www.ecb.europa.eu/pub/pdf/other/financialintegrationineurope201204en.pdf>.
- European Central Bank (2012b): The Use of the Eurosystem's Monetary Policy Instruments and Operational Framework since 2009, Occasional Paper Series, vol. 135, August 2012. Abrufbar unter:  
<http://www.ecb.europa.eu/pub/pdf/scpops/ecbocp135.pdf>.
- European Central Bank (2012c): Monthly Bulletin March 2012. Abrufbar unter:  
<http://www.ecb.europa.eu/pub/pdf/mobu/mb201203en.pdf>.
- European Central Bank (2012d): Monthly Bulletin September 2012. Abrufbar unter:  
<http://www.ecb.europa.eu/pub/pdf/mobu/mb201209en.pdf>.
- European Central Bank (2012e): Decision of the European Central Bank of 18 July 2012 repealing Decision ECB/2012/3 on the eligibility of marketable debt instruments issued or fully guaranteed by the Hellenic Republic in the context of the Hellenic Republic's debt exchange offer (ECB/2012/14) (2012/433/EU). Abrufbar unter: [http://www.ecb.int/ecb/legal/pdf/l\\_19920120726en00260026.pdf](http://www.ecb.int/ecb/legal/pdf/l_19920120726en00260026.pdf).
- European Central Bank (2012f): Annual Report 2011. Abrufbar unter:  
<http://www.ecb.europa.eu/pub/pdf/annrep/ar2011en.pdf>.
- European Commission (1999): Communication from the Commission. Financial Services: Implementing the Framework for Financial Markets. Action Plan. Abrufbar unter:  
[http://ec.europa.eu/internal\\_market/finances/docs/actionplan/index/action\\_en.pdf](http://ec.europa.eu/internal_market/finances/docs/actionplan/index/action_en.pdf).
- European Commission (2005a): Communication to the Spring European Council. Working Together for Growth and Jobs. Integrated Guidelines for Growth and Jobs (2005-2008). Abrufbar unter  
[http://www.espa.gr/elibrary/integrated\\_guidelines\\_Growth\\_Jobs\\_en.pdf](http://www.espa.gr/elibrary/integrated_guidelines_Growth_Jobs_en.pdf).
- European Commission (2005b): Communication to the Spring European council. Working together for growth and jobs: A new start for the Lisbon Strategy. Communication from President Barroso in agreement with Vice-President Verheugen, 02.02.2005. Abrufbar unter: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2005:0024:FIN:en:PDF>.
- European Commission (2010a): The Economic Adjustment Programme for Greece. Occasional Papers 61, May 2010. Abrufbar unter:  
[http://ec.europa.eu/economy\\_finance/publications/occasional\\_paper/2010/pdf/ocp61\\_en.pdf](http://ec.europa.eu/economy_finance/publications/occasional_paper/2010/pdf/ocp61_en.pdf).
- European Commission (2010b): Europe 2020. A European strategy for smart, sustainable and inclusive growth. Abrufbar unter: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:2020:FIN:EN:PDF>.
- European Commission (2012): Proposal for a Council Regulation conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions, 12.09.2012. Abrufbar unter: [http://ec.europa.eu/internal\\_market/finances/docs/committees/reform/20120912-com-2012-511\\_en.pdf](http://ec.europa.eu/internal_market/finances/docs/committees/reform/20120912-com-2012-511_en.pdf).
- European Council (1997a): Extraordinary European Council Meeting on Employment. Luxembourg, 20 and 21 November 1997. Presidency Conclusions. Abrufbar unter:  
[http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/00300.htm](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/00300.htm).
- European Council (1997b): Presidency Conclusions, 12./13.12.1997. Abrufbar unter:  
[http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/032a0008.htm](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/032a0008.htm).
- European Council (1998): Cardiff European Council, 15 and 16 June 1998. Presidency Conclusions. Abrufbar unter:  
[http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/54315.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/54315.pdf).

- European Council (1999): Presidency Conclusions. Cologne European Council, 3 and 4 June 1999. Abrufbar unter: [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/57886.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/57886.pdf).
- European Council (2000a): Lisbon European Council, 23 and 24 March 2000. Abrufbar unter: [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/00100-r1.en0.htm](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/00100-r1.en0.htm).
- European Council (2000b): Presidency Conclusions. Nice European Council Meeting, 7, 8, and 9 December 2000. Abrufbar unter: [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/00400-r1.%20ann.en0.htm](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/00400-r1.%20ann.en0.htm).
- European Council (2010a): Conclusions, 29.10.2010. Abrufbar unter: [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/117496.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/117496.pdf).
- European Council (2010b): Conclusions, 16.12.2010. Abrufbar unter: [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/118578.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/118578.pdf).
- European Council (2010c): Conclusions, 17.06.2010. Abrufbar unter: [http://www.consilium.europa.eu/ueDocs/cms\\_Data/docs/pressData/en/ec/115346.pdf](http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/115346.pdf).
- European Council (2011): Conclusions, 25.03.2011. Abrufbar unter: [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/120296.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/120296.pdf).
- European Council (2012a): Conclusions, 29.06.2012. Abrufbar unter: [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/131388.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/131388.pdf).
- European Council (2012b): Conclusions, 14.12.2012. Abrufbar unter: [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/134353.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/134353.pdf).
- European Council (2012c): Conclusions, 14.12.2012. Abrufbar unter: [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/134353.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/134353.pdf).
- European Monetary Institute (1997): The Single Monetary Policy in Stage Three. Specification of the Operational Framework. Abrufbar unter: [http://www.ecb.europa.eu/pub/pdf/othemi/pub\\_05en.pdf](http://www.ecb.europa.eu/pub/pdf/othemi/pub_05en.pdf).
- Falleti, Tulia G. (2006): Theory-Guided Process-Tracing: Something Old, Something New. APSA-CP, Newsletter of the Organized Section in Comparative Politics of the APSA 17(1). 9-14. Abrufbar unter: <http://www.polisci.upenn.edu/~falleti/Falleti-CP-APSANewsletter06-TGPT.pdf>.
- Featherstone, Kevin (2011): The Greek Sovereign Debt Crisis and EMU: A Failing State in a Skewed Regime. In: *Journal of Common Market Studies* 49(2). 193-217.
- Fillon, François (2010a): Mettre en oeuvre un véritable gouvernement économique européen, 11.05.2010. Abrufbar unter: <http://www.veronis.fr/discours/transcript/2010-05-11-2/Fillon>.
- Fillon, François (2010b): L'intérêt du Japon n'est pas de se détourner de l'Euro, 22.07.2010. Abrufbar unter: <http://www.veronis.fr/discours/transcript/2010-07-22-1/Fillon>.
- Fillon, François (2011): Notre politique fiscale: compétitivité et équité, 03.03.2011. Abrufbar unter: <http://www.veronis.fr/discours/transcript/2011-03-03/Fillon>.
- Financial Times Online (2010): Interview with Mario Draghi: Action on the Addicts, 09.12.2010. Abrufbar unter: <http://www.ft.com/intl/cms/s/0/af24be36-03ca-11e0-8c3f-00144feabdc0.html#axzz2Jn4PX8j5>.
- Financial Times Online (2012a): Greece raises €4bn to repay the ECB, 14.08.2012. Abrufbar unter: <http://www.ft.com/intl/cms/s/0/8a994db4-e606-11e1-bece-00144feab49a.html#axzz2ENUAXUyH>.

- Financial Times Online (2012b): EU ministers at odds over banking union, 15.09.2012. Abrufbar unter: <http://www.ft.com/intl/cms/s/0/0e037362-ff18-11e1-a4be-00144feabdc0.html#axzz2Jn4PX8j5>.
- Financial Times Online (2012c): Schäuble puts brake on bank union plan, 04.12.2012. Abrufbar unter: <http://www.ft.com/intl/cms/s/0/ae18eb32-3e03-11e2-93cb-00144feabdc0.html#axzz2Jn4PX8j5>.
- Frankfurter Allgemeine Zeitung Online (2012): 9-Milliarden-Offerte: Kritik an Griechenland-Hilfsangebot der EZB, 23.11.2012. Abrufbar unter: <http://www.faz.net/aktuell/wirtschaft/europas-schuldenkrise/griechenland/9-milliarden-offerte-kritik-an-griechenland-hilfsangebot-der-ezb-11969999.html>.
- George, Alexander L./Bennett, Andrew (2005): *Case Studies and Theory Development in the Social Sciences*. Cambridge: MIT Press.
- Grilli, Vittorio (2012): Italy economy minister calls for Europe-wide banking union, 14.11.2012. Abrufbar unter: <http://www.lifeinitaly.com/news/en/159841>.
- Gros, Daniel (2012): On the Stability of Public Debt in a Monetary Union. In: *Journal of Common Market Studies 50 Annual Review*. 36-48.
- Hodson, Dermot (2012): The Eurozone in 2011. In: *Journal of Common Market Studies 50 Annual Review*. 178-194.
- Illing, Gerhard/Jauch, Sebastian/Zabel, Michael (2012): Die Diskussion um den Euro. Endogene Risiken und multiple Gleichgewichte. In: *Leviathan* 40(2). 156-172.
- Hall, Peter A. (1992): The movement from Keynesianism to monetarism: Institutional analysis and British economic policy in the 1970s. In: Steinmo, Sven/Thelen, Kathleen/Longstreth, Frank (eds.) (1992b): 90-113.
- Hall, Peter A./Taylor, Rosemary C. R. (1996): Political Science and the Three New Institutionalisms. In: *Political Studies* XLIV. 936-957.
- Hall, Peter A. (2010): Historical Institutionalism in Rationalist and Sociological Perspective. In: Mahoney, James/Thelen, Kathleen (eds.) (2010b): 204-224.
- Hollande, François/Rajoy, Mariano (2012): 22ème sommet franco-espagnol - Déclaration commune, 10.10.2012. Abrufbar unter: <http://www.elysee.fr/declarations/article/22eme-sommet-franco-espagnol-declaration-commune/>.
- Juncker, Jean-Claude/Tremonti, Giulio (2010): E-Bonds would end the crisis. *Financial Times*, 06.12.2010.
- Krugman, Paul (2012): Revenge of the Optimum Currency Area, 24.06.2012. Abrufbar unter: <http://krugman.blogs.nytimes.com/2012/06/24/revenge-of-the-optimum-currency-area/#more-31408>.
- Lisbon Treaty (Treaty of Lisbon amending the Treaty on European Union and the Treaty establishing the European Community, signed at Lisbon, 13 December 2007). Abrufbar unter: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2007:306:FULL:EN:PDF>.
- Maastricht Treaty (Treaty on the European Union TEU), 07.02.1992. Abrufbar unter: <http://eur-lex.europa.eu/en/treaties/dat/11992M/htm/11992M.html>.
- Mahoney, James/Thelen, Kathleen (2010a): A Theory of Gradual Institutional Change. In: Mahoney, James/Thelen, Kathleen (eds.) (2010b): 1-37.

- Mahoney, James/Thelen, Kathleen (eds.) (2010b): *Explaining Institutional Change. Ambiguity, Agency, and Power*. Cambridge: Cambridge University Press.
- Marsh, David (2011): *Faltering Ambitions and Unrequited Hopes. The Battle for the Euro Intensifies*. In: *Journal of Common Market Studies* 49 Annual Review. 45-55.
- McKinnon, Ronald I. (1963): *Optimum Currency Areas*. In: *The American Economic Review* 53(4). 717-725.
- McNamara, Kathleen R. (1999): *The Currency of Ideas. Monetary Politics in the European Union*. Ithaca NY: Cornell University Press.
- McNamara, Kathleen R. (2006): *Economic Governance, Ideas and EMU: What Currency Does Policy Consensus Have Today?* In: *Journal of Common Market Studies* 44(4). 803-821.
- Merkel, Angela (2010a): *Regierungserklärung von Bundeskanzlerin Merkel zu den Hilfen für Griechenland*, 05.05.2010. Abrufbar unter: <http://www.bundesregierung.de/Content/DE/Regierungserklaerung/2010/2010-05-05-merkel-erklaerung-griechenland.html?nn=437032#Start>.
- Merkel, Angela (2010b): *Regierungserklärung von Bundeskanzlerin Merkel zu den Euro-Stabilisierungsmaßnahmen*, 19.05.2010. Abrufbar unter: <http://www.bundesregierung.de/Content/DE/Regierungserklaerung/2010/2010-05-19-merkel-erklaerung-eu-stabilisierungsmassnahmen.html>.
- Merkel, Angela (2011a): *Regierungserklärung von Bundeskanzlerin Merkel zum Europäischen Rat am 24./25. März in Brüssel*, 24.03.2011. Abrufbar unter: <http://www.bundesregierung.de/Content/DE/Regierungserklaerung/2011/2011-03-24-merkel-europaeischer-rat.html>.
- Merkel, Angela (2011b): *Regierungserklärung von Bundeskanzlerin Merkel zu den Ergebnissen des Europäischen Rates*, 14.12.2011. Abrufbar unter: <http://www.bundesregierung.de/Content/DE/Regierungserklaerung/2011/2011-12-14-merkel-ergebnisse-eu-rat.html>.
- Merkel, Angela (2012a): *Regierungserklärung von Bundeskanzlerin Merkel zum Europäischen Rat am 28. und 29. Juni 2012 in Brüssel*, 27.06.2012. Abrufbar unter: <http://www.bundesregierung.de/Content/DE/Regierungserklaerung/2012/2012-06-27-bkin.html>.
- Merkel, Angela (2012b): *Regierungserklärung von Bundeskanzlerin Merkel zu Stabilitätsunion, Fiskalvertrag und Europäischer Stabilitätsmechanismus*, 29.06.2012. Abrufbar unter: <http://www.bundesregierung.de/Content/DE/Regierungserklaerung/2012/2012-06-29-merkel.html>.
- Monti, Mario (2012a): *Intervento del Presidente del Consiglio all'Isituto Universitario Europeo di Firenze*, 09.05.2012. Abrufbar unter: [http://www.governo.it/Presidente/Interventi/testo\\_int.asp?d=68041](http://www.governo.it/Presidente/Interventi/testo_int.asp?d=68041).
- Monti, Mario (2012b): *Mario Monti: Sacrifices are not in vain. Interview with Kathimerini by Alexis Papachelas*, 23.09.2012. Abrufbar unter: <http://www.governo.it/Presidente/Interventi/dettaglio.asp?d=69345>.
- Monti, Mario (2012c): *Single Market Week Launch. European Parliament. Welcoming address of Sen. Prof. Mario Monti, Prime Minister of Italy*, 15.10.2012. Abrufbar unter: <http://www.governo.it/backoffice/allegati/69490-8063.pdf>.
- Monti, Mario (2012d): *Entretien avec Mario Monti: Italie: Souffrir pour guérir. Politique Internationale*, 11.11.2012. Abrufbar unter: [http://www.governo.it/GovernoInforma/eng/documents/polique\\_20121111.pdf](http://www.governo.it/GovernoInforma/eng/documents/polique_20121111.pdf).

- Mundell, Robert A. (1961): A Theory of Optimum Currency Areas. In: *The American Economic Review* 51(4). 657-665.
- Moscovici, Pierre (2012a): Communiqué de presse. Pierre MOSCOVICI se félicite des avancées de la construction européenne, 12.09.2012. Abrufbar unter: <http://proxy-pubminefi.diffusion.finances.gouv.fr/pub/document/18/13092.pdf>.
- Noyer, Christian (2009): Central Banks in the financial crisis. Paris, 3 July 2009. Abrufbar unter: [http://www.banque-france.fr/uploads/tx\\_bdfgrandesdates/090703.pdf](http://www.banque-france.fr/uploads/tx_bdfgrandesdates/090703.pdf).
- Noyer, Christian (2010a): Speech by Christian Noyer, Governor of Banque de France. The Role of Central Bankers in Today's Global Capital Markets. World Federation of Exchanges, Paris 12 October 2010. Abrufbar unter: [http://www.banque-france.fr/uploads/tx\\_bdfgrandesdates/The-Role-of-Central-Bankers-in-Today-Global-Capital-Markets.pdf](http://www.banque-france.fr/uploads/tx_bdfgrandesdates/The-Role-of-Central-Bankers-in-Today-Global-Capital-Markets.pdf).
- Noyer, Christian (2012a): Speech by Christian Noyer – Governor of Banque de France GIC Conference: “The Global Financial Crisis: lessons from Japan”, Tokyo, 1 December 2012, Session 1 – Monetary Policy: “How to cope with the current financial crisis?”, [http://www.banque-france.fr/uploads/tx\\_bdfgrandesdates/Tokyo-CN-01122012-2.pdf](http://www.banque-france.fr/uploads/tx_bdfgrandesdates/Tokyo-CN-01122012-2.pdf).
- Noyer, Christian (2012b): Christian Noyer - Governor of Banque de France: "The euro area is moving in the right direction". Paris Europlace Financial Forum. Tokyo, December 3rd 2012. Abrufbar unter: [http://www.banque-france.fr/uploads/tx\\_bdfgrandesdates/Europlace-Tokyo-20121203.pdf](http://www.banque-france.fr/uploads/tx_bdfgrandesdates/Europlace-Tokyo-20121203.pdf).
- Padoa-Schioppa, Tommaso (2002): Central Banks and Financial Stability: Exploring a Land in Between. Second ECB Central Banking Conference “The transformation of the European financial system”. Frankfurt am Main, 24 and 25 October 2002. Abrufbar unter: <http://www.ecb.de/events/pdf/conferences/tps.pdf>.
- Pierson, Paul (1996): The Path to European Integration. A Historical Institutional Analysis. In: *Comparative Political Studies* 29(2). 123-163.
- Pierson, Paul (2004): *Politics in Time. History, Institutions and Social Analysis*. Princeton: Princeton University Press.
- Pisany-Ferry, Jean (2006): Only One Bed for Two Dreams. A Critical Retrospective on the Debate over the Economic Governance of the Euro Area. In: *Journal of Common Market Studies* 44(4). 823-844.
- President of the European Council (2012a): Towards a Genuine Economic and Monetary Union. Report by President of the European Council Herman Van Rompuy, 26.06.2012. Abrufbar unter: [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/131201.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/131201.pdf).
- President of the European Council (2012b): Towards a Genuine Economic and Monetary Union, 05.12.2012. Abrufbar unter: [http://www.consilium.europa.eu/uedocs/cms\\_Data/docs/pressdata/en/ec/134069.pdf](http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ec/134069.pdf).
- Pollack, Mark A. (2008): The New Institutionalisms and European Integration. In: Wiener, Antje/Diez, Thomas (eds.).
- Quaglia, Lucia (2007): The politics of financial services regulation and supervision reform in the European Union. In: *European Journal of Political Research* 46(2). 269-290.
- Regulation (EU) No 1092/2010 of the European Parliament and of the Council of 24 November 2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board. Abrufbar unter: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2010:331:0001:0011:EN:PDF>.



- Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC. Abrufbar unter: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2010:331:0012:0047:EN:PDF>.
- Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/79/EC. Abrufbar unter: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2010:331:0048:0083:EN:PDF>.
- Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC. Abrufbar unter: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2010:331:0084:0119:EN:PDF>.
- 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. Abrufbar unter: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2011:306:0001:0007:EN:PDF>.
- 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. Abrufbar unter: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2011:306:0008:0011:EN:PDF>.
- 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. Abrufbar unter: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2011:306:0012:0024:EN:PDF>.
- 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. Abrufbar unter: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2011:306:0025:0032:EN:PDF>.
- Regulation (EU) No 1177/2011 of the European Parliament and of the Council of 8. November 2011 amending Council Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure. Abrufbar unter: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2011:306:0033:0040:EN:PDF>.
- Regulation (EU) No 670/2012 of the European Parliament and of the Council of 11 July 2012 amending Decision No 1639/2006/EC establishing a Competitiveness and Innovation Framework Programme (2007-2013) and Regulation (EC) No 680/2007 laying down general rules for the granting of Community financial aid in the field of the trans-European transport and energy networks. Abrufbar unter: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:204:0001:0010:EN:PDF>.
- Report of the Task Force to the European Council (2010): Strengthening Economic Governance in the EU, 21.10.2010. Abrufbar unter: [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/117236.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/117236.pdf).
- Resolution of the European Council on the Stability and Growth Pact. Amsterdam 17 June 1997, (97/C 236/01). Abrufbar unter: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:1997:236:0001:0002:EN:PDF>.
- Salines, Marion/Glöckler, Gabriel/Truchlewski, Zbigniew (2012): Existential crisis, incremental response. The eurozone's dual institutional evolution 2007–2011. In: *Journal of European Public Policy* 19(5). 665-681.

- Sarkozy, Nicolas (2010): Conclusion de la 2ème session de la Conférence sur le déficit, 20.05.2010. Abrufbar unter: <http://linkfluence.net/projects/discours/sarkozy/Sarkozy-2010-05-20.html>.
- Sarkozy, Nicolas (2011a): Discours politique, 22.11.2011. Abrufbar unter: <http://www.veronis.fr/discours/transcript/2011-11-22-2/Sarkozy>.
- Sarkozy, Nicolas (2011b): Discours politique. 41e Forum économique mondial, 27.01.2011. Abrufbar unter: <http://www.veronis.fr/discours/transcript/2011-01-27/Sarkozy>.
- Sarkozy, Nicolas (2011c): Discours de vœux du Président Nicolas Sarkozy aux forces économiques à Toulouse, 13.01.2011. Abrufbar unter: <http://www.veronis.fr/discours/transcript/2011-01-13/Sarkozy>.
- Schimmelfennig, Frank (2006): Prozessanalyse. In: Behnke, Joachim/Gschwend, Thomas/Schindler, Delia/Schnapp, Kai-Uwe (Hrsg): 263-271.
- Spiegel Online (2010a): EZB-Rat Weber warnt vor Anleihenkauf, 10.05.2010. Abrufbar unter: <http://www.spiegel.de/wirtschaft/soziales/euro-rettungspaket-ezb-rat-weber-warnt-vor-anleihenkauf-a-694114.html>.
- Spiegel Online (2010b): Griechische Finanzkrise: Sarkozy und Berlusconi versprechen Athen Hilfe, 09.04.2010. Abrufbar unter: <http://www.spiegel.de/wirtschaft/soziales/griechische-finanzkrise-sarkozy-und-berlusconi-versprechen-athen-hilfe-a-688182.html>.
- Spiegel Online (2010c): Schuldenkrise: Europa graut vor dem Griechenland-Desaster, 29.04.2010. Abrufbar unter: <http://www.spiegel.de/wirtschaft/soziales/schuldenkrise-europa-graut-vor-dem-griechenland-desaster-a-691830-3.html>.
- Spiegel Online (2011a): Sparminister Tremonti: Italien verspricht Blitzsanierung, 15.07.2011. Abrufbar unter: <http://www.spiegel.de/wirtschaft/soziales/sparminister-tremonti-italien-verspricht-blitzsanierung-a-774563.html>.
- Spiegel Online (2011b): Vertrauensabstimmung in Italien: Senat stimmt Montis Sparpaket zu, 22.12.2011. Abrufbar unter: <http://www.spiegel.de/politik/ausland/vertrauensabstimmung-in-italien-senat-stimmt-montis-sparpaket-zu-a-805474.html>.
- Spiegel Online (2011c): Saving the Euro: Sarkozy Gets His European Monetary Fund, 22.07.2011. Abrufbar unter: <http://www.spiegel.de/international/europe/saving-the-euro-sarkozy-gets-his-european-monetary-fund-a-775892.html>.
- Spiegel Online (2012a): Deutsch-französischer Streit: Verhandlungen über Bankenaufsicht gescheitert, 04.12.2012. Abrufbar unter: <http://www.spiegel.de/wirtschaft/soziales/verhandlungen-zu-europaeischer-bankenaufsicht-vertagt-a-870905.html>.
- Spiegel Online (2012b): Rettungspaket plus: Monti wirbt für den Billionen-Schirm, 21.01.2012. Abrufbar unter: <http://www.spiegel.de/wirtschaft/soziales/rettungspaket-plus-monti-wirbt-fuer-den-billionen-schirm-a-810589.html>.
- Spiegel Online (2012c): Euro-Gipfel: Marios Horrorshow, 29.06.2012. Abrufbar unter: <http://www.spiegel.de/politik/ausland/wie-monti-sich-beim-euro-gipfel-gegen-merkel-durchsetzte-a-841738.html>.
- Spiegel Online (2012f): Direct Aid for Banks: Italy and Spain Get Their Way at EU Summit, 29.06.2012. Abrufbar unter: <http://www.spiegel.de/international/europe/monti-and-rajoy-get-direct-bank-aid-and-bond-support-from-merkel-a-841632.html>.

- Streeck, Wolfgang/Thelen, Kathleen (2005a): Introduction: Institutional Change in Advanced Political Economies. In: Streeck, Wolfgang/Thelen, Kathleen (eds.) (2005b): 1-39.
- Streeck, Wolfgang/Thelen, Kathleen (eds.) (2005b): Beyond Continuity. Institutional Change in Advanced Political Economies. Oxford: Oxford University Press.
- Steinmo, Sven/Thelen, Kathleen/Longstreth, Frank (eds.) (1992): Structuring Politics. Historical Institutionalism in Comparative Analysis. Cambridge University Press, Cambridge.
- Thelen, Kathleen/Steinmo, Sven (1992): Historical institutionalism in comparative politics. In: Steinmo, Sven/Thelen, Kathleen/Longstreth, Frank (eds.): 1-32.
- Treaty establishing the European Stability Mechanism, 11.07.2011. Abrufbar unter: [http://eurozone.europa.eu/media/596858/treaty\\_establishing\\_the\\_esm.pdf](http://eurozone.europa.eu/media/596858/treaty_establishing_the_esm.pdf).
- Treaty establishing the European Stability Mechanism, 02.02.2012. Abrufbar unter: [http://eurozone.europa.eu/media/596968/treaty\\_establishing\\_the\\_esm\\_2012\\_final.pdf](http://eurozone.europa.eu/media/596968/treaty_establishing_the_esm_2012_final.pdf).
- Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, 02.03.2012. Abrufbar unter: [http://european-council.europa.eu/media/639235/st00tscg26\\_en12.pdf](http://european-council.europa.eu/media/639235/st00tscg26_en12.pdf).
- Treaty on the Functioning of the European Union (TFEU) (Consolidated version), 30.03.2010. Abrufbar unter: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2010:083:FULL:EN:PDF>.
- Trichet, Jean-Claude (2009a): The ECB's response to the crisis. Statement by Jean-Claude Trichet, President of the ECB at the European American Press Club. Paris, 20 February 2009. Abrufbar unter: <http://www.ecb.int/press/key/date/2009/html/sp090220.en.html>.
- Trichet, Jean-Claude (2009b): The ECB's enhanced credit support. Keynote address by Jean-Claude Trichet, President of the ECB at the University of Munich. Munich, 13 July 2009. Abrufbar unter: <http://www.ecb.int/press/key/date/2009/html/sp090713.en.html>.
- Trichet, Jean Claude (2009c): Key Lessons from the crisis. Speech by Jean-Claude Trichet, President of the ECB at the "Annual conference 2009" organised by the Asociación de Mercados Financieros. Madrid, 23 November 2009. Abrufbar unter: [http://www.ecb.int/press/key/date/2009/html/sp091123\\_1.en.html](http://www.ecb.int/press/key/date/2009/html/sp091123_1.en.html).
- Trichet, Jean-Claude (2010): The ECB's response to the recent tensions in financial markets. Speech by Jean-Claude Trichet, President of the ECB, at the 38th Economic Conference of the Oesterreichische Nationalbank. Vienna, 31 May 2010. Abrufbar unter: [http://www.ecb.int/press/key/date/2010/html/sp100531\\_2.en.html](http://www.ecb.int/press/key/date/2010/html/sp100531_2.en.html).
- Trichet, Jean-Claude (2011): Interview with Jean-Claude Trichet, President of the European Central Bank, and the Financial Times, conducted by Lionel Barber and Ralph Atkins. London, 12 October 2011. Abrufbar unter: <http://www.ecb.int/press/key/date/2011/html/sp111014.en.html>.
- Visco, Ignazio (2012a): 2012 World Savings Day. Address by the Governor of the Bank of Italy Ignazio Visco. Rome, 31 October 2012. Abrufbar unter: [http://www.bancaditalia.it/interventi/integov/2012/gmr\\_2012/en\\_visco\\_311012.pdf](http://www.bancaditalia.it/interventi/integov/2012/gmr_2012/en_visco_311012.pdf).
- Visco, Ignazio (2012b): New bond-buying program in Eurozone "effective". Tokyo, 12.10.2012. Abrufbar unter: [http://www.bancaditalia.it/interventi/integov/2012/interv\\_Visco\\_12102012.pdf](http://www.bancaditalia.it/interventi/integov/2012/interv_Visco_12102012.pdf).
- Walter, Norbert/Bergheim Stefan (2008): ECB Objectives and Tasks: Price stability vs. lender of last resort. Deutsche Bank Research. Abrufbar unter: [http://www.dbresearch.de/PROD/DBR\\_INTERNET\\_DE-](http://www.dbresearch.de/PROD/DBR_INTERNET_DE-)

PROD/PROD000000000222630.PDF;jsessionid=991CCBD1CE1511C28CF6B1170F05132B.srv-loc-dbr-de.

- Weber, Axel (2009a): Geldpolitik in Zeiten der Finanzkrise. Luxemburg, 03.11.2009. Abrufbar unter:  
[http://www.bundesbank.de/Redaktion/DE/Downloads/Presse/Reden/2009/2009\\_11\\_03\\_weber\\_geldpolitik\\_%20in\\_zeiten\\_der\\_finanzkrise.pdf?\\_\\_blob=publicationFile](http://www.bundesbank.de/Redaktion/DE/Downloads/Presse/Reden/2009/2009_11_03_weber_geldpolitik_%20in_zeiten_der_finanzkrise.pdf?__blob=publicationFile).
- Weber, Axel(2009b): Stabilisierung des Finanzsystems. Lehren und bleibende Herausforderungen. Leipzig, 26.11.2009. Abrufbar unter:  
[http://www.bundesbank.de/Redaktion/DE/Downloads/Presse/Reden/2009/2009\\_11\\_26\\_weber\\_stabilisierung\\_des\\_finanzsystems\\_lehren\\_und\\_bleibende\\_herausforderungen.pdf?\\_\\_blob=publicationFile](http://www.bundesbank.de/Redaktion/DE/Downloads/Presse/Reden/2009/2009_11_26_weber_stabilisierung_des_finanzsystems_lehren_und_bleibende_herausforderungen.pdf?__blob=publicationFile).
- Weber, Axel (2010): Monetary policy after the crisis: A European perspective. Keynote speech at the Shadow Open Market Committee (SOMC) symposium. New York City, 12 October 2010. Abrufbar unter:  
[http://www.bundesbank.de/Redaktion/EN/Downloads/Press/Reden/2010/2010\\_10\\_12\\_weber\\_monetary\\_policy\\_after\\_the\\_crisis.pdf?\\_\\_blob=publicationFile](http://www.bundesbank.de/Redaktion/EN/Downloads/Press/Reden/2010/2010_10_12_weber_monetary_policy_after_the_crisis.pdf?__blob=publicationFile).
- Weidmann, Jens (2012a): Stabilitätskultur im Lichte der Staatsschuldenkrise. Leo-Brandt-Vortrag an der Nordrhein-Westfälischen Akademie der Wissenschaften und der Künste, 08.10.2012. Abrufbar unter:  
[http://www.bundesbank.de/Redaktion/DE/Reden/2012/2012\\_10\\_08\\_weidmann\\_stabilitaetskultur.html](http://www.bundesbank.de/Redaktion/DE/Reden/2012/2012_10_08_weidmann_stabilitaetskultur.html).
- Weidmann, Jens (2012b): Vertrauen - Voraussetzung und Erfolg einer stabilen Währung. Rede bei der Jahrestagung des Markenverbandes. Abrufbar unter:  
[http://www.bundesbank.de/Redaktion/DE/Reden/2012/2012\\_09\\_27\\_weidmann\\_markenverband.html](http://www.bundesbank.de/Redaktion/DE/Reden/2012/2012_09_27_weidmann_markenverband.html).
- Weidmann, Jens (2012c): „Es bringt gar nichts, die Dinge schön zu reden“. Interview mit Dr. Jens Weidmann, Präsident der Deutschen Bundesbank. Neue Zürcher Zeitung, 26.09.2012. Abrufbar unter:  
[http://www.bundesbank.de/Redaktion/DE/Interviews/2012\\_09\\_26\\_weidmann\\_nzz.html](http://www.bundesbank.de/Redaktion/DE/Interviews/2012_09_26_weidmann_nzz.html).
- Wiener, Antje/Diez, Thomas (eds.) (2008): European Integration Theory. Oxford: Oxford University Press.