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Managing the Euro Crisis

EU Decision-Making in the sovereign Debt Crisis October 2009 – March 2012

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i. Abstract

The European common currency, the euro, is in crisis. Bad news about indebted governments and economic recession has continuously outperformed itself since 2009/2010 and kept the European Union and its member states in suspense. It is up to them to combat the crisis. This master thesis deals with the European sovereign debt crisis ("euro crisis") and tries to allow a better understanding of how the crisis has been managed by governments at the European level. A special focus is put on decision-making in the crisis, posing the research question "*How can the decision-making of the EU in the euro crisis be understood?"*. To solve this research problem, three different approaches are applied: liberal intergovernmentalism, historical institutionalism and cognitive institutionalism. Each of them adds different aspects to the analysis, gives answers from their respective points of view and thereby widens the overall picture that evolves. The design of the thesis is a case study with the euro crisis as a special case of decision-making and crisis management. Official documents and statements, expert interviews, scholastic, expert, and journalistic analyses are employed as basic research material. It has been uncovered that, powerful states, especially Germany and France, have bargaining advantages during crisis decision-making. However, the decision-making is constrained by institutional aspects (rules, norms and values). Stress factors deriving from the crisis situation facilitate group dynamics that appeared at least partially during the ongoing crisis.

ii. Acknowledgements

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iii. Table of Contents

iv. Abbreviations

BEPG	=	Broad Economic Policy Guidelines
CAP	=	Common Agricultural Policy of the European Union
ECB	=	European Central Bank
ECOFIN	=	Council of Economic and Financial Affairs of the EU
EFSF	=	European Financial Stability Facility
EMU	=	Economic and Monetary Union
ESM	=	European Stability Mechanism
EU	=	European Union
HSoG	=	Heads of States and Government
PSI	=	Private Sector Involvement
SGP	=	Stability and Growth Pact
SVP	=	Special Purpose Vehicle
UK	=	United Kingdom of Great Britain and Northern Ireland
US	=	United States of America

v. List of Tables

vi. Note

All numbers and dates in this thesis are valid at the time of writing, April 2012. The analyses in the thesis are written in past form even though some of the mentioned facts, regulations etc. are still valid.

1 Introduction

1.1 Decision-Making in the EU and Research Problem

“It does not take much strength to do things, but it requires great strength to decide on what to do” (Elbert Hubbard 1856-1915, as quoted by Jézégou, 2008). This quote of the US American author Elbert Hubbard puts the essence of this thesis in a nutshell: it is about decision-making. More specifically, it is about political decision-making in the European Union (EU), a union of 27 countries that have decided to coordinate and integrate their policies over a range of different issue areas to different degrees, reaching from various economic policy areas to environmental, education, security and defence policies to external relations (europa.eu (5), 2012-06-10). Decision-making in such a union is a highly complicated procedure. Different degrees of competences are spread over policy levels, divided between supranational, national, regional, and local levels. Furthermore, they have to be coordinated between all member states as well as the EU institutions. Whilst for everyday political decision-making, standard procedures and competences have been developed and implemented, the situation is much more complicated in a crisis situation, like the current sovereign debt crisis (in the following called “euro crisis” or “crisis”).

After the global financial crisis in 2008, when the first European countries were already on the way to recovery, the euro crisis came somewhat unexpectedly for European leaders in 2010 (→ 9.4 Conclusion: Group dynamics and Stress in the Euro Crisis Management: 74). As the setup of the Monetary Union (EMU) was deficient from the outset, and did not provide any crisis management instruments, decisions on how to act to combat the crisis had to be made in an ad-hoc manner (→ 3.4 Problems of the EMU Governance Setup: 27). Decisions quickly needed to be taken in agreement with all 27 EU member states or at least with all 16/17[1] euro countries, in accordance with EU and national laws, within the framework of the EU institutions and under extraordinary stress caused by the crisis situation itself. After over two years of the ongoing euro crisis and its management, the Union has gone through major changes (→ 3.5 Changes in Economic and Monetary Policy Coordination since the Euro Crisis: 28). The governance structure of the EMU, the crisis management instruments and the overall level of integration have probably seen greater progress and changed at a faster speed during the past two years than ever before. Featherstone, analysing the euro countries’ early reaction on the Greek debt crisis, evaluated the crisis management quite negatively:

[1] Estonia joined the euro area during the course of the crisis in 2011 (ECB, 2012-06-18).

"The out-turn of the Greek sovereign debt crisis in 2010 for the euro area was that its institutions behaved in ways that were either not foreseen or were, at least in some important respects, dysfunctional. [...] The delayed responses, in early May 2010, undoubtedly increased the cost of intervention – of both the €110 billion bail-out loan for Greece and the €750 billion rescue mechanism for the Eurosystem as a whole – as the price of convincing the markets increased over time." (Featherstone, 2011: 194)

Featherstone thereby hinted at some of the problems that appeared during the crisis decision-making. However, before decisions on how to react to the crisis can be implemented, they have to be made – and this is, as will become clear in this thesis, a rather complicated process which, as Hubbard emphasised, "requires great strength". Yet, how, and by whom, have the decisions been taken, and why? These first puzzles lead to the overall research question driving the thesis:

How can the decision-making of the EU in the euro crisis be understood?

1.2 Aim and Relevance of the Study

The aim of this study is to comprehend the decision-making of the EU in the course of the euro crisis or, more generally, as Larsson et al. (2005) formulated: "to investigate the internal decision-making processes within the EU at different levels when the Union is hit with a crisis" (Larsson et al., 2005: 9). An answer to this question serves several purposes. Firstly and most obviously, it increases the knowledge about the specific case, the euro crisis, itself. Moreover, the study helps to better understand government actions and demonstrates the present power structures, highlights the role of the EU's history and EU institutions during the euro crisis in particular, and might also give hints to EU decision-making in general. Analysing the euro crisis from a crisis management perspective will contribute to EU crisis management research, and might allow comparisons with the management of other EU crisis and highlight commonalities and differences, as Boin et al. (2006: 68) suggested. Additionally, answers to the research question could reveal gaps or imbalances in the EU's and the euro-group's crisis management in general and help to improve and restructure the governance of the euro to better combat and pre-empt future crises. Furthermore, they include significant indications to deficits in EMU governance in crisis situations and also reveal consequences of long-standing problems of policy coordination, adverse governmental discipline, moral hazard, free riding and mutual trust for the current crisis decision-making.

1.3 Research Method

In order to answer the research question it is helpful to systematically analyse the crisis management of the eurogroup and the EU during the euro crisis. Therefore, a theoretical background proves very helpful. As will be outlined in more detail below (→ 2.1 Design of the Study: 9), the research method chosen for this thesis is similar to Allison's way of analysing the Cuban Missile Crisis: using three very different theories – in the case of this thesis, liberal intergovernmentalism, historical institutionalism and cognitive institutionalism – to look at the same crisis from different perspectives. Even though this research method promises to reveal interesting findings, it does – as well as the research question itself and other concomitants – set limits to the study.

1.4 Limitations of the Study

There are limitations of different kinds to this study. Firstly, the aim of the research is naturally limited. As emphasised, the intent is to *understand* the *decision-making* of the *EU during the euro crisis*. This means that the aim is not to explain, criticise or evaluate the decision-making, or to explain or understand the crisis its reasons or effects in general. Further, the intent it not to understand the decision-making within each member state separately, even though national preference formation will be taken into account to a certain degree within the framework of the liberal intergovernmentalist perspective (→ 4 Liberal Intergovernmentalism: 29). Moreover, there is no ambition to understand the decision-making before the crisis, although historical aspects will play a role within the historical institutionalist approach (→ 6 Historical Institutionalism: 42). Likewise, the applied approaches allow observation of the crisis from a political decision-making point of view and not an economic perspective. Finally, the analyses might hint at gaps or disparities in governance structures or decision-making procedures but is not an objective to directly give political advice.

A second set of limitations stems from the chosen method. Specific problems connected with the method will be elaborated on below, but it should be emphasised here, as it is associated with the aim of the study, that there is no ambition to test, evaluate, or develop the deployed theories. The application of the theories might disclose some shortcomings or discrepancies but these are to be understood as impetus for further theory testing and improving rather than as direct suggestions for changes or enhancements of theories.

A final set of limitations comes from the overall concomitants that accompany the study. There are time and space limits to the extent of the study as well as the simple obstacle to access any conceivable data for the analyses. This reflects back to the aim of the study and has consequences for both the possible accuracy of the analyses and its scope and attention to detail. Accordingly, as will be outlined further below (→ 2 Method: 9), the analyses cannot include the entire crisis the extent of which goes well beyond the practical possibilities of this work. For this reason, specific events and processes during the crisis will be selected and examined in more detail.[2]

1.5 Structure of the Thesis

The structure of this thesis is as follows. In the next section, the applied method will be described and criticised closer. Subsequently, in chapter 3, the euro governance system as it developed prior to the crisis will be explained, before each of the three approaches used in the thesis are outlined in more detail and applied to the case (chapters 4 to 9). In the final chapter, the findings are summarised and critically reflected upon.

2 Method

2.1 Design of the Study

In order to answer the research question, the present study will employ an approach similarly to the one which was used by Allison (1971) when he analysed the Cuban Missile Crisis. Allison aimed at understanding why the Soviet and US governments acted the way they did. In order to do this, he applied three different theoretical approaches to his single case to understand the decision-making in the crisis (Allison & Zelikow, 1999). The present study of the euro crisis will be conducted in a similar way, adopting "multiple perspectives" to analyse the decision-making in the euro crisis (della Porta & Keating, 2008: 34), for two main reasons.

Firstly, the aim of the research is equal to Allison's as is the research question.[3] Allison did not try to test, develop or falsify the theories he was applying. Rather, his aim was to use them like spotlights that are aligned towards the same object from different angles with the purpose

[2] A discussion on the merits and drawbacks of this can be found below (→ 2.3.3 Realisation of the Analyses and connected Problems: 16)

[3] Allison posed the general question "How should citizens try to understand the actions of their government?" (Allison & Zelikow, 1999: viii)

of illuminating different parts of the object so that the overall picture that emerges in the end is bigger and more is revealed than would have been revealed by a single spotlight. Likewise, in this thesis, three different approaches will be used to analyse the decision-making in the euro crisis to understand the process better, and possibly, but rather as a side-effect, to find out and conclude which of the theories proves to be most helpful for the purpose. While the three different theories can be understood as three hypotheses since each proposes to explain the decision-making and its outcomes, they do not necessarily exclude each other. That means, it might turn out that neither hypotheses can be fully verified or falsified but rather – as Allison also fund – they might apply to different degrees for different parts of the explanation (Allison & Zelikow, 1999: 379). For some scientists and students, this might be rather unsatisfactory as there is a widespread believe that, said in a simplified way, the aim of a theory should be to explain all or at least most aspects of a phenomenon or process (Jørgensen, 2010: 10). Yet, theories are always simplifications of a very complex reality, constructed out of generalisations of observations of this reality (Jørgensen, 2010: 6). Therefore, it is nearly impossible to incorporate everything in one theory. This is why it might prove pertinent to adopt different points of view and use different lenses to see different aspects when looking at the same thing.

Secondly, although both the Cuban Missile Crisis and the euro crisis, are fundamentally different events, they still have commonalities. Both events marked or – for the euro crisis at least will most likely mark – a decisive crossroads in world history or correspondingly European history. The Cuban Missile Crisis could have, in the worst case, escalated into a nuclear showdown between the USA and the Soviet Union (Allison & Zelikow, 1999: 1). Compared to this, the euro crisis seems harmless. But still, it might have resulted – or still may result – in a major split of the European Union at one extreme, or may, at the other extreme, be a further step towards deeper integration or even a "United States of Europe". Furthermore, both events constitute a crisis. Elaborating more on the particularities of crisis further on (→ 8.1 Defining Crisis: 57), it shall suffice here to mention that the fact of making momentous decisions during a crisis and not within every day political routines may significantly impact on the outcomes of the decision at hand. The importance of these cases and their scope make it attractive to try to understand them in full detail in order to gain deeper knowledge about such processes. Such an understanding can be acquired by different means, with quantitative or qualitative research methods. The nature of the case as well as the underlying understanding of how to gain scientific knowledge and the chosen approaches[4], strongly favour a qualitative method. Quantitative approaches would require a high number of randomised cases or at least big samples of recurring events within one case, containing variables that can be operationalised in order to statistically analyse them (Franklin, 2008: 240-257). After deciding on a qualitative analysis, there are still several possibilities about various methodological approaches such as comparative or single case studies (della Porta, 2008: 198-222; Vennesson, 2008: 223-237). Again, the nature of this case[5] supports a single case study design.

2.2 Case Studies: Challenges and Critics

Case studies are "a research strategy which focuses on understanding the dynamics present within single settings" (Eisenhardt, 1989: 534). Data from different sources and different methods of data collection (various qualitative and quantitative methods) are typically combined in order to provide descriptions of, test, or generate theory for one specific case (Eisenhardt, 1989: 535).

Yet, case studies, as a scientific method, are highly disputed. Opponents of the method have been vocal, numerous, and have come from various sides. Naturally, scientists who believe in the possibility to objectively and quantitatively measure phenomena in social science such as dynamics in decision-making just as in natural science, criticise case studies and most other qualitative methods, as not being "normal science" (Schneider, 2010: 278). They claim that it is not possible to generalise findings from single cases and therefore they are redundant (Flyvbjerg, 2006: 224; Pierson & Skocpol, 2002: 713). Yet, Flyvbjerg (2006) argues, that theories in social science, amongst them some major breakthroughs, have even been derived from single observations or from mere theoretical reflexions.[6] Therefore, he continues, it is not a question of quantity of observations but rather of careful selection of cases and the quality of research (Flyvbjerg, 2006: 226). The euro crisis is such a carefully selected case as it is a special case for both fields, decision-making and crisis management research. For decision-making research it is an extreme case as it *is a crisis* which – as will be argued below (→ 8.1 Defining Crisis: 57) – entails extreme conditions for involved actors. For crisis management

[4] Especially historical institutionalism and cognitive institutionalism imply (single) case studies (→ 6 Historical Institutionalism: 42; 8.4.3 Cognitive Institutionalism: 62).

[5] Comparative studies of any format would have been very difficult to conduct because the euro crisis is a very specific case and there is no similar event or decision-making occasion the crisis could have been meaningfully compared to.

[6] For example Galileo's conclusions about gravity were based on pure theory because he did not have the necessary instruments to produce a vacuum to conduct an experiment that would prove his theory (Flyvbjerg, 2006: 225).

research, the euro crisis represents a special case, because it is not a typical crisis of "high politics", meaning a crisis of national security, but it concerns a less developed research area: EU crisis management of "low politics" (Larsson et al., 2005: 9). Furthermore, the euro crisis is a special crisis insofar as it is unusually long, beginning in 2010[7] and still ongoing and it is transboundary in various senses of the word.[8] Hence, the euro crisis embodies a special case, worth studying as extreme examples of the phenomena of EU decision-making and crisis management. Flyvbjerg's final argument, repelling the critique on case studies is that knowledge which cannot be generalised is not necessarily needless (Flyvbjerg, 2006: 226-227). Competence and, moreover, expertise, he argues, does not mean having copious knowledge based on context independent rules (Flyvbjerg, 2006: 221-228). Instead, experts are characterised by having accumulated knowledge through experiencing a plurality of very specific single cases (Flyvbjerg, 2006: 221-228). Hence, he concludes that "formal generalization is overvalued as a source of scientific development, whereas 'the force of example' is underestimated" (Flyvbjerg, 2006: 228).

Besides these more general claims against case studies, there are more concrete methodological problems and challenges that have to be mentioned. Case studies are prone to subjective bias in several respects, which is seen by some researchers as a reason to raise doubts about their scientific value and validity (Flyvbjerg, 2006: 234). Firstly, the selection of the case is already biased. Even Dreyfus (1988), as a defender of case studies' value to human learning, admitted that "you have to be intuitive" when selecting a case (Dreyfus, 1988 as quoted in Flyvbjerg, 2006: 232). Yet, Flyvbjerg (2006) reasons that "[t]he value of the case study will depend on the validity claims that researchers can place on their study and the status these claims obtain in dialogue with other validity claims in the discourse to which the study is a contribution" (Flyvbjerg, 2006: 233). Secondly, there might be a confirmation bias. The researcher might be more attentive to information that confirm her theories rather than to those that contradict them (George and Bennett 2005: 217). However, being aware of such a phenomenon, already lowers the likeliness of its appearance. Then, "the best strategy is an explicit effort to consider alternative hypotheses that could lead to the outcome in question through the process of interest" (Vennesson, 2008: 238). In order to find such alternative ex-

[7] It is important to say, that it is difficult to state an exact beginning of the crisis as it developed for a long time and slowly became more and more severe.
[8] As to date of writing, April, 2012, it is not clear whether the crisis is terminated or will go on for an unknown amount of time. Interviewed experts mostly leaned towards the latter (Expert 2, 9); For a closer description of transboundary crisis, please see below → 8.2 Changing Nature of Crisis: 59.

planations, Vennesson (2008) stresses, interviews with participants might be helpful (Vennesson, 2008: 238). All these aspects have been taken into account when designing the case study of this thesis. Additionally challenging is that it might be very difficult to decide which explanation is the “right” one (if there is a right one) in case the information gathered supports several explanations from different theories (Njolstad, 1990 quoted in Vennesson, 2008: 238). Here, it should be checked if alternative explanations for one case do not describe different aspects of it (Njolstad, 1990 quoted in Vennesson, 2008: 238).

A further challenge of case study research is the availability and the accessibility of relevant sources (Vennesson, 2008: 237). As a case study design demands in depth examination of a case, there is an urgent need for sufficient, reliable, and detailed material which the study can be based on (Vennesson, 2008: 237). Yet, for many studies of cases of special interest to researchers, documents might be secret, discussions confidential, and participants reluctant to give out information in interviews. This might especially be the case, if the event is not over yet or recent. Allison, for example, only gathered important documents for the second edition of his study over 30 years after the missile crisis when they were declassified (Allison & Zelikow, 1999: vii). Thus, it is a challenging task for the researcher to gather the necessary information for his case and might be so far-reaching that it turns into a major obstacle for the realisation of a study. How research material was gathered and used in this thesis is explained in the section below.

2.3 Research Material: Selection and Appraisal

In the present study, various material was gathered and combined. This was to avoid basing the study on one source only, as several sources, on the one hand, provide more, and more diverse, input and information but also, on the other hand, as George and Bennett (2005) argue, historical analyses always unavoidably contain a personal bias which can be reduced by diversifying sources (George & Bennett, 2005: 95). Besides official Council Conclusions and press releases, official statements by involved politicians, groups of politicians and functionaries, expert and journalistic analyses have been studied. Additionally, expert interviews have been conducted. As the latter were partially primary sources that additionally disclosed valuable inside views into the decision-making process and into attitudes of the actors involved, the method applied to the expert interviews will be elaborated on in more detail below. Additionally, the use of the very detailed material from Ludlow will be discussed in the subsequent section.

2.3.1 Expert Interviews

The experts interviewed included diplomats from various national representations that are involved in the EU's economic and financial policy-making at the Council or Commission. Two further experts were a scholar from the London School of Economics and an expert on the euro crisis of the Konrad Adenauer Stiftung,[9] a think-tank. As several of the interviewed experts demanded to stay anonymous, all experts will be named "expert 1" to "expert 10" hereafter. The interviews were conducted and evaluated as follows. In total, eight interviews were conducted via telephone, a ninth interviewee sent very brief written answers to the questions after the interview via telephone had to be cancelled.[10] Interview requests were sent to ten national and one regional representation. Five interviews were conducted with experts from these representations, who, with their represented nations, provided a wide range of diversity in political economic policies, country size, geographic location, economic situation and membership in the EU and the euro zone. Furthermore, one request was sent to the secretariat of the council president and the Commission, the latter of which led to an interview. Out of four requests to academics respectively think tank experts, two led to interviews, while one remained unanswered and a fourth resulted in the access to very rich and accurate inside analyses of euro crisis governance from Peter Ludlow, a well-known expert and historian in the field.

All interviews were guided interviews with a set of questions that have been derived from the implications of the theories used in this thesis.[11] The theoretically derived questions were individually selected and adapted to the interviewee's type of expertise, depending on their position, their nationality, and on their available amount of time. The main questions were sent to them prior to the interview for several reasons. Firstly, to take away their doubts[12] about the interview itself. Secondly, the questionnaire was sent a day before the interview as a reminder and to give them the chance to reflect upon their answers if they wished to. Yet, sending the questionnaire prior to the interviews may also evoke problems. Mainly, it can be argued that spontaneous or impulsive answers are prevented. Nonetheless, this flaw has to be weighed against the advantages of sending the questions prior to the interviews. In the estimation of

[9] Brussels office

[10] A tenth interview was prepared but could not take place.

[11] Please find the implications of the theories at the end of each individual theory part and an overview of the implications and their connections to the interview questions in the appendix (→ **Fehler! Verweisquelle konnte nicht gefunden werden. Fehler! Verweisquelle konnte nicht gefunden werden.**: **Fehler! Textmarke nicht definiert.**; Expert Interview Questions: 96).

[12] Some interviewees may have had concerns for the euro crisis is still ongoing and as diplomats, they are involved in confidential issues.

the researcher, the advantages outweighed the disadvantage as it turned out that the interviewees appreciated the reminder, the chance to prepare and acknowledged the effort which conciliated them, resulting in a positive attitude towards the interview. This led to more insightful interviews. Furthermore, the disadvantages of preparation for the questions as opposed to spontaneous answers may have been balanced out by complementing spontaneous follow-up questions that were posed during the interviews.

If permitted by the experts themselves, the interviews were fully recorded and subsequently transcribed in a research economical way.[13] For those experts, who wished not to be recorded, written notes were taken during the interview. This, of course, cannot be as accurate and detailed as recorded information. Nevertheless, conducting an anonymous interview that must not be recorded is superior to not agreeing on an interview at all and may even provide better and more confidential insights into decision-making processes, as interviewees are less concerned about finding their name or voice connected with a “hot issue” somewhere in public.

The interviews were, unlike other expert interviews in social science, not processed step by step, examining every statement that was made by the experts. Instead, only information that was important in relation to the applied theoretical explanations, for their support or contradiction, was filtered and used in the thesis.[14] While critics could argue that this method is too biased it is necessary to point out that the interviews served foremost to provide additional information from experts close to the decision-making process as primary source or, depending on the issue and expert in question, as a secondary source with a different knowledge and point of view about the examined events than other secondary sources can provide. Therefore, differently to social science research on, for example, media users, where every statement of recipients about their media use is important for the research and the experts are all wholly primary sources when talking about their perception, the interviews in this research had to be handled more carefully. The credibility, subjectivity and reasoning of the experts about the situation has to be viewed critically, as soon as they are not answering as primary source. Therefore, it can be argued, that a statement-by-statement analyses of the transcribed interviews might even be misleading. Hence, only the information relevant to the study and at the same time most credible was used in the analyses besides other secondary sources.

[13] A research economical way of transcribing an interview means here that repetitions, stutterers and the like have been left out of the transcription.

[14] The reason for this is that the expert interviews were not the only source on which the research was based on but were rather used as additional information.

2.3.2 Ludlow's Briefing Material

A very important source for the analyses of this thesis were briefings by Peter Ludlow[15] of European Council meetings and events connected to final decisions and happenings. The briefings outline even small group and bilateral meetings and communications of top decision-makers in great detail. Ludlow with his expert knowledge, insightful views and rich pool of informants has the possibility to access and gather important information that greatly enriched the possibilities of this thesis and therewith its quality. The framework of the study would not have allowed gathering information that is in its topicality and significance even close to Ludlow's. Nevertheless, it has to be kept in mind that relying on only one secondary source in major parts of the analyses for the thesis makes it much more prone to flaws than relying on a variety of different sources and especially primary sources. Furthermore, the general opacity of such inside information as Ludlow presents makes it susceptible to the credibility of the primary sources which is difficult to verify. For these reasons, Ludlow's material was combined with further material as noted above. Yet, because of the exclusivity of some of his details, it is necessary for this thesis to adopt the hypothesis that his briefings are fully trustworthy.

2.3.3 Realisation of the Analyses and connected Problems

As described in the introduction (→ 1.4 Limitations of the Study: 8), the present thesis is strongly limited in its scope. Therefore, for the analyses that will follow, single events were selected and examined in more detail since it was simply not possible to analyse the entire crisis from each point of view in similarly revealing accuracy. As a consequence, several problems have to be highlighted. To begin with, similar to the selection of the single case (→ 2.2 Case Studies: Challenges and Critics: 11), the selection of single events within the case is prone to the subjective biases of the researcher. Yet, there is hardly any possibility to combat this bias other than awareness of its existence. However, it is the aim of this thesis to explain different aspects of the crisis decision-making as well as possible with theories that allow increased understanding of crisis management. Therefore, it is – as Allison also did – natural to select different aspects of the crisis that best serve this purpose in order to explain them with the theory. Furthermore, as the crisis stretches over such a long period of time, it is not only to be expected, but quite certain that different dynamics change within its course. To date, four-

[15] Peter Ludlow taught at Oxford, Cambridge, Göttingen and London and is founding director of the Centre for European Policy Studies (CEPS) in Brussels. He is author of articles, books and briefing notes on European Council meetings and has been awarded several prices for his work (Eurocomment 2012-06-18).

teen national governments changed and various new challenges and developments within the course of the crisis appeared, which might both cause adjustments in a country's political standpoint. Equally, public opinion might be less stable and as much inclined to media persuasion and other outside impulses as group dynamics within the decision-making elite. Therefore, crisis management is characterised by dynamics and there is accordingly not "one crisis management". Hence, analysing selected events is problematic. It cannot be claimed that it is possible to extrapolate from the analysed situations to the entire crisis management with any certainty. This, admittedly, is a great drawback of the thesis and its selected method. Nevertheless, the analyses are valuable insofar as the analysed events still highlight existing crisis management and decision-making dynamics within the crisis and thereby reveal interesting insights. Furthermore, those can hint to similar management and decision-making during other episodes of the crisis. Additionally, to combat this flaw, it was tried, where possible, to connect specific events that appeared in the selected decision-making situations to similar events that appeared during the euro crisis but have not been subject to in-depth analyses.

2.4 Theoretical Embedding

Even though Allison's methodological "architecture" will be used to structure the research in this study, another set of theories will be adopted. Research in the area of decision-making has significantly developed during the 40 years since Allison conducted his study. Several decision-making approaches and European integration theories such as neo-functionalism, various institutionalisms and constructivist approaches have evolved. Additionally, during recent years, more specific crisis management theories tried to account for the special decision-making situations that politicians face in crisis (→ 8.3 Crisis Management Research: 60). Furthermore, the structure and basic characteristics of the decision-making in the present case, the euro crisis, differs significantly from Allison's case. The details of decision-making for the euro will be more explicitly sketched out below, but it is necessary to point out that while policy choices in Allison's crisis were mainly an issue of national politics, the euro crisis is more complex, comprising decisions on national, intergovernmental and supranational (EU) levels. Thus, there is a need for different theories as the structure of the problem itself is different. Three approaches have been chosen to shed light on different sides of the euro crisis management: liberal intergovernmentalism, historical institutionalism and cognitive institutionalism. While all approaches will be explained more in detail below, they will be shortly illustrated with the help of a metaphor at the end of this section, after the reasons for which they were selected have been given.

The three different approaches generally imply different logics about how to reason. While liberal intergovernmentalism begins from theory, trying to see what it can predict in practice, historical institutionalism and cognitive institutionalism follow an inductive approach, starting from real-world observations and developing a theory that helps to understand these. In this thesis, the goal is to understand a very specific case. So there is one starting point which departs from theories to see what they would imply for the case but there is a second point of departure that start from the real case which poses a puzzle to the researcher. Both parts meet in the analyses where the theories on one side imply certain questions to be asked and a certain structure of how to look at the case and where on the other side the case itself poses its puzzles that should be matched with the theories in case they can answer the puzzle. Seen in that way, the study is a test of the theories, in terms of how far they help to solve the research puzzle and enhance the understanding of the case. However, again, besides possibly finding gaps in or problems with the theories, it is neither intended to develop nor to enhance them, but rather to apply and use them.

2.4.1 Selection of Approaches

In an attempt to formulate a "typology of explanation of human action" with a focus on political action, Parsons (2007) argued that most social scientific logics of explanation can be allocated within one of four types of causal claims: structural, institutional, ideational and psychological (Parsons, 2007: 3-15). Structural claims "explain what people do as a function of their position *vis-à-vis* exogenously given 'material' structures like geography, a distribution of wealth, or a distribution of physical power" (Parsons, 2007: 12). Institutional claims on the other hand refer to man-made constraints such as organisations and rules (Parsons, 2007: 12). Both structural and institutional claims follow a "logic-of-position", meaning that they are concerned with the environment in which an actor makes decisions and with how the actor is constrained by different material or man-made considerations or rules of action (Parsons, 2007: 13). Accordingly, rationalistic approaches usually fall under either of them (Parsons, 2007:13). Ideational claims explain actions with the help of "cognitive and/or affective elements that organize their thinking, and see these elements as created by certain historical groups of people" (Parsons, 2007: 12). Psychological claims attribute importance to "cognitive, affective or instinctual elements (...) but see these elements as general across humankind" (Parsons, 2007: 12), both follow a "logic-of-interpretation" (Parsons, 2007: 13). Using these explanations, scholars see the reasons for what people do in their individual interpretation of desirable or possible outcomes (Parsons, 2007: 13). While in ideational approaches, individuals' interpretations may be influenced by "historically situated ways of interpreting" (Parsons, 2007: 13) and actors are not necessarily irrational, psychological claims always imply that individuals are irrational as they observe the world intuitively, emotively and/or with cognitive shortcuts (Parsons, 2007: 13). Figure 1 illustrates the explained typology.

	General	**Particular**
Position	1. Structural	2. Institutional
Interpretation	4. Psychological	3. Ideational

Figure 1: Fundamental matrix of explanations of action (depicted from Parsons, 2007: 15)

The three explanatory approaches used in this thesis can be situated in Parsons matrix, covering it completely. Liberal intergovernmentalists assume rational actor behaviour with exogenously given incentives. For them, policy outcomes come about though gradual processes of preference convergence amongst the most powerful member states in a central bargain (Pollack, 2010: 20). Hence, liberal intergovernmentalism can be classified as a structural claim. Historical institutionalists integrate institutions and historical decisions into their considerations and claim that these are additional factors that constrain actor behaviour (Pollack, 2010: 22-23). Additionally to rational choice institutionalists, who only take rules into account, historical institutionalists include norms and values (Hall & Taylor, 1996: 937). Therefore, historical institutionalism encompasses both institutional and ideational claims in Parsons' matrix. Finally, cognitive institutionalism is a theory developed in and specifically for crisis management. Scholars applying it argue that the special circumstances of a crisis should be factored into the analysis of decision-making (Larsson et. al., 2005: 11). Concomitantly, they emphasise the cognitive processes that every decision-maker is subjected to in such a crisis, whilst – just like historical institutionalists – attributing importance to institutional constraints (Stern, 1999: 33-39). However, in contrast to liberal intergovernmentalists and historical institutionalists, for cognitive institutionalists actors are not rational. Therefore, the last approach used in this thesis to analyse the decision-making in the euro crisis, fits Parsons' third type of claims, ideational explanations, and even more his last type of claims, psychological explanations as well as of cause the second, institutional claims. Figure 2 illustrates the described placement of the three approaches in Parsons' matrix.[16]

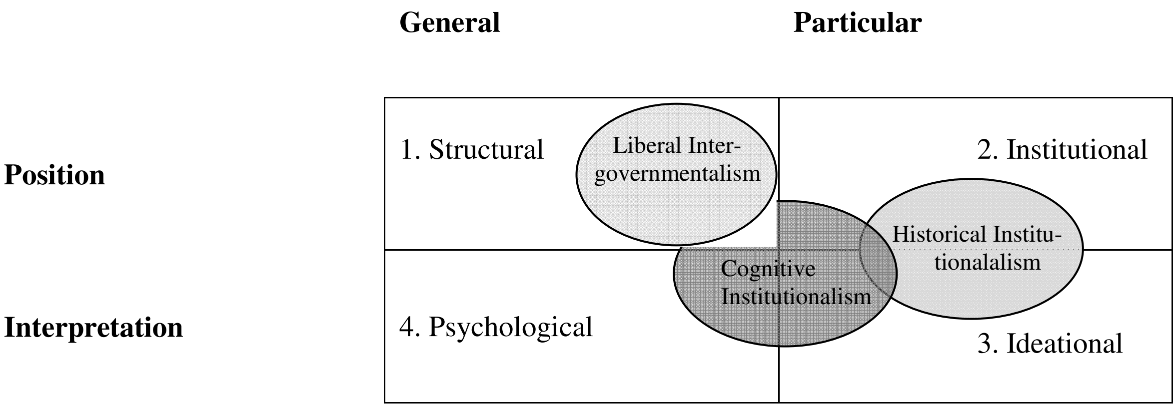

Figure 2: Approaches integrated in fundamental matrix of explanations of action

Of course other approaches such as neo-functionalism, rational choice institutionalism, sociological institutionalism or constructivist theories could have been used in the thesis as well. Yet, as will become clear when the approaches are explained in more detail, the three chosen "lenses" serve their purpose to illuminate the case from different perspectives well.[17] Furthermore, as demonstrated in Figure 2 they complement each other very well, as they cover the whole spectrum of possible claims of explanations by Parsons. Finally, the three chosen perspectives are similar to Allison's setup. He divided the whole decision-making process into different levels of action, first looking at it from the outside with a rational actor perspective and then going deeper into the decision-making process, closer to groups of actors with organisational behaviour as a second approach and then proceeding to the level of individual persons and decisions applying an intergovernmental bargaining approach (Allison & Zelikow,

[16] It has to be mentioned that the exact placement and classification of the three approaches within the matrix is not as simple as it is illustrated and that the brief description of the approaches is a simplification too.

[17] Especially neo-functionalism could have been another option to analyse the euro crisis, as neo-functionalism was developed to explain EU decision-making (Pollack, 2010: 17). However, the theory assumes very strong involvement and initiative of supranational institutions such as the Commission but the setup of the euro governance does not concede such power to them (Pollack, 2010: 18). Hence, neo-functionalism does not seem suitable in the present case.

1999). Here too, the first model, liberal intergovernmentalism, despite being quite complex in itself, follows the simple logic of rational actors and state bargaining where powerful states prevail. The second approach, historical institutionalism, adds institutions and history and their impact to the equation. The third approach finally, neglects the rational assumption of the former ones and goes deep into the cognitive processes of individuals and dynamics of groups, adding a good deal of complexity. The three approaches, also imply different epistemologies, from positivist (liberal intergovernmentalism) to interpretivist (historical institutionalism, cognitive institutionalism), which should be kept in mind throughout the thesis. Still, it has to be accepted that, despite using three different "lenses" to look at the same case, there will always be aspects that cannot be explained, covered or even detected.

2.4.2 A Metaphor illustrating the Approaches

In order to illustrate the applied theories a bit better, they will be explained with the help of a metaphor in what follows. Imagine a group of families who annually join together to go on summer vacation. Each year around January, they have to decide where to go and every family officially has one vote. Therefore, the mothers of all families meet for a discussion and voting.

With a liberal intergovernmentalist model, a researcher would first look at the individual families (nations in the original model) and how they form their preferences for a certain destination. Important actors or groups – in our case, for example, the children who have their own methods of exerting pressure on the final decision-maker of the family, or the grandparents who perhaps pay for the trip – may play a decisive role in this process. In the second stage, liberal intergovernmentalists would look at the discussions among the mothers who are sent to represent their families (the interstate bargaining in the original theory). The model predicts that more powerful families (nations) are more likely to succeed in enforcing their preferences while less powerful actors may be compensated with side-payments. For example the families who founded the "vacation-club", very big ones or the richer ones, who perhaps pay a bigger share of the total expenses to the profit of the rest, may enjoy more power and therewith a bigger weight in the final decision on the destination. Let us assume that these families agree after some discussion to go on a beach holiday the upcoming summer. A small, averagely wealthy and relatively new member family of the club who wants to go on a hiking trip in the mountains may not have had as big of a say in this decision for the same reasons of power distribution among the members. However, they may have been convinced to vote in favour of the beach holiday after an agreement that there will be a one-day hiking tour planned on the way to the sea when crossing through mountains (side-payments/compensations). Finally, liberal intergovernmentalists state that power will only be delegated to supranational authorities in order to demonstrate credible commitment. Applying this to our metaphor, it may mean that only after agreeing on a final destination, the families give the task to book the trip to a travel agency who makes all the necessary arrangements.

Looking at the same process from a historical institutionalist perspective, new aspects arise. Institutionalists in general devote significant importance to institutions. Historical institutionalists define institutions as established formal and informal rules and norms. In the vacation-club metaphor such rules may be that the members decided that every family officially has one vote in the final decision or that they never visit one country twice. Such “rules” may have been written down in an initial statue of the club or added later on. A norm that special attention be paid to the interests of families with elderly or handicapped persons and with little children could have been established throughout the years, without ever being officially stated somewhere. Historical institutionalists then argue that these rules and norms influence present decisions. In our metaphor, this seems quite reasonable, as it is easy to comprehend that some destinations which have been visited before are not even considered anymore in further discussions. In such a case, the initial decision for implementing the “no-country-twice rule” and a decision in the past to visit a certain country affects the present choice of countries even for families that newly joined the club.

Finally, the last approach applied in the thesis, cognitive institutionalism, takes into account that the chosen case is a crisis. To illustrate its implications in the framework of the metaphor, we have to make the decision-making about this year’s holiday a crisis too. Therefore, let us assume that the destination for the vacation was decided as usually in the annual meeting at the beginning of the year and the normal booking procedures have been made. However, only six weeks before the holidays are scheduled, there is an outbreak of a highly contagious disease in the booked holiday destination. The travel agency cannot give any information on whether the disease is dangerous, how far it will spread and how long it will last but offers the vacation-club the option to cancel the booking and book a new journey if they decide within a week. Consequently there are fierce discussions within and amongst the vacation-club member families about what to do. An emergency meeting of all family mothers is convened in which they have to decide how to act and where to go alternatively in case of a decision to cancel the first destination. Crisis management theories such as cognitive institutionalism devote special attention to this situation. They acknowledge that decisions have to be taken under time pressure, a lack of accurate information or an overflow of inconsistent information and uncertainty.[18] Thereby they emphasise that the members might make irrational decisions because of individual cognitive constraints in understanding and evaluating the crisis situation, because of various group dynamics or because of the special impacts of leaders in such a situation. To be more precise, the vacation might be cancelled even though the danger is not as high as estimated but because the vacation-club members understand the situation as very threatening. Also, an agreement on a new destination – say for example on a cycle tour across the Alps – could be made to the disadvantage of some members, maybe even disregarding earlier rules or norms. Here, especially those families with elderly and handicapped members or children would be overruled and perhaps the region was visited before and should therefore not be chosen according to the "no-country-twice rule". Yet, perhaps an agreement came about because of the fear in the mothers-discussion-round of alternatively not reaching any agreement at all in the short amount of time.[19]

The metaphor shows how the three approaches used in this thesis shed light on different aspects of the decision-making process and explain it, with different causal explanations ranging from structural to institutional, ideational and psychological explanations. Yet, it can also be shown in this metaphor how other aspects might be left out of the equation by not applying other perspectives. Neo-functionalists, for example, emphasise the initiative power of supranational institutions. This could again be the travel agency which might not just execute the booking after the decision on a destination was taken but might influence the decision-making process by proposing and highlighting the merits of certain choices or by making special offers for others. Such initiative would only partly be covered by institutionalist approaches and therefore might be missed out. Yet, it is unattainable to take into account every possible influence on decision-making in the present case. Still, as will become clear in the following parts

[18] The definition of a crisis as used below, also encompasses a serious threat to basic values and norms of a social system. This could be present here if the vacation club is seen as a social system and the annual holiday as such a central event for all member families that they would pursue various actions against events that might jeapordise the persistency of the club. Such events might for example be a cancellation of the vacation without agreement on a new destination or wide contamination of members when the destination is kept but the disease still present when the holiday starts.

[19] It has to be pointed out that, of cause, the metaphor heavily simplifies the approaches in order to illustrate them for a first overview and basic understanding. All approaches are explained in more detail in the following sections. Furthermore the very complex structures of euro governance only fit to the metaphor in a very simplified way. Only the aspects of fiscal policy fit in the metaphor. Monetary policy – which in "real life" is managed by the ECB would necessitate to introduce another independent area of decision-making for a special set of decisions in the metaphor. Yet, this is left out here as monetary policy is not subject to the analyses of the study.

of the thesis, the chosen approaches are the ones that – at least at initial investigation – seem most suitable for the case of the euro crisis.

3 EU Decision-Making and Governance of the Euro

In order to understand the EU's crisis decision-making in the euro crisis, it is necessary to first have an overview over the EU's normal decision-making on issues concerning the Economic and Monetary Union (EMU). This is important because considering the special conditions under which actors in a crisis take decisions, it can lead to two different preliminary assumptions. Firstly, that decision-makers would draw on routine patterns of decision-making (Stern, 1999: 190). Yet, secondly, and in contrary, it could also be assumed that the pressure of the crisis situation causes decision-makers to adopt special procedures, for example in order to circumvent long discussions and ensure a quick response to the crisis. Or because the situation reveals gaps in the system and demands for new decision-making mechanisms and structures to be implemented as Jaques Delors argues (Delors, 2011: 3). Thus, it is essential to briefly look at the EU's standard decision-making structure, procedures, responsibilities and competences in this area.

The governance of the EMU represents a special case of policy-making in several respects. Firstly, economic and monetary policy are strictly separated and organised in fundamentally different ways (Presidency Conclusion, 1997-12-12/13: Annex 1). Secondly, it is a policy area that only concerns the 17, out of 27, EU member states that have adopted the euro as their currency. Consequently and thirdly, the EMU means a much deeper integration for those countries involved than for those who have not adopted the euro, which constitutes another step towards a two-track Europe, as Moravcsik called it (Moravcsik, 1993: 502). Because of these dissimilar levels of integration between different countries, the EMU challenges European decision-making routines when the need for closer cooperation among euro countries has to be accounted for but the fear of exclusion from important decisions on the part of non-euro countries has to be equally respected. Therefore, and for several other reasons, which will be outlined below, a final particularity has evolved, namely, the tightly entangled decision-forming and decision-making structures of official and informal forums in euro governance itself.

3.1 Economic and Monetary Policy Coordination until the Euro Crisis

The initial development of the EMU took place within the framework of the EU institutions and procedures as the plans for its step-by-step implementation enshrined the EMU in the Maastricht Treaty (Hix, 2009: 313). By the end of the 90s however, Denmark, Sweden and the UK decided not to join the EMU (Hix, 2009: 318). The EU enlargement in 2004 and 2007 added more countries to the list of non-euro EU member states, for new members only become members of the euro area after fulfilling strict entry requirements[20] (Europa.eu (3), 2012-04-28). EMU governance is divided in economic and monetary policies. Monetary policy is fully managed by a supranational body, the European Central Bank (ECB) (Hix, 2009: 319). It is ordered to not take instructions from any community institution or member-state government in order to pursue an independent monetary policy with price stability as the main goal (Hix, 2009: 316). Hence, monetary policy is beyond the EU governments' and other community institutions' area of competence even during the euro crisis and the ECB therefore pursues its own strategies during the crisis. Yet, those are – while very important for the overall success of the crisis management – not in the focus of this thesis and therefore monetary policy and it's setup are not further discussed here. The second part of the EMU, economic policies, are – unlike many other policy areas which are coordinated at a supranational level – managed on a mainly intergovernmental basis, meaning that they are widely decided at decentralised national levels, following the principle of subsidiarity[21] and commonly only coordinated (Presidency Conclusion, 1997-12-12/13; Puetter, 2006: 38). The Council of Economic and Financial Affairs (ECOFIN) is the central common decision-making body (Puetter, 2006 49).[22] Although all EU member states participate in ECOFIN, only euro member states hold a right to vote on issues that concern the governance of the euro (Puetter, 2006: 37). Yet, as EMU member countries saw a need for closer cooperation, another institution evolved.

[20] Each member state has to fulfill four convergence criteria before it is allowed to adopt the euro as its currency: 1st, the "government deficit to gross domestic product must not exceed 3% and the ratio of government debt to gross domestic product must not exceed 60%;", 2nd, price stability and inflation rate must not exceed the three best performing euro member states' by more than 1.5 %, 3rd, the long-term nominal interest rate must not exceed he three best performing euro member states' by more than 2 % and 4th, "normal fluctuation margins provided for by the exchange-rate mechanism must be respected without severe tensions for at least the last two years before the examination" (Europa.eu (3) 2012-04-28)).

[21] "The principle [of subsidiarity] seeks to allocate responsibilities for policy formation and implementation to the lowest level of government at which the objectives of that policy can be successfully achieved" (Inman & Rubinfeld, 1998: 1).

[22] ECOFIN meetings take place monthly among the national ministers responsible for economy and finance (European Council, 2012-06-08).

3.2 The Eurogroup until the Euro Crisis

The eurogroup, where euro countries' finance ministers meet regularly[23] since 1997 to discuss issues concerning the governance of the euro, was a compromise, established as an informal forum (Puetter, 2006: 1; 66). Puetter highlights the importance of this group, claiming that "[t]he group not only pre-agrees all critical Council decisions with relevance for the euro area member states, it also functions as a forum where ministers decide on the overall orientation of economic governance in the euro area and establish common interpretations of EMU's core policy instruments" (Puetter, 2004: 854). Thus, it has "effectively taken over decision-making on the economic governance without being embedded in the official framework of the community institutions" (Puetter, 2006: 3). This is especially remarkable because the group was not mentioned in any treaty until the Lisbon Treaty and does not have any decision-making competence (Puetter, 2004: 855). Accordingly, as the eurogroup is an informal forum without competences, official decisions are taken in the ECOFIN (Puetter, 2006: 64; Presidency Conclusion, 1997-12-12/13). Puetter (2006) highlights the working method of the group, which is characterised by its exceptional atmosphere. Allowing only one minister and one advisor per country, the rounds are much smaller than council meetings, participation is more equal, shared problems are discussed confidentially and economic policy ideas shared widely (Puetter, 2006: 63, 141-147). Hence, he states, discussions are more productive as top decision-makers are closely brought together in face-to-face dialogues, collectively reviewing national politics, defining common interests and at the same time exerting peer pressure (Puetter, 2006: 3-5).

3.3 Instruments of EMU Policy

There are two main instruments connected with economic and EMU policies. Based on Article 99 of the Treaty establishing the European Community, "[t]he broad economic policy guidelines (BEPG), which take the form of a Council recommendation, are the central link in coordination of the Member States' economic policies. They ensure multilateral surveillance of economic trends in the Member States" (Europa.eu (1), 2012-04-18). Yet, this instrument is very weak in practice, as sanctions for not abiding by the guidelines may be delayed into eternity because the treaty does not establish a time-frame for the deficit procedure (Puetter, 2006: 43). The second and more specific instrument of EMU policies is the stability and growth pact (SGP) which aims at ensuring budgetary discipline and consists of two main

[23] Euro group meetings take place together with meetings of the Council of General Affairs and the ECOFIN ten to twelve times a year (Puetter, 2006: 2).

monitoring procedures: a multilateral surveillance procedure[24] and an "excessive deficit procedure"[25] (Europa.eu (2), 2012-04-18). The SGP regulations "have the status of secondary legislation" (Puetter, 2006: 113), which means that the aim of the pact is implemented by regulation which "must be applied in its entirety across the EU" (europa.eu (4), 2012-06-09). Even though ECOFIN officially is the central decision-making body for processes concerning the SGP, the eurogroup "*de facto* intervenes at all stages of the decision-making process and has developed into the virtual political centre of the operation of the SGP" (Puetter, 2006: 112). The SGP was adopted in 1999 but revised, allowing country specific economic trends to be taken into account more, and thereby weakened in 2005 after France and German faced Commission recommendations on correcting their excessive deficit in 2003 (Hodson, 2010: 172, Puetter, 2006: 44-45; European Commission, 2006: 35-37).

3.4 Problems of the EMU Governance Setup

This setup, with entanglement of ECOFIN decisions that are heavily influenced by eurogroup discussion outcomes and dependent on national policies of member states that remain reluctant to full economic policy integration, stronger instruments, and delegating power to supranational authorities, contains several weaknesses. Firstly, scholars and economists agree that the SGP was powerless in enforcing budgetary discipline as it was not sufficiently tough, failing with fiscal supervision (Draghi, 2011: 20; Bofinger, 2011: 27, Pisani-Ferry, 2011: 64). Governments regarded the SGP provisions as a "straightjacket, that ties the hands of economic policy-makers" and as an "essentially technocratic style of governance" (Puetter, 2006: 10), which was why rules were not observed properly and even changed in 2005. This raised questions about the credibility of the entire setup (Puetter, 2006: 45). Secondly, the ECB as authority for monetary policy, is confronted with, and has to react to, frequently uncoordinated national economic policies (Draghi, 2011: 20), which in turn demands for compromises

[24] The "multilateral surveillance procedure (article 121 of the Treaty on the functioning of the European Union (TFEU)) [is] intended to prevent the occurrence of an excessive deficit and promote the coordination of economic policies. When the economic policy of a Member State does not comply with the broad economic guidelines set out by the Council or may result in an excessive deficit, the Commission may address an "early warning" to the Member State concerned. The Council, on the basis of a Commission recommendation, may then address recommendations to the Member State" (Europa.eu (2), 2012-04-18).

[25] The "excessive deficit procedure" [is] laid down by article 126 TFEU. If the Commission considers that a Member State's deficit breaches the 3% of GED threshold of the Treaty, it should address an opinion to the Member State concerned. Where the existence of an excessive deficit is established, the Council should then issue recommendations to the Member State so that it corrects the deficit within a given period. If the Member State fails to take appropriate measures to end an excessive deficit, the Council may then decide to impose sanctions" (Europa.eu (2), 2012-04-18).

in its policies that might favour some countries while disadvantaging others.[26] Thirdly, there was practically no common supervision of banks, as states were reluctant to integrate in that area, which later on led to severe problems (Bofinger, 2011: 27-28). Finally, the general setup of the EMU "limits the scope for policy coordination" (Puetter, 2006: 45) as the instruments are profoundly dependent on consensus amongst member states. Therefore, Puetter submits that the "format of ECOFIN might not be sufficient for the task of operation EMU's coordination" (p. 46) and that "if the actual operations of EMU demonstrates the technical need for closer coordination, a debate over the appropriate political structures might resurface" (Puetter, 2006: 41).

3.5 Changes in Economic and Monetary Policy Coordination since the Euro Crisis

Such a need to correct the described governance system appeared when the euro crisis hit the EU in 2009 (Pisani-Ferry, 2011: 64). Only then, the leaders of the euro countries had their first official meeting since 1999, when they met for a "euro summit" on the initiative of France (Stichele, 2008: 26). Since then, there have been several of these meetings in different forums and within different institutional frameworks which brought about significant changes to the setup of the EMU, the crisis management instruments and to European economic governance in general. In what follows, some of the most important instruments are listed. The first crisis management instrument was the European Financial Stabilisation Facility (EFSF), created by an ECOFIN Council decision in May 2010 (ECOFIN, 2010-05-09/10) in order to: "[p]rovide loans to countries in financial difficulties, [i]ntervene in the debt primary and secondary markets,[27] [a]ct on the basis of a precautionary programme, [f]inance recapitalisations of financial institutions through loans to governments" (EFSF, 2012). Connected to this is the European Stability Mechanism (ESM) as a permanent crisis mechanism, building on and superseding the EFSF in 2012/2013[28] (European Council, 2010-12-16/17). Additionally to supplying money to the highly indebted countries, closer economic policy coordination was introduced. Once, with the euro plus pact, that was signed by the euro countries and the HSoG of Bulgaria, Denmark, Latvia, Lithuania, Poland, Romania in March 2011 and a second time

[26] For example in the decision about increasing/lowering interest rates, which is favourable/disfavourable for countries depending on their current economic situation, whether they have a boom or a recession. (Hix, 2009: 331-332).

[27] Intervention in the secondary market will be only on the basis of an ECB analysis recognising the existence of exceptional financial market circumstances and risks to financial stability (EFSF, 2012).

[28] Originally, it was decided to start the ESM in mid-2013 but under the course of the crisis this decision was changed, implementing the ESM already from July 2012 (European Council, 2010-12-16/17; Euro area member states, 2012-01-30).

with the fiscal compact (officially called the Treaty on stability, coordination and governance in the EMU), that was signed by all member states except the UK and the Czech Republic in March 2012 (European Council, 2011-03-24/25; European Council, 2012-03-02). The new commitments were to "be included in the National Reform and Stability Programmes and be subject to the regular surveillance framework, with a strong central role for the Commission in the monitoring of the implementation of the commitments" (European Council, 2011-03-24/25). Furthermore, enhancing the governance of the euro area, euro area summits, to be held at least twice a year, were formalised "to provide strategic orientations on the economic and fiscal policies in the euro area" (Euro Summit Statement, 2011-10-26).

4 Liberal Intergovernmentalism

The amount and extent of the changes of policy instruments during the crisis thus far illustrate once more how severe the crisis was evaluated to be. The following chapters will deal with how these changes came about by presenting the approach which will shed light on the decision-making process and then by applying the approach to look at events in the euro crisis management with the respective "lens". The first of these "lenses" is liberal intergovernmentalism.

4.1 Moravcsik's model of Liberal Intergovernmentalism

Liberal Intergovernmentalism, developed by Andrew Moravcsik (1993) to explain European integration, is "grounded in fundamental concepts of international political economy, negotiation analysis and regime theory" (Moravcsik, 1993: 517).

4.1.1 National Preference Formation

Assuming rational actor behaviour, it is a two stage approach (Moravcsik, 1993: 517) in which the first stage refers to preference formation at the national level which is influenced by private persons and societal groups (Moravcsik, 1993: 483-496). Politicians, aiming at being re-elected, are seen as the agents of the national public, which may itself have rather diffuse interests however (Moravcsik, 1993: 483-484). Thus, national interests are a complex mix of different societal and political interests and are formed domestically. Yet, unlike realists,[29] Moravcsik argues, European governments' agreements towards integration are still consistent

[29] Realist theories also assume state interests as the driving force of international politics, yet see these national interests as obstacle for nearly any kind of cooperation (Jørgensen, 2010: 78).

with the assumption of rational national preference formation as it might be in the interests of a state to cooperate in order to gain control over negative externalities[30] of other countries' policies and thereby gain greater control over domestic policy outcomes (Moravcsik, 1993: 484-486). Moreover, European integration furthers the autonomy of state leaders by enabling them to enforce domestic change through international agreements (Moravcsik, 1993: 491). Hence, politicians are playing a "two-level game" in which supranational institutions might also be used as scapegoat in order to support governments in pursuing unpopular politics with undemocratic processes (Moravcsik, 1993: 516).

4.1.2 Intergovernmental Bargaining

The second stage of the theory suggests that the "outcomes of intergovernmental negotiations are determined by the relative bargaining power of governments and the functional incentives for institutionalization created by high transaction costs and the desire to control domestic agendas" (Moravcsik, 1993: 517). Thereby, relative power, inherent in "asymmetries in the relative intensity of national preferences, which reflect (....) the relative costs and benefits of agreements to remove negative externalities" (Moravcsik, 1993: 499) is decisive. There are three main factors that determine a country's bargaining power (Moravcsik, 1993: 499). Firstly, bargaining power depends on whether the country has attractive unilateral policy alternatives (Moravcsik, 1993: 499). The less negative it is for a country if no agreement comes about, the bigger is its bargaining power as compared to countries which expect huge benefits from cooperation (Moravcsik, 1993: 500). So "*[t]he simple, but credible threat of non-agreement – to reject co-operation in favour of a superior alternative – provides rational governments with their most fundamental form of bargaining power*" (Moravcsik, 1993: 499-500). An illustration of this is the agreements about the EMU in the Maastricht Treaty in which Germany found itself in a very strong position considering its policy alternative of remaining with the very stable Deutsche Mark (Moravcsik, 1999: 386; Moravcsik, 1993: 501). Consequently, Germany could enforce many of its demands and dictate the form and functioning of European monetary arrangements to a large extent (Moravcsik, 1999: 431). A second determinant for relative bargaining power is alternative coalitions and the threat of exclusion from a final agreement (Moravcsik, 1993: 502). This gives advantage to big states as they are more important for cooperation and to states with positions closer to the mainstream as

[30] In economics, externalities are a "specific and often unexpected effect on one party arising from an activity by another, and thus not fully reflected in market prices" (Financial Times Lexicon, 2012-06-12). Negative externalities in international politics are thus negative impacts of the actions/policies (e.g. national policies) of one country on another country.

they are potential cooperation partners and can lead to a 'two track' or 'multi speed' Europe (Moravcsik, 1993: 502-503). The United Kingdom (UK), as a country with views diverting widely from the other Union member states on various issues, repeatedly saw itself in such an outside position, having to yield under pressures of exclusion after fierce previous resistance (Moravcsik, 1993: 502). Yet, equally frequently, Britain accepted exclusion, opting out, for example, from common social standards and thereby gaining from positive externalities (Moravcsik, 1993: 504).[31] Finally, Moravcsik argues, that compromise, side payments, and issue linkages may influence bargaining outcomes (Moravcsik, 1993: 504). "Where uncertainty exists about the breakdown of negotiations or time pressure, concessions tend to come disproportionately from governments for which the failure to reach agreement would be least attractive" (Moravcsik, 1993: 504-505). However, where the priorities of countries are on different issues, they may agree to exchange concessions in a package deal to overcome this major problem of cooperation, mainly the trend of increased vulnerability of exactly those countries that are most concerned about the issue at stake (Moravcsik, 1993: 505).

4.1.3 Delegation of Power

As opposed to other theories such as institutionalism and neo-functionalism, Moravcsik only conceded a minor role to supranational institutions in his original theory. Institutions are not actors of any significant relevance in themselves but rather necessary, and thus acceptable, for governments to a certain extent as they increase the efficiency of interstate bargaining (Moravcsik, 1993: 507). Providing information, reducing uncertainty by monitoring and enforcing compliance to agreements and facilitating agreements in the first place that would otherwise be unachievable, they strengthen governments' control over domestic affairs in exchange for a sacrifice of national autonomy (Moravcsik, 1993: 507). Additionally, as mentioned above, playing 'two level games', governments might favour international agreement in order to promote domestic reforms despite societal opposition (Moravcsik, 1993: 514-516). Pooled national sovereignty through majority voting and delegated sovereign power to semi-autonomous institutions such as the European Court of Justice (ECJ) signal that European governments are willing to accept losing autonomy and thereby increasing political risk in return for increased efficiency (Moravcsik, 1993: 510). On the other hand, such delegation of power entails political risks deriving from open-ended decisions about future European cooperation (Moravcsik, 1993: 508). Therefore, governments often prefer "imperfect enforcement

[31] After opting out from stricter social security rules in the EU, Britain gained through lower labour costs as it therewith increased in competitiveness (Moravcsik, 1993: 504).

and inefficient decision-making, to the surrender of sovereignty" (Moravcsik, 1993: 509). Again, the European agreements for the Maastricht treaty are an example of this. Governments initiated the bargaining, Commission involvement was superfluous or even destructive (Moravcsik, 1999: 431). Revising his theory in his book "The Choice for Europe" in 1999, Moravcsik broadened his assumptions about the role of institutions, adding a theory of institutional choice, as a third part of his approach (Polack, 2001: 231; Moravcsik, 1999: 67-85). Major treaty negotiations still function according to the bargaining model, leaving no authority to supranational actors and allowing no pooling of sovereignty in majority voting (Moravcsik, 1999: 8). However, the daily legislative process *within* the treaty may involve elements of delegation of power, which may be grounded in ideological beliefs, in practical, technocratic considerations, namely the need for expertise and information or derive from the need for credible commitments (Moravcsik, 1999: 8; 68; 71). "Governments are likely to accept pooling or delegation as a means to assure that other governments will accept agreed legislation and enforcement to signal their own credibility, or to lock in future decisions against domestic opposition" (Moravcsik, 1999: 73).

All in all, in liberal intergovernmentalism national preference formation and intergovernmental bargaining play the major role in decision-making at the European level, privileging countries that have relatively more bargaining power for one reason or another. Only once French and German national economic policies converged by the late 1980s and the countries agreed on the formation of an EMU did the project become possible in the first place (Moravcsik, 1999: 430). The remaining disagreements about the design of the Union were negotiated among all members, yet Germany found itself in a very strong position and therefore enforced many of its demands (Moravcsik, 1999: 430). Supranational institutions are only "used" by states in order to facilitate treaty implementation and signal the integrity of their commitments (Moravcsik, 1999: 73).

4.2 Liberal Intergovernmentalism in contemporary EU Context

Applying Moravcsik's theory, it is necessary to keep in mind, that he developed it in the beginning of the 1990s, in a period after a new European integration wave started in the mid-1980s (Pollack, 2010: 19). Opposing earlier neo-functionalist models that stressed the importance of supranational institutions for European integration, Moravcsik argued that these developments could be explained with his liberal intergovernmental model (Pollack, 2010: 20). Yet, since then, European integration has deepened and widened ever more. The treaty of

Amsterdam (1999) furthered the co-decision-making procedures and transparency of EU policies, the treaty of Nice (2003) altered the composition of the Commission and again changed the voting system in the Council and the Treaty of Lisbon (2009) introduced new positions for a European Council president and a High Representative of Foreign affairs as well as giving increased powers to the European Parliament and altering the voting system again from unanimity to mainly qualified majority voting (European Union, 2012). These changes meant a significant increase in power for supranational institutions, withdrawing authority from the Council and therefore from the member states. Yet, the attempt to take an even bigger step towards unity, a European Constitution, failed in 2005 and showing the ongoing reluctance of member states to full integration. Another aspect that has to be kept in mind is that European integration strongly varies among issue areas. While agricultural policy has nearly been fully integrated and is managed to a large extent by the Commission at a supranational level (Roederer-Rynning, 2010: 186), in other policy areas such as foreign and security policies, member states reserve themselves a bigger say (Giegerich & Wallance, 2010: 432), demonstrating the remaining importance of national sovereignty in "hard" issue areas. As outlined above, economic, fiscal and monetary policy is a special case in different senses. Whereas other economic policy areas such as the Single Market are coordinated to a large extent (Young, 2010: 125-129), individual issue areas, such as fiscal and tax policies remain essentially intergovernmental (Expert 9, Europa.eu (6), 2009-12-01), and at the same time, integrate different member states to different degrees. Monetary policy on the other hand is fully managed by a supranational institution, the ECB for 17 out of 27 member states. Hence, liberal intergovernmentalism might apply to certain issue areas more than to others. To be precise, it might apply better to those, in which member states' influence remains significantly high and decision-making procedures continue to exclude the European Parliament, devoting more power to the Council. Fiscal policy in general and the governance of the euro in particular, as the items under examination in this thesis, are such areas where member states have kept large parts of their sovereignty. Therefore, it is reasonable to apply liberal intergovernmentalism to these areas and use it as a first lens to examine the decision-making during the euro crisis.[32]

4.3 Criticism of Liberal Intergovernmentalism

Before applying the approach to the euro crisis, it is necessary to point out that liberal intergovernmentalism has been criticised in different ways. Firstly, "reflectivists", "constructiv-

[32] At the same time it is an argument why neo-functionalist theories might not fit to the decision-making in the euro crisis.

ists" or "sociological institutionalists" argue that the membership in an institution has an influence on national preference formation (Pollack, 2001: 226). Liberal intergovernmentalism does not take this into account. Institutionalists, secondly, criticise the model of intergovernmental bargaining, claiming that membership in institutions influences and limits bargaining (Pollack, 2001: 226). Finally, governance approaches see the role of national governments differently, insisting that they are only one actor besides regional, and local actors, governing in a complex system (Pollack, 2001: 227). Thus, scholars from different traditions of thought criticise various parts of liberal institutionalism. Yet, it serves as a good starting point for the following analysis of EU crisis management in the Euro crisis as it nevertheless seems reasonable in this context and practical as a starting point, structuring it with its clear and simple assumptions.

4.4 Implications of the Approach for the Euro Crisis Decision-Making

Several implications for the following analysis of the decision-making in the euro crisis can be drawn from liberal intergovernmentalism. Liberal intergovernmentalists assume that the preferences for the solution of the euro crisis are formed domestically by politicians, taking into account national, societal interests together with their private rational political interests. Therefore, it can be expected, that the 27 member states have widely varying ideas about the "right" policy solutions, which are grounded to a large extend in their economic and security interests. Then, discussing at the bargaining table in Brussels with their fixed preferences, those actors from states which have more relative bargaining power will manage to better enforce solutions in accordance with their preferences than those from other states. This means that states which are in a better economical situation foremost also those with big economies have a bigger say in the decisions because they may have more bargaining power as they might be better off in the worst-case-scenario of a break-up of the euro zone than those with economic problems. Firstly, they may consider adopting a new currency of their own or secondly, joining a newly formed coalition with other strong European countries, excluding weak members and letting them go bankrupt. Additionally, they have a bargaining chip simply in form of money. Saving the euro primarily requires the acquisition of enormous amounts of money. Accordingly, countries which are able to provide the biggest nominal amount of money automatically have more bargaining power. Issue linkages and side payments may play a role if there are decisions taken by qualified majority voting and not by unanimity, where a majority or a blocking minority might be formed by trying to convince single member states by such means. Yet, these might not necessarily appear. Concomitant to this, liberal institutionalists predict that an agreement and therewith a decision for a certain reaction to the crisis, only comes about when the most important and most powerful actors' preferences converge. Supranational institutions, in this case the Commission and the European Parliament, will not have a significant influence on the decisions taken. Rather, the Commission might facilitate their implementation and might have authority over minor day-to-day decisions once the course of action is set. Finally, liberal intergovernmentalism points out that national leaders might use intergovernmental and supranational decisions to justify and enforce unpopular national policies and thereby play two-level games. This might be exercised very much during the euro crisis as basically all crisis decisions are taken at intergovernmental or supranational levels and at the same time are connected with national sacrifices for all the countries involved. Consequently, state leaders might point to the EU to justify unpopular policies.

5 A fist cut: Analysis from a Liberal Intergovernmentalist Point of View

"All member states are equal, but some are more equal than others" (Dinan, 2011: 107; Ludlow, 2012-01-14: 2).

In order to examine the decision-making in the euro crisis from a Liberal Intergovernmentalist point of view, I will, in what follows, analyse specific key events during the ongoing crisis. It is important to keep in mind, that it is not possible in the framework of this thesis, and that it is not the aim, to analyse the entire crisis in full detail. Moreover, even major steps will have to be left out of the analyses to the benefit of looking at others in more depth.

It was early evening on Friday 7 May 2010, when the 16 Heads of State and Government (HSoG) of the euro area gathered in the EU Council's Justus-Lipsius-Building in Brussels (Spiegel, 2010/20: 81). The round was chaired by Herman van Rompuy who had convened the urgent meeting earlier the same week when the situation in the financial markets developed to become ever worse and after the German chancellor Angela Merkel, agreed (Ludlow, 2010 7/8: 29).

5.1 German Dominance and national Preference Formation

Merkel's opposition to the meeting could have stemmed from national political considerations. The upcoming Sunday, a regional election in North Rhine-Westphalia was due. As this was Germany's most populous Land and decisive for Merkel's party's (the CDU/CSU's) majority in the Bundesrat (the influential German upper house), another crisis summit on the Euro crisis could have had a negative influence on the outcome (Ludlow, 2010, 7/8: 29). An election in another smaller euro area member state might not have mattered a lot, but as the leader of the biggest economy in the EU, Merkel was of special importance. Germany's financial contribution to any rescue measures and moreover its credibility as a borrower was the only way to ensure stability in the markets (Dinan, 2011: 108; Proissl, 2010; Ludlow, 2010: 7/8: 14). Merkel's power within the EU therefore had been and, in the following month, was ever increasing. At some times, markets would exclusively focus on and react to her political signals, ignoring the EU as a whole (Proissl, 2010: 8). "Clearly the other Europeans, the US and international financial institutions saw Germany as the swing state in the decision to stabilise the euro and address the currency zone's debt crisis" (Proissl, 2010: 9). Since the beginning of the year, when Greece faced increasing deficit problems, the German chancellor had insisted on and successfully pushed her European colleagues to agree on a politics of "ultima ratio", meaning that a rescue package for Greece could only be justified as an ultimate measure in order to safeguard the stability of the euro as a whole and not to bail out Greece (Ludlow, 2010, 7/8: 13-14). There were several reasons for this rationale, one of which was the political mood in Germany (Ludlow, 2010, 7/8: 14). Not only was the popular yellow press opposed – to say it in a drastic and simplified way – spending tax money on the lazy neighbours but also the majority of the population (Ludlow, 2010, 7/8: 14). Furthermore, disagreements within the government coalition and Merkel's own party lurked around the corner (Ludlow, 2010, 7/8: 14). On the other hand, the chancellor was well aware of the fact that Germany cannot allow a breakdown of the euro as this was an incalculable risk the consequences of which could not be controlled and the costs of which could be far beyond any estimations (Expert 9). These reflexions would continue to constrain the chancellor's available choices throughout the crisis. This is of significance since, even though such rational national considerations – as opposed to European considerations – are natural to all member states across the whole range of political issues (Expert 5), Germany's had much more weight.

5.2 The German-French Leadership

The only other single nation with a strong weight in the currency union was France. However, unlike during preceding decades, France and Germany were not equal powers anymore (Proissl, 2010: 11-12). While Germany's economy was prosperously growing after a setback during the 2008 financial crisis its position became ever stronger (Kulish, 2010-08-13; Expert 8, Expert 9). France on the other hand became weaker (Proissl, 2010: 12; Ludlow, 2011-10-30: 5). Thus, even though Merkel still held good contact with her French colleague about major steps in the crisis – they had for example met and sent a joint letter to the Council President van Rompuy the day before the meeting on 6 March 2010 (Ludlow, 2010, 7/8: 18-29), and will – to the discontent of their colleagues – continue to engage in pre-discussions and pre-agreements before important summits, Nikolas Sarkozy's influence was about to fade. Right at the beginning of the working dinner on 7 May 2010, the Luxembourgian prime minister and Leader of the eurogroup Jean-Claude Juncker complained about the "bilateral or small group consultations in the corridors or behind closed doors in member state delegation offices" (Ludlow, 2010: 30), which were predominantly conducted by Sarkozy but also by Germany and had caused a delay of the summit not only this time but also in prior summits (Ludlow, 2010: 30). Yet, the dominance of France and to a greater extent of Germany in the decision-making would even increase during the upcoming months to the extent that some involved would call Merkel the "*de facto* president of the EU and the euro area" (as quoted in Proissl, 2010: 8). While Merkel stated herself in the German Bundestag "Europe today has its eyes set on us; without us, against us there cannot and there will not be a decision" (Bundestag, 2010-05-05: 3733; as translated in Proissl, 2010:11), one of the experts from a smaller member state interviewed for this thesis conceded that "it is the reality and we have to accept it" (Expert 3).

5.3 Interstate Bargaining

5.3.1 The May 2010 Agreements

The 7 May meeting, which was scheduled to approve the first rescue package for Greece, turned out differently than many participants had expected (Spiegel, 2010/20: 81). During the past week, events had accumulated. The Greek crisis had peaked on April 24, when the Greek prime minister George Papandreou finally officially asked for European support and a rescue package worth 110 billion euro, far more than previously assured (Economist, 2010-05-08: 70), was decided upon (Ludlow 2010, 7/8: 26). Yet, long delays which characterised the

Greece rescue politics of “ultima ratio” (Ludlow 2010, 7/8: 27) had increased market concerns and “the problem of one country became a problem for the eurozone as a whole, and even a threat to the global recovery” (Rompuy, 2011: 6; Ludlow, 2010 7/8). Spanish and Portuguese government bonds had been downgraded on 27 April and by 6 May, Spanish bond price spreads over German bonds were four times higher than a month before (Sutton, 2010-04-27; Reuters, 2010-04-28; Doncel, 2010-05-06). The Economist titled “Acropolis now: Europe’s debt crisis spins out of control” (Economist, 2010-05-01) and the EU Commissioner for Competition, Joaquín Almunia,[33] warned the Spanish to take action (Ludlow, 2010 7/8: 27-28). When by the end of the week, on 7 May, “the interbank lendings virtually froze” (Ludlow, 2010 7/8: 28) and US stock markets became nervous, the US Treasure Secretary Timothy Geithner called for a telephone conference of the G7 Ministers for Finance (Spiegel, 2010/20: 81). All this, called for a rapid and decisive political reaction which was why the 16 HSoG had gathered in the conference room on exactly that day for a summit that Rompuy would later on call “one of those decisive dinners which seem to be the secret of the Union’s success” (Rompuy, 2011: 6).

While the HSoG agreed on the seriousness of the situation and the need for action (Ludlow, 2010 7/8: 31), they disagreed about the actions to be taken because of their different national preferences and their different underlying economic policy ideals (Expert 1, 2). These differences were not only present during this specific meeting but throughout the entire management of the crisis. The euro area, as well as the EU, were divided in mainly two groups. Firstly, the southern countries including, Italy, Greece, Spain, Portugal and with France as their undisputed leader (Ludlow 2010, 7/8: 31), emphasised that the crisis is a crisis of growth which should be solved with economic stimulus packages (Expert 1). These countries also overlap to a wide extent with the debtor countries which consider themselves in an unfair competition where, as a solution to their dilemmata, export driven countries with economic growth should stimulate their demand in order to offset some of their export surplus with additional imports from the debtor countries (Expert 2, Expert 5). On the other side, there were the “northern” countries including Germany, Finland, the Netherlands and Luxembourg within the euro area and further non-euro countries such as Sweden, Denmark and Central European Countries (Proissl, 2010: 18) which understood the crisis as a crisis of debts that need to be combated with stricter fiscal rules and budgetary consolidation (Expert 1). As those countries are largely equivalent to the net payers in the EU and are the major lenders in the

[33] Former Commissioner for Economic and Monetary Affairs and the Euro

euro crisis, they insist that their policies are successful and should also be pursued by the other countries (Expert 2).[34] Considering this, it is revealing to look at various policy ideas that were circulating during the course of the weekend and to include inside information from the ECOFIN meeting which was spontaneously scheduled to conclude an ad-hoc European crisis response on the same weekend, before the stock markets opened in Tokyo on Monday morning (Spiegel, 2010/20: 80-84; Ludlow, 2010 7/8: 33, 35). A proposal for the council regulation establishing a European stabilisation mechanism (EFSF) that was issued by the Commission on Sunday 9 May, included several provisions close to the southern country's preferences: IMF involvement would be highly conditional (Article 4(8)), there was no fixed time limit for the financial assistance, it could be granted by qualified majority Council decision and was planned as a joint loan or credit line by euro area member states under article 122(2) (European Commission, 2010-05-09). Yet, the final press release of the ECOFIN council established a stabilisation mechanism based on three parts. 60 billion euros were granted under article 122(2) by euro area member states and further 440 billion euros were guaranteed through a "Special Purpose Vehicle" (SPV) on the basis of bilateral agreements between member states (Council of the EU: 2010-05-09/10). These guarantees' maturities were limited to three years. Finally, the involvement of the IMF as the third source of funding was included (ECOFIN Council, 2010-05-09/10). These significant changes in the creation of the stability mechanism reflect the power of different member states in the intergovernmental bargaining. The Commission's suggestion for a joint "euro bond" was dismissed as out of the question by Thomas De Mazière, the representative for Germany, at the ECOFIN meeting and after two more years of discussions was still "a red line" for Germany in April 2012 albeit a slowly paling one (Zeit Online, 2011-12-02; Expert 9). Hence, Germany secured a major concession for itself (Proissl, 2010: 31). Yet, Germany intended to grant the 440 billion euros in the SPV through actual loans but some of its usual partners, Austria, Bulgaria, Slovakia, and Slovenia accompanied by Juncker, joined together to suggest to grant the money in the form of guarantees with the result that Germany finally withdrew its opposition (Spiegel, 2010/20: 84; Ludlow 2010 7/8: 36-37). Thus, while Sarkozy and Berlusconi had praised themselves after the eurogroup meeting on Friday for enforcing their own policy ideas (Spiegel, 2010/20: 82), and seemed to have a major influence on the Commission's proposal, the final outcome of the crisis policy-making during the weekend, that was published only minutes before the

[34] It needs to be pointed out that this is a very broad classification of the main positions within the crisis and that countries within those groups firstly did not agree in all policies, secondly, some countries softened or even changed their position on different issues and thirdly, even within countries different standpoints are present.

opening of the stock exchanges in Asia (Spiegel, 2010/20: 84), was influenced to a large extent by Germany.

5.3.2 The December 2011 Disagreements

19 months later, in November 2011, much in the Union had changed. In January 2011, van Rompuy remarked that "[t]he decisions we have taken, notably in May, October and December [2010], constitute the biggest reform of the Economic and Monetary Union since the euro was created" (Rompuy 2011: 6) but from July 2011, the changes would pick up even more pace (Rompuy 2012: 6). The economic governance of the Union changed in major parts towards more integration, the ad-hoc EFSF from May 2010 was to be replaced by a permanent crisis management instrument (ESM) as its own institution and though a treaty change which was adopted in March 2011 (European Council, 2011-03-24/25). A number of other policy instruments were added. The governments of several debtor countries, namely Spain, Slovakia, Italy, Greece, Ireland and Portugal held early parliamentary elections or were not reelected as a result of those countries' problems (Rompuy, 2011: 5). Yet, the crisis was as present as ever. On 26 November 2011, the Economist declared it to be "most serious since 18 months" (Economist, 2011-11-26: 44).

Again, it is revealing to have a closer look at events at that time, especially those of December 2011. After the Germans had already discussed a treaty reform from the beginning of October in order to enshrine stricter fiscal rules into the treaty (Ludlow, 2011-11-30: 13), Merkel pushed for a consideration of such changes in the 23/26 October euro area summit (Ludlow, 2011-11-30: 16), but there was wide reluctance amongst the HSoG (Ludlow, 2011-11-30: 27; Ludlow, 2012-01-14: 6). Yet, it was included in the council conclusion that "the possibility of limited Treaty changes" (European Council, 2011-10-23) would be explored. Following weeks of bilateral and small group discussions amongst the major decision-makers, Merkel, Sarkozy, Italy's new prime minister Mario Monti, the British and Polish prime ministers David Cameron and Donald Tusk, and others (Ludlow, 2012-01-14: 8-19), a council meeting was scheduled for 8 and 9 December 2011 and treaty change was a main issue on the agenda (European Council, 2011-12-09). The "fiscal compact" the HSoG agreed upon in the summit included major German demands, most of all a deficit rule that was to be included in national law and to be controlled by the Commission and the Council (Statement by the Euro Area HSoG, 2011-12-09: 3; Ludlow, 2012-01-14: 24). Yet, on France's insistence the jurisdiction of the European Court of Justice (ECJ) to verify the transposition of this rule at national level and an emphasis on growth and stability in the definition of the Union's future plans were also included (Ludlow, 2012-01-14: 13; Statement by the euro area HSoG, 2011-12-09). Nearly all EU member states agreed to the new compact. Some contracting non-euro states argued for their agreement stating that they do not want to be excluded on major developments and decisions within the EU (Expert 3; Expert 5). However, the UK and the Czech Republic opted out. The reasons for the UK's opt-out are manifold and widely speculated upon, but a major explanation is to be found again in domestic politics. As the UK always had euro-skeptics in Parliament, who are gaining more and more influence (Ludlow, 2012-01-14: 45; Expert 2), Cameron faced fierce opposition to an agreement (Expert 2, Ludlow, 2012-01-14: 15-17) and therefore demanded high concessions in return for conformity (Ludlow 2011-12-08/09: 19). Yet, the other EU member states were not ready to accept those and therefore instead decided upon concluding an intergovernmental agreement and circumventing the UK's opposition (Expert 10), probably hoping the threat of exclusion might eventually prompt them to join the treaty.

While Cameron disagreed to a treaty change for reasons of national interest, other HSoG justified their agreement with the same argument. Creditor countries claimed in front of their domestic audience that membership and a say in EU policies are more important in the long run and therefore giving credits to debtor countries, saving the euro, and agreeing to tighter common economic policy regulations was a compromise that had to be accepted (Expert 2, Expert 3, Expert 5). Debtor countries, on the other hand, explained strict fiscal policies and economic reforms that meant hard sacrifices for their people as the conditionalities the EU dictated and connected to rescue packages.

5.4 Conclusion

Looking at decisions made in the euro crisis from a liberal intergovernmentalist point of view, it becomes clear that member states formed their individual positions internally in accordance with their national policy traditions and ideals and thus took into account domestic considerations rather than European ones (Experts 3, 4, 5, 7, 8). In meetings that were within the framework of European institutions, governments bargained about a common position and reaction. During the euro crisis, the European Council, which was only institutionalised with the Lisbon Treaty in autumn 2009 (Dinan, 2011: 104) became the major decision-making body. The ECOFIN and the General Affairs Council prepared meetings and decided on details (Expert 1, 2) whereas the Commission, as a supranational institution, received delegated tasks from the interstate institutions. Yet, interstate bargaining clearly dominated the decision-making. Germany was evidently prevailing for reasons explained above to the extent that for some pre-decisions France was the only other member state that was consulted. From a German point of view, these pre-decisions and pre-agreements with France not only increased the efficiency of the decision-making but also facilitated consensus-building as France and Germany had such different starting positions that an agreement amongst them already constituted a compromise in which most EU member states can find themselves (Expert 9, Expert 4). Medium and small member states were still discontent with this form of decision-making (Expert 3, 5, 7, 9). Yet, they accepted this inequality as political reality and tried to form coalitions to gain importance and win concessions from dominant states or to exert more influence on details (Expert 5). In general, countries with a sounder fiscal policy had more weight in the decision-making of the euro crisis than debtor countries as the domestic situation of these countries formed a good argument for a certain policy (Expert 5). Hence, liberal intergovernmentalists would see their theory confirmed by major happenings in the decision-making of the euro crisis and conclude that nationally formed positions are bargained over in an intergovernmental setting where some nations are more equal than others.[35]

6 Historical Institutionalism

The second approach, which will be used to analyse the Euro crisis, is historical institutionalism. After giving a short overview of its roots and positioning it within the field of related theories, the approach will be explained and subsequently discussed in more detail in this chapter.

6.1 History of Institutionalism

The tradition of conceding relevance to institutions in political processes reaches far back to some of the first political philosophers, Plato and Aristotle and continued with Locke, Hobbes and James Madison (Steinmo, 2008: 118-119). They all tried to understand how institutions influence political behaviour (Steinmo, 2008: 119). Yet, during increasing efforts to theorise and systematise social science, institutions faded from the spotlight at the beginning of the 20th century (Steinmo, 2008: 119). “Real” science was widely favoured by scholars, propagating a methodology of dissecting complex phenomena into small units to analyse them sepa-

[35] As stated in Dinan, 2011: 107 and Ludlow, 2012-01-14: 2, referring to George Orwell’s famous quote from “Animal Farm” (1945).

rately in order to find their underlying “basic laws” (Steinmo, 2008: 120). Humans were equally seen as guided by laws of behaviour and action (Steinmo, 2008: 121-122). Institutionalist approaches were only revived in the 1980s and early 1990s, when three different so-called “new institutionalisms” appeared as an answer to these behaviourist ideas: rational choice institutionalism, sociological institutionalism and historical institutionalism (Hall & Taylor, 1996: 936; Pollack, 2001: 227). They share an understanding according to which institutions matter, but they all have a distinct understanding of what institutions are and how they matter (Hall & Taylor, 1996: 937; Pollack, 2001: 227-234). Like liberal intergovernmentalists, rational choice institutionalists assume rational actor behaviour (Pollack, 2010: 22). Institutions, which are defined as a set of rules, matter insofar as they help to facilitate cooperation by lowering transaction costs, providing incentives for certain behaviour and thereby formally effecting the outcomes of collective choices (Pollack, 2001: 227-234; Pollack, 2010: 22). Contrary to this, sociological institutionalists do not just take formal rules into account but also informal ones such as norms and values (Pollack, 2001: 234; Pollack, 2010: 22). Furthermore, institutions not only offer incentives for actor behaviour but also shape actor preferences and identities (Pollack, 2001: 234).

6.2 Basic Assumptions of Historical Institutionalism

Finally, historical institutionalism can be positioned in-between rational choice and sociological institutionalism, overlapping with both (Steinmo, 2008: 125; Pollack, 2001: 228). It appeared as counter current to structural-functionalism which was popular in the 1960s/1970s (Hall & Taylor, 1996: 937) and, like sociological institutionalism, includes both, “formal and informal procedures, routines, norms and conventions embedded in the organizational structure of the polity or political economy” (Hall & Taylor, 1996: 938) in its definition of institutions. Historical institutionalism searches to understand why particular choices are made, how institutions shape actor behaviour and the process of decision-making and why a certain outcome occurs (Hall & Taylor, 1996: 937; Steinmo, 2008: 126). Therefore, they concentrate on looking at specific cases and “real world puzzles” (Steinmo, 2008: 133-134; Pierson & Skocpol, 2002: 696) rather than comparing different small cases with each other, trying to detect universal rules that govern actor behaviour, not to mention statistically analysing an array of cases. This is because these “real world puzzles” firstly do not appear at such high frequency that the scholars could look at a plurality of such puzzles of the same type (Steinmo, 2008: 134). But secondly and more importantly, historical institutionalists “take history seriously” (Steinmo, 2008: 127) and thereby adopt an underlying understanding that no case is the same as another since the range of surrounding circumstances always varies. Therefore, they set limits to the applicability of their findings (Pierson & Skocpol, 2002: 711-712). All in all, institutions always evolve another way, depending on the moments in time they appear, just as actors decide differently according to their real world experiences, their institutional context and the overall historical context in which they act.

6.2.1 Institutional and historic Influence on Actor Behaviour

Actors abide by rules and norms that are given by institutions. According to Hall and Talyor (1996), there is, on the one hand, a calculus approach, which assumes that individuals' behaviour is "instrumental and based on strategic calculus" (Hall & Taylor, 1996: 939). They are, as in rational choice institutionalism, seen as profit maximising individuals who aim at solving problems (Hall & Taylor, 1996: 939; Steinmo, 2008: 126; Pierson & Skocpol, 2002: 708). Yet, on the other hand, there is also a cultural approach that emphasises "the degree to which behaviour is not fully strategic but bounded by an individual's worldview" (Hall & Taylor, 1996: 939). Hence, humans are rational, but also "satisfiers" and therefore the chosen behaviour also depends on individual interpretation of the situation while "institutions provide moral or cognitive templates for interpretation and action" (Hall & Taylor, 1996: 939). At the same time however historical institutionalists from both approaches, calculus and cultural, deny the functionalist explanation according to which institutions are "deliberately designed by contemporary actors for the efficient performance of specific functions" (Pollack, 2009: 127). For them, institutions can have an effect over time (Pierson & Skocpol, 2002: 698), which is to say that institutional choices from the past may influence present decisions (Pollack, 2009: 127). "[H]istory is not [just] a chain of independent events" (Steinmo, 2008: 128) but rather a process of interconnected, consecutive events and an important context which may have far-reaching impact. Accordingly, the approach includes claims about path-dependence, timing, sequencing and conjunctures (Pierson & Skocpol, 2002: 699). In an effort to describe path-dependence, Margaret Levi (1997: 28) stated:

> "Path dependence does not simply mean that 'history matters.' This is both true and trivial. Path dependency has to mean, if it is to mean anything, that once a country or region has started down a track, the costs of reversal are very high. There will be other choice points, but the entrenchments of certain institutional arrangements obstruct easy reversal of the initial choice." (Levi, 1997: 28)

Pierson (2000) explains this dependency with "increasing returns" that appear when the relative benefits of a prevailing practice rise, as compared to new alternatives (Pierson, 2000: 252). So the costs of institutional change increase over time because of self-reinforcing or positive feedback processes (Pierson, 2000: 252), the increase of which can have different causes. Firstly, there are most likely economic reasons. Once the infrastructure or institutional structure for a certain option is set up, there are high real costs involved in overturning them and building a new structure. Secondly, there might also be political costs of change towards alternative options. It might be that the public becomes attuned to certain norms and rules which may even have turned into world views and shape social forces (Hall & Taylor, 1996: 940-941). When norms and rules are deeply enshrined in society they may cause certain options to be unconsciously favoured before others (Hall & Taylor, 1996: 940). Equally, institutions often remain stable just because humans prefer options they have accustomed themselves to (Steinmo, 2008: 129).

This means that policy options that were quite reasonable at some point in time, may be excluded after choosing another alternative at a "critical conjuncture" as it might be difficult to reverse the earlier decision (Pierson & Skocpol, 2002: 699-700). Consequently, the timing and sequencing of events plays an important role (Pierson, 2000: 252). Even seemingly minor decisions at an early stage of a process may have unknown and unintended consequences and cause inefficiencies at a later stage (Hall & Taylor, 1996: 942). Pierson and Skocpol (2002) therefore argue that institutional change is most likely to take the form of new elements being included into the existing structure rather than replacing old ones (Pierson & Skocpol, 2002: 709). In other words, institutions influence actor behaviour not just by giving them rules and norms according to which they have to or should act, but also by setting barriers to certain choices and structuring the available set of choices (Immergut, 1992: 242-244). Furthermore, actors might learn through certain experiences, which may have an impact on their subsequent choices (Steinmo, 2008: 127). One good example of path-dependence in the EU is the common agricultural policy (CAP) which today, after over 50 years of policy choices, is a highly complex construct, characterised by countless regulations, tightly entangled with other policy areas such as trade, health and environmental policies and extremely hard to reform (Roederer-Rynning, 2010: 181-183).

This assumption of path-dependence illustrates how historical institutionalists contradict functionalist explanations of institutional choice (Pierson & Skocpol, 2002: 700) and also Moravcsik's liberal intergovernmentalist model. If path dependency exists, as historical institutionalists suppose, actor behaviour cannot be purely rational and interest maximising. Equally, new institutions cannot be purely the product of a combination of actor interests and their relative power as existing institutions, and therefore historical decisions, do have an impact on further political choices.

6.2.2 Further Influences on Actor Behaviour

Besides specific institutions and their history, historical institutionalists take the wider context surrounding actors into account when considering factors influencing their behaviour. First of all, the distribution of power amongst actors, which is seen as asymmetric, plays a role (Hall & Taylor, 1996: 938). Hall and Taylor (1996), for example, describe how institutions might privilege specific societal groups or interests by providing them with easier access to the decision-making process (Hall & Taylor, 1996: 941). While one side wins, another might lose (Hall & Taylor, 1996: 941). Institutional change is likely "when powerful actors have the will and ability to change institutions in favour of new ideas" (Steinmo, 2008: 131). This premise is similar to Moravcsik's understanding of unequal power amongst actors. Secondly, unlike other institutionalist approaches, such as rational choice institutionalism, historical institutionalists take the wider institutional context into account, often looking at the interplay of several institutions at a time (Pierson & Skocpol, 2002: 707, Steinmo, 2008: 129). They are convinced that claims about institutional effects that have been made on the basis of looking at a single institution cannot be valid because they hardly appear in isolation in the real world (Pierson & Skocpol, 2002: 707). Finally, they acknowledge, that factors other than institutions, for example ideas or socioeconomic developments, might impact on decision-making (Hall & Taylor, 1996: 938-942).

6.3 Criticism of Historical Institutionalism

Historical institutionalists are often confronted with critique concerning their methods. The typical research designs of historical institutionalist scholars are case studies which concentrate mostly on single cases. Hence, the criticism about generalisability and biased research mentioned above (→ 2.2 Case Studies: Challenges and Critics: 11) is also brought forward against historical institutionalism as a social science approach implying this method. The advantages of the approach and method mentioned above, such as deeper questions, a more holistic picture of a process or event and the possibility of careful case selection of important issues, however, also apply to historical institutionalist studies. Furthermore, considering norms and values as well as formal rules set by institutions, allows historical institutionalists to combine normative and empirical research as normative dilemmata are regularly present in their empirical studies (Pierson & Skocpol, 2002: 698). As compared to neo-functionalist or intergovernmental models of European integration, which are, according to Pollack (2009), almost exclusively limited to EU studies, new institutionalist approaches have the capacity to develop "general theories of politics" (Pollack, 2009: 142). Furthermore, they "challenge the traditional distinction between international relations and comparative politics" (Pollack, 2009: 141), being applicable at both the national and international level. Thus, besides arguably entailing certain shortcomings by not being able to generalise findings to the same extent as other studies, applying a historical institutionalist approach certainly brings benefits for researchers who are interested in the bigger picture and wider connections in more specific cases. Or, as Steinmo (2008) concludes: "To be sure, many interesting things can be learned from formal, behavioural and, certainly, experimental approaches to the study of politics. But to take history out of our 'equations' intuitions out of our models, and real people out of our analyses would leave us with an impoverished pseudo-science" (Steinmo, 2008: 136).

6.4 Implications of the Approach for the Euro Crisis Decision-Making

Again, as for liberal intergovernmentalism, several implications for the decision-making in the euro crisis can be drawn from historical institutionalism. To begin with, the most obvious assumption is that EU institutions, such as the Commission, and formal rules, such as voting procedures in the Council or treaty provisions, influence the process. Thus, according to the described calculus approach, government representatives of the nation states might still aim at maximising their profit – or in the case of the crisis, minimising the burden they carry – but the selection of possible action alternatives is limited by such rules. Yet, along with the cultural approach, more invisible norms and values may also have an impact on actor preferences and common considerations. Therefore, for example, the individual economic policy traditions and beliefs of member states, the self-images of a country's role in the Union, which is shaped by membership in the Union itself, but also shared common values such as the protection of the common market, may impact on decisions. As path-dependence theory and the connected increasing costs of institutional change predict, it will be difficult for governments to change the EMU institutions and system of governance, especially in such a quick manner and in such a fundamental way the crisis may demand. The economic costs of breaking up the EMU and returning to individual currencies for all member states are, according to the approach, most likely too high just as the political costs where societies that have just gotten used to their new currency and learned to value its flexibility and strength might strongly oppose a breakup of the euro zone and therewith also a possible loss of their savings. European publics, but also foreign investors and third country governments might lose confidence in European politics and the euro area economy with severe consequences for the political leadership and economic outlook of the euro zone countries. As a result, it will be difficult to reverse the earlier decision to establish an EMU as well as many of the small decisions taken since its implementation. Accordingly, it is argued by historical institutionalists for example, that the crisis was only caused by such earlier decisions. The softening of the SPG and the flaws in monitoring compliance with it, for instance are widely seen as one important reason for the initial outbreak or at least for the severity of the crisis (Trichet, 2011: 13-15). Moreover, historical institutionalists expect that the EMU governance system and institutions will not be replaced by new ones but new rules will be added to the existing structure instead. Only when more powerful actors, in the case of the euro crisis, powerful states but maybe also institutions like the Commission or stakeholders such as big investors, or third countries, have the motivation and capability to change may institutions be transformed. Another premise of the approach is that experiences from the past may impact on present choices. Therefore, negative or positive experiences of the EU or of single nations with their currencies – for example during earlier crises – may influence those countries' or the entire EU's, positions on certain policy options to the extent that they might not even be considered or not debatable. Lastly, historical institutionalism implies that the wider context of the decision-making should be taken into account when studying a decision-making situation as it would predict that the interplay and plurality of formal and informal EU institutions as well as other factors influence the crisis management.

7 A second cut: Analysis from a Historical Institutionalist Point of View

“You have to know the past to understand the present” (Carl Sagan, American Astronomer, Writer and Scientist, 1934-1996).

Looking at the euro crisis from a historical institutionalist perspective requires traveling back in time to when the euro was created. The idea of a common European currency was formulated decades before it finally was launched in 1999.[36] Without going into detail about its development, it shall suffice here, to recall the major economic policy instruments (as already briefly described above → 3.3 Instruments of EMU Policy: 26) which were implemented along with the new currency in order to relate them to the current crisis.

7.1 The EMU, its inherited Weaknesses and Constraints

7.1.1 The inherited Weaknesses of policy Instruments

With the introduction of a common currency, member states' dependence on each other increased significantly. Since at the same time "[e]conomic policy and wage determination [was to] remain a national responsibility" (Presidency Conclusion: Annex I, 1997-12-13/13: 29), subject only to the provisions of the SGP, the EU member states concluded that a closer surveillance and coordination of economic policies was indispensable (Presidency Conclusion: Annex I, 1997-12-13/13: 29). As explained above, with the SGP, a multilateral surveillance and an excessive deficit procedure were introduced with the aim of enhancing economic policy coordination by monitoring member states' economic developments (→ 3.3 Instruments of EMU Policy: 26). A presidency conclusion from December 1997 furthermore states that "[p]articular attention should be paid to giving early warning, not only of threatening budgetary situations in accordance with the Stability and Growth Pact, but also of other developments which, if allowed to persist, might threaten stability, competitiveness and future job creation" (Presidency Conclusion: Annex I, 1997-12-13/13: 32). The ECOFIN was therefore tasked to conduct supervision and policy discussions on economic policy and informal meetings of euro area ministers, "to discuss issues connected with their shared specific responsibilities for the single currency", were introduced (Presidency Conclusion: Annex I, 1997-12-13/13: 32). Thus, the setup of the common currency provided for coordination and mutual supervision of economic policies which set a framework for national policy decisions and foresaw European responses in case of failure of national politics to adhere to the commonly agreed guidelines and rules.

Yet, these instruments proved to be weak. One of the first signs of this became visible even before the euro was introduced. While a common currency for Germany, France and Luxembourg would have "been relatively homogenous, bearing some resemblance with an optimal currency area" (Proissl, 2010: 14), Belgium was accepted despite a debt level that nearly doubled the foreseen 60 percent ceiling because it was already in a Monetary Union with Luxem-

[36] For example by Gustav Stresemann in 1929 (Europa.eu (7), 2011-07-19).

bourg (Proissl, 2010: 14). Consequently, Italy, which also had excessively high debt levels, could not be excluded and it "was thus clear before EMU even started that [it] would bend to political considerations, rather than observing the rules" (Proissl, 2010: 14). Equally, even though (according to a Council Decision of 3 May 1998) Greece did "not fulfil any of the convergence criteria" and, therefore, did "not fulfil the necessary conditions for the adoption of the single currency" (Council Decision, 1998-05-03) the country was accepted to join the currency area by January 2001 and thus only two years later, officially fulfilling all criteria (Official Journal, 2000-07-07: 19 – 21). However, the data was revised and corrected in 2004 to such an extent that the EU Commissions Directorate General for statistics, Eurostat, concluded: "[d]ata revisions of such a scale have given rise to questions about the reliability of the Greek statistics on public finances" (Eurostat, 2004: 2). A second sign of the policy tools' weakness appeared in 2005, when Germany and France were the first member states to record an excessive deficit but instead of proceeding with the agreed measures that the excessive deficit procedure provided, the council decided to suspend sanctions. The recommendations would have been the first application of the treaty but the countries which wanted to enforce the treaty were outvoted in ECOFIN by those who had or faced deficits: France, Germany, Italy and Portugal (Hodson, 2010: 172-173). Therefore the procedures against France and Germany were left "in abeyance" (Hodson, 2010: 173). Even though, the ECJ overruled the decision later on, "the damage to the credibility of EMU's fiscal rules was already done" (Hodson, 2010: 173). Finally, the monitoring and compliance instruments of the coordinated economic policy were weakened by the discussion culture that evolved over the years. Even if euro countries broke the common rules or faced obvious problems, the culture prevented member states from exerting peer-pressure. As Proissl (2010) quoted Hans Eichel, the German finance minister between 1999 and 2005: "We no longer trusted the Greek colleague with his figures, [...] [b]ut nobody wanted to be unpleasant" (Proissl, 2010: 16). But not only peer-pressure failed to be efficient, supranational elements also faced problems. An expert interviewed for this thesis stated that he was told by a member of the Council Secretary that they have frequently tried to include Spain's problematic developments in the housing market in the Council Conclusions but that such remarks have always been deleted after Spanish objections (Expert 9). Accordingly, Jean-Claude Trichet, who presided over the ECB from 2003 to 2011, concluded: "a number of countries were not respecting individually the rules of the Stability and Growth Pact, and also [...] all member countries collectively did not exert the surveillance, which was commanded by the Pact" (Trichet, 2011: 15). Thus, although the

EMU provided rules and institutions to prevent destabilisation of the currency or other economic risks, the rules were not followed and institutions were weak. These flaws, it is argued by many experts and scholars (e.g. Featherstone, 2012-03-13), at least partly caused the euro crisis, but additionally they had significant impact on decisions that could be and that had to be taken during the euro crisis because as one expert formulated: “all changes made today only have to be made because they were not already implemented” (Expert 5). Therefore, the weaknesses of the euro policy instruments represented another step down the path on which rules were not necessarily as strictly applied as they could have been.

7.1.2 The Limitations of the Institutional Set-Up

Another blind spot in the EMU was the specific governance of the euro area. As described above, the eurogroup only met informally. Even though the meetings seem to have had a very open discussion culture and significant influence on ECOFIN decisions (→ 3.2 The Eurogroup until the Euro Crisis: 26), they do not seem to have been able to exert enough pressure on countries with excessive government debts to change their fiscal policy.

Finally, in designing the EMU, the euro area HSoG constrained themselves in their available economic policy choices, ruling out certain policies through treaty provisions. First, the decision to create an independent central bank with the task to undertake monetary policy without pressure or influence from any European government put a significant limit on the management of the crisis. In countries where greater channels of central bank accountability to national government existed, like for example in the USA or the UK, governments had the possibility to influence their economy with not only fiscal but also monetary policy (Blinder, 2004: 9-10; Bank of England Act, 1998: 27-33). This means, they could – in times of crisis – mandate a more expansionary monetary policy in order to increase inflation levels and thereby decrease the burden of public debts and to stimulate the economy (Cohn, 2008: 124-125, Expert 10). Second, the “no bail-out clause” (Article 104b,1 of the Maastricht Treaty, 1992) forbid euro area governments to “save” a country by providing it with sufficient monetary assets and thereby again limited the member states in their policy choices before and during the euro crisis (Expert 4, Treaty of Maastricht, 1992: Article 104b,1). Third, the persisting voting rules and missing crisis resolution mechanisms impeded action alternatives which were not foreseen in the treaty and therefore would have to be added or amended with a unanimous council decision[37] (Europa.eu (6), 2009-12-01), which is very hard to bring about quickly and might even demand national referendums.

7.2 Examples of further Influences on Crisis Decision-Making

When the new Greek minister of finance Giorgos Papakonstantinou announced in October 2009 that the Greeks' budget deficit ranges at 12.5 percent, double as much as expected, he did not just shock his own population but also his European colleagues (Focus Online, 2010-04-23). Two days later, the Greeks' credit rating was downgraded for the first time and during the subsequent months further downgrades followed (Focus Online, 2010-04-23). Equally, further euro countries such as Ireland, Spain and Italy followed Greece, facing increasing sovereign bond prices (González Cabanillas & Iversen, 2009: 8). Despite the obvious severity of the situation, the euro countries' first reaction to Greece's increasing problems came, after long hesitation, in March 2010. These belated reactions enhance the intervention costs because, as Featherstone (2011: 194) argues, "the price of convincing the markets increased over time" (Featherstone, 2011: 194). This raises the question of why the EU reacted with such a delay.

7.2.1 The German Constitutional Court

It proves insightful to have a closer look at its reasons, adopting a "calculus approach" which assumes that behaviour is based on strategic calculus. An interviewed expert remarked that "some countries take a tough stance for strategic internal reasons" (Expert 7). One of these countries was Germany. As outlined above (→ 4.1.1 National Preference Formation: 29), the country's government faced internal political opposition and disagreements to expenses on the Greek crisis. Yet, these were not the only reasons for Merkel's unwillingness to readily spend money in support. In addition to the society, the German constitutional court had a major impact on the German leader's policy choice on the issue, being the only court in the EU that did not accept the supremacy of the ECJ and regularly tested European legislation for its compatibility with German basic law (Proissl, 2010: 21-22). Thereby, key rulings "have imposed limits on how far the German government can go with integration and how the national legislator must be involved in the process" (Proissl, 2010: 21). Furthermore, the court devoted a significant say to the Bundestag in EU decisions. In 1993, it specifically judged on the Monetary Union that:

[37] "Revision of the Treaties will continue to require the calling of an intergovernmental conference (IGC), which will reach decisions by common accord (and thus unanimously), followed by ratification of the agreed amendments by all Member States" (Europa.eu (6), 2009-12-01).

"The concept of the Monetary Union as a stability-oriented association is both the basis for and justification of Germany's agreement to join it. If once it is launched the Monetary Union does not continuously uphold stability in a way which is consistent with the Stability Pact, it would deviate from the fundamental concept laid down in the Treaty." (BVerfGE 89, 155 - Maastricht as translated in Ludlow, 2010 6: 6)

This meant that according to the constitutional court, Germany's participation in the Monetary Union was only justified because, and as long as, the Union provides stability. Ludlow (2010, 6) remarks that "no German government since 1993 could ignore this ruling" (Ludlow, 2010, 6: 6). Arguably, this was at least one of the reasons why the German chancellor pushed for late actions on the Greek crisis. This had already been visible in the first declaration on the crisis on 11 February 2010 where the first lines, that had been suggested by the Council president van Rompuy (Ludlow, 2010 6: 13), state: "All euro area members must conduct sound national policies in line with the agreed rules. They have a shared responsibility for the economic and financial stability in the area" (Statement Heads of State and Government, 2010-02-11). Based on this argument of safeguarding the community as a whole and therewith also Germany and not a special country, Merkel could justify joint European rescue measures before the national court if they were the last possible solution, the "ultima ratio", of a situation that escalated into a European crisis (Proissl, 2010: 35). This, it can be argued, significantly reduced Merkel's alternatives at the outbreak of the crisis until it finally became "severe enough" in May 2010.

Yet still, with every major decision that impacts on the German budget and was taken in the course of the crisis, the parliament (or for some parts the budgetary committee) had to be consulted to the discontent of other member states (Ludlow, 2011-11-30: 15). This constrained Merkel on one hand, but, on the other, gave her bargaining power insofar as she could reason for her tough policy standpoint with a possible non-approval in the Bundestag and therewith a non-agreement for the Union (Economist 2011-11-19: 35, Expert 1).

7.2.2 Germany's History

While these politics of "ultima ratio" can – at least partly – be understood with a calculus approach, another defining German policy, the persistent insistence on an independent central bank and on its strictly defined goal of price stability, might partly be understood with a "cultural approach". A majority of German politicians and bankers continuously argued against the ECB as a "lender of last resort" (as The Economist frequently suggests), with the connected threat of inflation (Pidd, 2011-11-07; Hawley, 2011-11-17). This extreme fear of inflation was equally frequently explained by the German traumatic hyperinflation in the 1920s, which still evoked bad memories in the "national memory" and therefore was thwarted at all costs (Pidd, 2011-11-07; Hawley, 2011-11-17, Expert 1). This meant another limit to possible policy choices and an obstacle to changing the ECB's task concerning the issue.

7.2.3 Values and Norms

In addition to such rules and limitations to crisis management in the euro crisis, there were common European norms that impacted on the decision-making. One of these norms became very visible when it was spectacularly broken when David Cameron, the prime minister of the UK, walked out of the European Summit in December 2011 without concluding an agreement with his colleagues on a treaty change concerning economic policy coordination (Hewitt, 2011-12-09). "It is a general rule in Brussels that everyone tries [...], everybody generally wants all on board" (Expert 5). This ideal to reach a common agreement might especially have impacted on less powerful states where dominant countries or a majority of member states may have succeeded in pressureing them within the different institutional settings to finally consent to a specific agreement. Yet, not only a cultural approach, putting an emphasis on the institutional norm, but also the calculus approach perspective can be applied to understand the member states' behaviour. The answers of several interviewed experts hinted to the conclusion, that inferior member states or groups consent to policy proposals even if the proposed policy is not completely in line with their own wishes, because they fear losing a say in future decisions following up to the agreement (Expert 2, Expert 3, Expert 5).

7.3 EMU Institutions in the Crisis

Besides the discussed *general* EU institutions, understood as set of rules and norms, examining the *specific* EU institutions – as Keohane (1988: 383) differentiates the two concepts – reveals to be interesting for the analysis of decision-making in the euro crisis. As outlined above, the ECOFIN bringing together the finance ministers of member states was tasked to be the main institution responsible for governance issues concerning the Monetary Union and authorised to conclude decisions, while the eurogroup was an informal but still influential body (→ 3.2 The Eurogroup until the Euro Crisis: 26). Yet, during the crisis, the European Council with the HSoG of the EU and the Euro Summit with the HSoG of the euro area gained importance when overtaking all major policy decisions. The majority of HSoG already agreed at the outbreak of the crisis that it was "Chefsache", as the German finance minister

Wolfgang Schäuble called it when he disillusioned his European colleagues at the ministerial level about their role in the crisis (Ricard, 2010-03-16; Ludlow, 2010, 7/8: 11; 16; 28). Nevertheless, the confusions about institutional responsibility went on until the Dutch finance minister argued two months later that there was an "urgent need to clarify relations" (Ludlow, 2010, 7/8: 52) between the ECOFIN and the European Council. As the crisis went on, the European Council, being "outside the traditional Commission-Council-EP triangle [...] [played] a crucial role in the EU decision-making system" and was therefore the "real centre of power in the EU" (Dinan, 2011: 118-119). The ECOFIN consequently suffered from a loss of significance, merely concentrating on detailed realisation of the HSoG's decisions, in many cases in cooperation with the Commission. The Commission, whose primary task it was to draft proposals, implement and enforce Community legislation, on the other hand won influence through its crucial monitoring and advisory role in the crisis measures (as one part of the Troika assessing government performance on economic reform in programme countries[38] for example) and in the framework of the new economic policies such as the European Semester, where the Commission evaluates member states budgetary plans and suggests improvements (Expert 7, Expert 10, Ludlow, 2012-01-14: 37-38; European Council, 2011-10-23). Finally, the Euro Summit on 26 October 2011 institutionalised the meeting of the HSoG of the euro area, stating:

"We will thus meet regularly – at least twice a year – at our level, in Euro Summits, to provide strategic orientations on the economic and fiscal policies in the euro area. This will allow to better take into account the euro area dimension in our domestic policies. [...] The Eurogroup will, together with the Commission and the ECB, remain at the core of the daily management of the euro area. It will play a central role in the implementation by the euro area Member States of the European Semester. It will rely on a stronger preparatory structure." (Euro Summit Statement, 2011-10-26: 31./32.)

This development of top-level crisis management and therewith the (most likely temporary (Expert 1)) shift in competences of different institutions during the crisis is of crucial importance for crisis decision-making. Firstly, it shows that the institution which is most intergovernmental still has priority before more supranational ones, especially in such a severe situation without prepared crisis management tools. However, historical institutionalists see the

[38] Programme countries are countries that are under an adjustment programme to stabilise their economic situation. To date of the summit in October 2011 these were: Greece, Ireland and Portugal.

significance of the European Council as not in contradiction with their approach since it is also an institution, not supranational but intergovernmental. Its institutional setup with a permanent president, it is argued, impacts on decision-making as compared to crisis management where the top-level decision-makers did not have such a forum. Whilst the European Council gained influence, the Commission did as well, and it will keep its newly gained competences after the crisis, in contrast to the European Council. Therefore, it can be concluded that whereas the European Council seized the ad-hoc management of the euro crisis, it devoted power for the crisis aftermath and future crisis prevention to the Commission. The institutional development is further important for crisis decision-making as the crisis would most likely have been managed in another way by another institution such as the ECOFIN.[39]

The policies conducted during the crisis, prove another point: the crisis decisions do not abolish failed institutions and create new ones, but rather change existing ones by adding to them. In fact, the entire EMU can be seen as an example of this. Thinking of the EMU as an institution, from the beginning it was perceived as too expensive to reverse the process of monetary integration, from an economic point of view as well as considering the connected political costs (Eichengreen, 2010: 47). This was, because a breakup of the Union was not only connected with inestimably high real costs, but also because political costs might have been high, domestically and internationally. A “country that withdraws from Europe’s Monetary Union would be seen as disregarding its commitments to other euro area members [...] [and] not be welcomed in the meetings where the future architecture of the European Union is discussed” (Eichengreen, 2010: 47). However, because, as Eichengreen estimates, EU member states greatly value the Union, they would not take such a risk except in “most extreme circumstances” (Eichengreen, 2010: 47).

7.4 Conclusion

All in all, historical institutionalists conclude that the EU’s decision-making during the euro crisis was influenced by many different factors. These derived from the EMU’s original institutional setup and policy tools, their flaws and the EMU’s ad-hoc crisis setup, they came from particular national constraints such as German basic law, enforced by the constitutional court and they stemmed from norms and cultures that developed within and outside the institutions over time and helped to cause or at least to aggravate the euro crisis but they also influenced

[39] This statement admittedly is a speculation and can neither be verified nor falsified. Yet it is seems self-evident that other crisis managers would come up with other decisions.

ad-hoc decision-making. Accordingly, several events and decisions in history constrained and thereby influenced the present policy decisions to a large extent. The decisions that were made during the crisis further advanced the economic integration, even though it was partly argued that the already concluded parts of economic integration caused the crisis in the first place. Therefore it can be concluded that while the EU might be "paying for the past" with this crisis, and for the lack of crisis resolution mechanisms (Ludlow: 2010, 7/8: 43), the EMU itself and therefore the euro crisis are "part of a historical process to deepen economic integration in Europe, and thereby, as Montesquieu famously argued, to make the countries of Europe '*reciprocally dependent; and their union is founded on mutual necessities'*" (Trichet, 2011: 13).

8 Crisis Management

After looking at the euro crisis from the perspectives of liberal intergovernmentalism and historical institutionalism, one last approach remains to open up new insights. Cognitive institutionalism takes into account that the situation under examination is a crisis. And, as will become clear in what follows, according to crisis management researchers this can have significant impact on the decisions made. Before introducing cognitive institutionalism however, a closer definition of the term "crisis", and a description of its particularities, is necessary. Furthermore, as this last approach is more complex than the previous ones, it is elaborated on in greater length in order to avoid simplifying too much in an attempt to summarise it.

8.1 Defining Crisis

Reading, listening to and watching news, a wide range of different "crises" in different areas of life and from all around the world are constantly presented to us. Journalists and politicians are talking about an "Iran crisis" (BBC, 2012), a "world food crisis" (Brown, 2011-01-10), a "sovereign debt crisis" and so on. This illustrates how widely and nearly inflationary the term "crisis" is applied in everyday language, to the extent that Boin (2004) assesses that the "term 'crisis' is typically used as a catchall concept encompassing a variety of 'un-ness' events" (Boin 2004: 167 and Rosenthal & Kouzmin, 1997: 289 referring to Hewitt 1983: 10). "It applies to situations that are unwanted, unexpected, unprecedented, and almost unmanageable and that cause widespread disbelief and uncertainty" (Boin, 2004: 167).

Within the field of crisis research, there is a less vague and widely agreed definition for crisis as "a [perceived] serious threat to the basic structures or the fundamental values and norms of a social system, which – under time pressure and highly uncertain circumstances – necessitates making critical decisions" (Rosenthal et al., 1989: 10 widened by Sundelius et al. (2002: 13) with the term "perceived").

This definition consists of three parts. Firstly, it explains what makes a crisis, namely, the threat to basic societal norms and values. However, Kouzmin (2008: 158) emphasises that not every threat causes a crisis situation. Boin et al. (2005) describe such values as "safety and security, welfare and health, integrity and fairness" (pp. 2-3). Furthermore, "threat" is a very subjective term, which is why Sundelius et al. (2002) widened the definition with the term "perceived" (Sundelius et al., 2002: 13). Secondly, Rosenthal et al. include occurring pressure and uncertainty in their definition and thereby hint to typical conditions of crisis situations. Yet again, Kouzmin criticises the definition, stating that like threat, "uncertainty, and urgency [are] [...] highly susceptible to the perceptions of stakeholders and constituencies" (Kouzmin, 2008 p. 158). This claim is supported by Hermann and Dayton (2009) who found, examining various events that were with wide consensus considered to be a crisis, that in the majority of cases, crises have been anticipated and were conceived as providing some time for action (p. 235). Hence, it should be kept in mind that these notions need to be treated carefully and are not necessarily indispensable to the definition of a crisis itself. Finally, the third part of the definition stresses the need for decisions to be made. This decision-making perspective emphasises the consequences of the respective threat; the need to decide on how to react.

As one of the basic foundations of the EU is its common economic area (Boin et al., 2006: 27), a threat to the existence and functioning of this area – like a collapse of the currency and the financial market – can be perceived as a crisis. Moreover, another common aim of the Union, which was established later on, is the protection of its peoples and society (Boin et al., 2006: 25) which includes the protection of achieved social standards and material welfare. In light of rising unemployment rates, decreasing real wages, severe pecuniary deprivation for private individuals as well as for the private and public sector, a weakening or breakdown of the common currency and long lasting economic depression as the result of the bankruptcy of numerous European banks or even states, equally constitutes a severe threat to this system. Thus the Euro crisis, as described above, can clearly be defined as a crisis situation that requires crisis management.

8.2 Changing Nature of Crisis

While crises have naturally always been there, scientists argue that their character changes, undergoing structural transformation and becoming increasingly trans-boundary (Ansell et al. 2010: 196; Boin, 2009: 368; Hermann & Dayton, 2009: 133). Crisis are no longer specific, isolated, independent and limited (Lagadec, 2009: 474). They cross political boundaries vertically[40] and horizontally[41] and affect various "life-sustaining systems, functions or infrastructures" (Ansell et al., 2010: 196) crossing functional boundaries. The euro crisis for example distresses Europe's economies but also its social system. Additionally, crises are increasingly unbound in time, without a clear beginning and/or ending, when multiple causes have accumulated slowly and when long-term effects may continue until an unknown time in the future (Ansell et al., 2010: 196-197; Boin et al., 2005: 7). Again, the euro crisis is a typical case in this sense. Its origins are said to derive from diverse decisions and events in the past, historical institutionalists argue for example that historic decisions partly caused it (→ 7 A second cut: Analysis from a Historical Institutionalist Point of View: 48), yet it could also be argued that another crisis, the financial crisis in 2008 triggered the euro crisis in its current form, appearing in this specific time period and with the severity it unfolded. Therefore, it is hard to single out one moment in time as the start of the euro crisis. Yet, in order to set a clear limit to the research, the announcement of the new Greek minister of Finance, Giorgos Papakonstantinou, in October 2009 about the Greeks' budget deficit of 12.5 percent is taken as a starting point of the crisis. Similarly, it is currently not clear, whether the euro crisis is already over or might heat up again. Therefore, the current date, April 2012, is taken the as end point of the crisis analysis even if the crisis itself may go on.

Lagadec adds another angle to the time dimension: speed (Lagadec, 2009: 474-475). As societies and societal systems are ever closer connected and entangled, diseases, bugs in systems (such as the information network) and mistakes or collapses of parts of a system for example a blackout spread quicker within the system and easily jump to others. The financial crisis of 2008 for example originated in one specific market of one country only but caused disruption of the entire social-economic system all over the world within days (Hodson, 2010: 176; Lagadec, 2009: 475-476). Likewise, the euro crisis is frequently deemed to jump from one European country to others or even to drag in third countries all over the world (e. g. Newenham, 2012-05-23).

[40] from lower levels of administration to higher ones
[41] across different governmental entities of the same level e.g. different municipalities or countries

8.3 Crisis Management Research

"The ability of governments to discern and solve different types of crisis situations is a topic of long-standing academic interest" (Kouzmin & Jarman, 2004: 182). One major early achievement within the discipline certainly was Allison's (1971) analyses of the Cuban Missile Crisis (Kouzmin & Jarman, 2004: 182; Hansén, 2003:14), as explained above (→ 2.1 Design of the Study: 9). Yet, Allison's and other early approaches all relate crises to security issues (Hansén, 2003: 14). Only after the cold war did scholars begin to include other, non-military, threats (Hansén, 2003: 14-15). Mostly because military threats were not perceived as prevailing anymore in some parts of the world (Hansén, 2003: 15). With this change in the global system towards a less-structured and more uncertain one (Stein, 2008: 561), other kinds of threat gained momentum and therewith "crisis management has become more complex and [posed] strategic and coordination problems of a different order of magnitude" (Stein, 2008: 561). Stein (2008) consequently notices that contemporary research is informed by complexity rather than concentrating on linear models of causation (Stein, 2008: 560; Boin et al., 2005: 7). Accordingly, researchers have widened their agenda and have started to include disciplines other than international relations to enhance their theories and analytical tools (Hansén, 2003:15). Theories from research fields such as psychology, sociology, organisation theory and political science (Hansén, 2003: 15) advance scientific efforts today.

The research "bulk" produced in the years of crisis management research draws attention to a variety of particularities that characterise crises and crisis management. Boin at al. (2006) identify different stages of crisis management: crisis prevention, crisis preparation, crisis coping and crisis aftermath (Boin at al., 2006: 2-6). The present case study is limited to the third stage of crisis management, "crisis coping", as the decision-making in this stage is the main interest of the thesis. Thus, it will not empirically engage with possible crisis preventions, preparations or the crisis aftermath.

8.4 The Cognitive Institutional Approach

The theoretical approach which is guiding and dominating the research of this part of the analysis is called cognitive intuitionalism. The theory is based on two approaches cognitivism and neo-institutionalism.

8.4.1 Cognitivism

Cognitivism was mainly developed in psychology as counter-movement to behaviourism (Stern, 1999: 33). Stern (1999) explains that the theory is based on various assumptions.[42] Firstly, it is believed that human behaviour is not just deducible with a simple stimulus-response model, as it is believed in behaviourist theories, but that individual interpretation of a situation plays an important role (Stern, 1999: 33). Accordingly, to understand human behaviour, it is necessary to understand subjective interpretations of situations (Stern, 1999: 33). Secondly, various studies proved that such interpretations are influenced by prior knowledge, expectations and selective perception that favours certain information whilst it discriminates against others (Stern, 1999: 34). Like historical institutionalists, cognitivists argue that historic events and their consequences that are similar to the present situation, for example, might be influential. Connected to this is a third premise, namely that decision-makers have a limited capacity to process information and therefore information is filtered to the advantage of information connected to issues that are ranked high on a personal cognitive agenda (Stern, 1999: 34). On the other hand, where there is a lack of necessary information but a need to evaluate a situation, cognitive structures such as analogies, metaphors or schemata and scripts are used to compensate for this lack (Stern, 1999: 34). While both mechanisms may help to conceptualise and understand a situation better, they may also lead to wrong interpretations (Stern, 1999: 35). Research concerned with group decision-making suggests that groups may compensate for such individual deficits, however, as will be shown below, groups are connected with other problems (Stern, 1999: 35). Fourthly, cognitivists emphasise the roles that emotion and motivation play in information processing and decision-making, describing the crucial impact of the former on the latter (Stern, 1999: 35). Finally, the impact of stress has been highlighted. Whereas a healthy amount of stress is connected with increased achievement potential, excessive stress hampers performance (Stern, 1999: 36). Moreover, persons under stress are estimated to concentrate on the short term, tend to conservative actions, are easily irritated, and narrow and deepen their attention (Stern, 1999: 36).

8.4.2 Neo-Institutionalism

The neo-institutional approach integrated into cognitive institutionalism is close to sociological institutionalism and historical institutionalism, as described above. Yet, it starts from the

[42] In what follows, Stern's presentations of studies and research in cognitivism and neo-institutionalist theories are summarised. For closer and more detailed explanations with numerous further references to basic research and main authors on the issue please see Stern, 1999.

premise that institutional norms, rules and cultures shape actor behaviour (Stern, 1999: 37) and neglects a rational actor perspective. Like in historical institutionalism, institutional history is seen as influencing policy-making limiting the variety of present choices (Stern, 1999: 37-38). Similarly to cognitivists, neo-institutionalists emphasise the importance of the subjective interpretation and framing of situations to the policy discourse and therewith to the outcome of policy choices, decisions and actions (Stern, 1999: 38). Furthermore, Stern outlines the idea of institutionalists that decision-making is partly formed by “factional, group or organizational competition [...] based on careerism, personal antagonisms, clashing organizational cultures, or genuine differences of opinion on how to go about conceptualizing and/or pursuing common goals and interests” (Stern, 1999: 39). Thereby, one or the other policy may prevail but it might also occur that compromises are concluded (Stern, 1999: 39).

8.4.3 Cognitive Institutionalism

Incorporating cognitive ideas into the neo-institutional context, the cognitive institutional approach integrates the subjectivity of individuals and their cognitive processes into the framework of organisational structures that limit their actions “in order to develop a more holistic picture of a situation”(Larsson et al., 2005: 13). As Hermann and Dayton’s analyses of several crises show “we need to be careful in labelling an event a crisis without taking into account how those involved in dealing with it are making sense of what is happening” (Hermann & Dayton, 2009: 240), in addition to examining the structures that influence decision making – as promoted by neo-institutionalists. They even go a step further, emphasising that “we can gain some idea of what the decision-making process will look like by ascertaining how policymakers are viewing the triggering event” (Hermann & Dayton, 2009: 240).

8.4.4 Criticism of Cognitive Institutionalism

As with the other applied approaches in this thesis, it is necessary with cognitive institutionalism to consider the approach’s possible flaws. Firstly, while cognitivism is a heavily researched discipline with numerous empirical studies, mostly in psychology, the applicability of these studies – most of which have been conducted in laboratory experiments – to real world policy decision-making might be questioned (and thus, the external validity and generalisability of laboratory experiments). Individuals might neither be always rational nor irrational. Hence, as the approaches themselves regularly state, actors only *tend* to perceive, decide or act in a certain way. Therefore, the presented models might apply to most actors but might not apply to those specific decision-makers that cope with the specific real-world crisis in question. On the other hand, if one questions even such well researched societal mechanisms then no theory and finding in social science can be trustworthy and would be superfluous. Accordingly, drawing conclusions from an extensively researched discipline like psychology might be a better option than not drawing any conclusions at all or relying on mere subjective interpretations. Secondly, the institutional part of the theory seems to be a mix of at least sociological and historical institutionalism. While both approaches overlap in some parts, they contradict each other in various significant assumptions (for example assumptions about the rationality or irrationality of actors). Thus, it is not fully clear which implications from each new institutional branch are adopted and which are not. For this reason it is difficult to apply it consistently. For the purpose of this study, therefore, the assumptions that are stated within applications of cognitive institutionalism are adopted. This can be done because the purpose of the research is not a discussion or development of specific parts of the theory itself but merely an application of it as it is presented. A final critical argument can be made about cognitive institutionalism as a whole. Trying to incorporate all aspects of crisis management into one theory makes the theory itself very complex. Concomitant to this, it is challenging to apply it as the ambitious aim of including all aspects might still not be achieved. On the other side, Stern argues that a less complex theory would have to be more abstract and might thereby leave out important aspects of crisis decision-making (Stern, 1999: 32).

8.5 General Implications of Cognitive Institutionalism and specific Implications for the Euro Crisis

Building upon this theoretical foundation of cognitive institutionalism, Stern and other researchers in the field developed several theoretical assumptions concerning management and decision-making during crises and conducted a vast amount of studies on the management of various crises in order to test these. In what follows, these general implications for crisis management will be outlined and related more specifically to the implications that can be drawn for the decision-making in the euro crisis.

To begin with, Boin et al. (2005) outline five critical tasks for leaders in a crisis (Boin et al., 2005) of which the ones most important for this thesis, sense making, and especially decision-making, will be outlined in more detail in what follows. Meaning making, crisis termination and learning, although generally not of minor importance, are neglected here as their analyses exceed the research objective of this thesis.

8.5.1 Sense Making

Initially, leaders need to make sense out of a crisis situation (Boin et al., 2005: 10).[43] Hermann and Dayton (2009) summarise that, in trying to understand the situation, decision-makers frame it in a certain way, concentrating on one or two options quite quickly. The evolved understanding becomes so dominant that it is difficult to change it and therewith also the course of action throughout the crisis (Hermann & Dayton, 2009: 238). Quantitatively examining various crisis situations, Hermann and Dayton (2009) found out that this dominant framing connected with within-crisis path-dependence is most likely in crises that are a surprise, where little time is provided for action (Hermann & Dayton, 2009: 238). Managers of crises which must be solved urgently but were anticipated, however, stick the most to their pre-planned actions, whereas crisis managers of situations that provide more time, consider a bigger variety of alternative options (Hermann & Dayton, 2009: 238). Hence, for the euro crisis, it is important to find out how the crisis is perceived by the crisis decision-makers themselves and how they frame it in order to find out which cognitive mechanisms might apply. On the one hand the crisis could have been a surprise, if leaders claimed they did not think it could really happen to the extent it did. On the other hand, it could be argued that leaders might have anticipated the crisis, as obvious flaws and their dangers in the euro governance were frequently pointed out by various actors (eg. European Commission 2006: 35-38). Equally, the crisis might be seen as providing time as opposed to natural crises where a reaction has to be provided within minutes our hours, not within days, weeks or months. Then again, it could be seen as not providing time, considering that normal policy processes, debates, implementations and ratifications in the EU might stretch over years.

8.5.2 Decision-Making

8.5.2.1 Leaders in Decision-Making

"The most important role of a leader is to take on his shoulders the burden of ambiguity inherent in difficult choices." (Lagadec, 2009: 479).

In crisis situations, it is widely expected that "leaders must govern" and accordingly their second critical task is decision-making (Boin et al., 2005: 42; see also: Ansell et al., 2010: 196). Decision-making is aggravated through uncertainty, stemming from a lack of information and the unpredictability of the consequences of action alternatives (Boin, 2004: 171; Boin, et al.,

[43] Boin et al. (2005) also emphasise the importance and problems of early detection of crisis by individuals and organisations.

2005: 43; Ansell et al., 2010: 197). Janis (1989) and Weick (1993) identified three different kinds of uncertainties: the source of the problem, the current and future development of the problem and its possible solutions (Ansell et al, 2010: 197). All these problems might be found in the euro crisis. Likewise, restricted time to consider action alternatives, which is caused by increasing urgency to act, hampers decision-making by creating additional stress. Moreover, choice opportunities in crises are typically highly consequential and contain "genuine dilemmas that can be resolved only through trade-off choices" (Boin, et al., 2005: 43). The lack of routines and plans on how to react adds up and increases stress (Boin et al., 2005: 29). Nevertheless, stress does not inevitably degrade performance (Boin et al., 2005: 29). Rather, it is important what kind of stress, emotionally charged or not, occurs (Boin et al., 2005: 29). It is, therefore, necessary to find out whether stress is emotionally charged for the decision-makers in the euro crisis or not, and, if so, which decision dilemmata leaders face and how much pressure to act they really have. Additionally, problems of cooperation might appear, especially in trans-boundary crises which cross jurisdictions, or administrations (Ansell et al., 2010: 197-199; Boin, et al., 2005: 42). Such coordination problems are very likely to be present in the euro area/EU as there are 17/27 countries with different policies and believes that have to agree upon one general crisis solution plan and then in turn implement their specific solution on the national level. On the other hand it can be argued that the EU has an advantage compared to less integrated countries that face a trans-boundary crisis as there are already institutions and cooperation among EU countries is already greater than within any other region in the world. Decision-making during crises is further characterised by the availability of scarce resources which have to be prioritised (Boin, et al., 2005: 11). Another problem connected to this is whether a given situation is already a fully ongoing crisis or only the beginning and whether all resources should be used now or better saved for a later point in time during crisis (Boin, 2004: 171). This problem might easily be present in the euro crisis as it might be difficult or even impossible for actors to know which future developments the crisis will take and which factors might have an influence on it. Considering all these difficulties, Boin (2004) concludes that "crisis management may well be considered an impossible job" (Boin, 2004: 171).

8.5.2.2 Groups in Decision-Making

Besides leaders, their crisis teams are important because "as a rule, crisis decision-making takes place in some type of small-group setting in which political and bureaucratic leaders interact and reach some sort of collective decision" (Boin et al., 2005: 45). The significance of these groups is illustrated by Stern (1999) who argues that "[w]hen groups make consequential decisions or when executives depend heavily upon groups for information and advice, small variations in group interaction – assumptions left unchallenged, questions unasked or ignored, dissenters excluded – can have dramatic effects on the choices made (or not made) and, indirectly, even upon 'the fate of nations'" (Stern, 1999: 58). Boin et al. (2005) and Stern (1999) list various group dynamics which might appear and thereby have an influence on the decision outcome. Firstly, "conformity" is a very critical issue (Stern, 1999: 60). Stern summarises research findings from psychology by Asch, Schachter and others, which found that individuals are ready to suppress their own views if they are deviating from a wide group consensus in order to conform with the group (Stern, 1999: 60). Such trends obstruct critical views and diversity in discussions and problem solving (Stern, 1999: 60). Deriving from such conformity patterns are several group dynamics. Groups may fall prey to "groupthink" (Stern, 1999: 61; Boin, 2004: 172; Boin et al., 2005: 47; Kouzmin, 2008: 169). Groupthink "may nurture hypervigilance, a collective sense of invulnerability, or excessive optimism about the intended course of action" ('t Hart, 1994 as quoted in Boin, 2004: 172) as well as illusions of invulnerability and unanimity (Kouzmin, 2008: 169). "When a group is caught up in the groupthink syndrome, it tends not to notice important events, to play down serious threats to the status quo, and to fail to seriously probe alternatives to its preferred course of action." ('t Hart 1998: 310), furthermore, nonconformists are "subtly suppressed instead of listened to". Yet, on the other hand groupthink might enable successful agreement instead of dead-locks in the fist place ('t Hart, 1998: 312) and send important symbolic messages to the outside world ('t Hart, 1998: 314). The latter is also an important part of meaning making. A further group dynamic that is connected to conformity is the "newgroup syndrome" (Stern, 1999: 61). In newly emerging groups, a lack of established procedures and standards creates uncertainty about roles and statuses amongst group members which gives the advantage to group leaders or dominant members to influence the group and again causes conformity of group members (Stern, 1999: 61-62; Boin et al. 2005: 46-47).

In contrary to conformity patterns, crisis groups may also become subjects of conflict situations, which may paralyse decision-making, cause deadlocks, or even lead to the disbanding of groups without an outcome (Boin et al. 2005: 46). As one such pattern, Stern names bureaucratic and cabinet politics which suggest that so-called factions (subgroups inside a group, "bound together by various combinations of personal relationships, perceptions of common interest, ideological homogeneity, or career interdependencies" (Stern, 1999: 62)) cause conflict and drive the dynamics of decision-making (Stern, 1999: 62). Strategic withholding of information destructs constructive discourse for the group as a whole (Stern, 1999: 62; Boin et al., 2005: 48). While some scholars (e.g. Hermann, 1989: 375-376 quoted in Stern, 1999: 63) see groupthink and bureaucratic politics as opposing each other, Stern argues that, "[o]nce the possibility of subgroup factions is taken seriously it becomes clear that a manipulative faction might strategically exploit stress-induced cohesion experienced by some or most of the other members – generating dynamics at the group level which resemble groupthink" (Stern, 1999: 63). Another conflict-driven form of group dynamic is nay-saying, which labels extremely difficult circumstances under which agreements can hardly be reached because of deeply rooted differences, personally, or ideologically (Stern, 1999: 63-64).

Finally, manipulation, which is neither clearly marked by conformity nor by conflict, appears when certain group members have an advantage of information which they use in order to direct the decision outcome towards a hidden agenda (Stern, 1999: 64). To begin with, there are various groups on national and EU levels involved in the euro crisis management, mostly because of its complexity and trans-boundary nature with a highly complicated distribution of competences. Within those groups, various forms of group dynamic might appear, but some are more likely than others. As all governments are responsible to their national publics, groupthink at the EU level seems rather unlikely. Also, the newgroup syndrome and nay-saying are unlikely as EU governments have cooperated for decades. Bureaucratic or cabinet politics in combination with groupthink is more likely. Still, whether any of the group dynamics appears in the euro crisis is to undergo closer examination.

Whilst the mentioned group dynamics point towards problems of group decision-making, this type of crisis management might quite well be profitable. A healthy balance between critical thinking and a reasonable sense of flexibility and permissiveness of ones own position enriches decision-making and policy debate with a diversity of input and viewpoints as well as self criticism of the group while allowing progress and the development of compromises and commonly agreed resolutions (Stern, 1999: 65). Yet, Boin et al. (2005) point out that in order to achieve good group performance, it is necessary that conflict, rivalry or competition are prevented and that members trust each other, which is best provided in settings were relations among members and organisations already pre-exist (Boin et al., 2005: 49). Moreover, group leadership may be decisive in terms of whether group dynamics appear or not (Stern, 1999: 83-84). Since the euro crisis is governed in such a pre-existing setting, it may well be that positive rather than negative group dynamics develop. Examining if there is some sort of leadership by an individual or a small group of actors in the various settings where crisis decisions are made, might prove revealing for the analysis.

8.6 Methodological Challenges

Before proceeding to the analysis of the euro crisis from a cognitive institutional point of view, it is essential to point out the methodological challenges the approach poses to the researcher and the limits of its applicability in this thesis. The main problem when using the approach is the access to relevant information. Unlike the first two approaches in the thesis, cognitive institutionalism demands that the subjective believes, evaluations, associations, emotions and feelings of actors in the crisis situation be taken into account. Furthermore, it is necessary to understand the wider institutional and personal context in which decision-makers act, to know their stress coping capacities, estimate their mutual influence on each other and so on. The framework of this thesis, its scope and its methodological possibilities, do not allow a complete and reliable assessment of this information. Conducting interviews with persons involved to different degrees in the wider decision-making context, and integrating analysis by very knowledgeable experts has helped to partly gather such information. However, it has to be stated, that a full application of cognitive institutionalism would demand much more material such as meeting minutes, deep and extensive interviews with major decision-makers about their memories, personal reflections and side-talks, cognitive tests with the decision-makers and the like. As such material is impossible to obtain for this thesis, the following analysis tries to make a first assessment of euro crisis management from a cognitive institutional point of view, but the mentioned compromises have to be kept in mind.

9 A third cut: Analysis from a Cognitive Institutional Point of View

“A crisis is to a considerable extend what people make of it” (Boin et al., 2005: 138).

Before turning to the analysis of the euro crisis management from a cognitive institutionalist point of view, it remains to be mentioned that, again, the framework of the present thesis does not allow examination of the whole crisis management equally as it is not possible to examine all aspects of cognitive institutionalism. Therefore, the following analysis concentrates on stress factors and group dynamics during events in October and November 2011.

9.1 The October 2011 Summits

If the Polish president Donald Tusk had a diary, his entrance from Wednesday, 26th October 2011 might look like this:

Dear Diary,

Today, we finished another European Council meeting, the 5th this year but the first during my time of presidency. Diary, it was so frustrating. I have been trying very hard to keep the EU together in this crisis, but I think these past European Council meetings and especially the Euro Summits on Sunday and Wednesday were another step towards a split of the Union. The euro countries want to integrate ever more, leaving non-euro countries on the side. But I think Poland and the other non-euro countries should also have a say in the crisis management. Most of us intend to join the euro area in the future and then we will be affected by the current decisions too. It was frustrating not only because of this, but also because the split between creditor and debtor countries widens, and of course debtor countries do not have a say. The strongest euro countries basically dictate their conditions. France and Germany even formed a new decision-making group – the "Frankfurt Group" – to tell the rest of the Union what is best for them. While the markets turn crazy, the time pressure and the need to agree on an outcome to send "signs to the markets" don't make it easier. Diary, these are really challenging times for us and I think they might determine which road the EU takes in the future. [44]

After the summit marathon in the end of October 2011, the European Council Conclusions and the Euro Summits statements featured several novelties. Amongst others, the EFSF was strengthened by increased maturity and leveraging, monitoring of programme countries and especially of Greece by the Commission was strengthened, reforms in Italy and Spain were greeted, for the Greek rescue private sector involvement (PSI) was established and an additional package of 30 billion euro from the euro countries contributing to the PSI package was granted (Euro Summit Statement, 2011-10-26). To strengthen the euro governance, regular euro summits, at least twice a year, were implemented (Euro Summit Statement, 2011-10-26). This last development is especially interesting as it enforced the split between euro area member states and the rest. While euro area member states argued that the crisis shows that a

[44] This passage is not a quote from Tusk's diary. It originates purely in the creativity of the author of this thesis, based on facts gathered from Ludlow 2011-11-30, Spiegel, 2011: 24-28, Expert 5; Press Conference Donald Tusk, 2011-10-26.

closer common governance of their economic policies is necessary, the non-euro countries were worried about being left out on issues that might either concern them as soon as they enter the euro area or that might affect the common market which all EU countries share (Expert 5). Yet, not just the official outcome, but also the entire procedure and events during the summit and in the preceding weeks illustrated the Union's split and led to much discontent amongst several actors.

9.2 The Split between Euro Countries and Non-Euro Countries

According to euractive, a European news network, the ten non-euro countries met before the summit to agree on common positions for different issues (Euractive, 2011-10-26). While there was no consensus on every issue, the biggest worry was shared by all: a two-speed Europe where the euro countries form the core of the Union with tighter economic integration and where the non-euro countries are left aside and thereby disadvantaged when it comes to common concerns of the EU (Euractive, 2011-10-26). The UK – which was especially critical about the euro area's handling of the crisis – initiated a meeting with Sweden, Czech Republic and Denmark and together with the former two, suggested a note to be included in the Council Conclusions (Euractiv, 2011-10-26; Ludlow, 2011-11-30: 16-20). The piece stated amongst others things that "[e]uro area meetings shall not precede sessions of the European Council", "[a]gendas for all meetings [...] shall be circulated in advance to all member states and reports of discussions will be disseminated afterwards" and that "concrete and effective mechanisms [shall be developed] to ensure that the integrity of the internal market at 27 is fully preserved and that the interest, including essential economic interest, of non-participating member states are fully protected" (quoted after Ludlow, 2011-11-30: 20). When the document was presented at the European Council meeting, Rompuy, declared that it was full of mistrust, Merkel equally showed discontent and Sarkozy turned on Cameron in fury (Ludlow, 2011-11-30: 24). Barroso meanwhile reminded Cameron and the Swedish prime minister Fredrik Reinfeldt that the euro area member states were not the ones "out of line" but it was them who had special treatment concerning the EMU (Ludlow, 2011-11-30: 24). As a compromise, the final euro area statement, which institutionalises the euro summits, mentions in one paragraph: "The President of the Euro Summit will keep the non euro area Member States closely informed of the preparation and outcome of the Summits. The President will also inform the European Parliament of the outcome of the Euro Summits" (Euro Summit Statement, 2011-11-26: Annex I(3)).

The non-euro area countries' concerns however were not groundless. The euro area countries, and especially a small dominant group of some of the creditor countries, joined together to debate and develop common positions for the entire EU with growing frequency. Those positions were hardly debated anymore in the bigger euro area group, but even less with the EU-27 (Expert 3). This appeared to be more frequently the case the more urgent the need for action and quick decision-making in the crisis was. One argument for this was that it was more efficient and quicker if countries with very different starting positions first agree among each other instead of arguing in a circle of 27 HSoG and their advisors (Expert 4, Expert 9). In the beginning of October 2011, the euro came under pressure once again, when Spain and Italy were downgraded (FAZ, 2011-10-07). The ECB announced its intention to buy further state bonds of the respective countries to calm down the markets (White & Waterfield, 2011-10-08). At the same time, the European Council president Rompuy sent a confidential letter to Merkel and Sarkozy outlining his agenda for the upcoming summit which was planned for 17th of October. Upon Merkel's suggestion however, the summit was rescheduled and later on split into two summits on the 23rd and 26th in order to allow more time for the organisation (Ludlow, 2011-11-30: 10).[45] Until the summit, French and German representatives met or spoke on numerous occasions and in many different settings and configurations. Yet, another interesting phenomenon appeared in the course of the action: the Frankfurt Group.

9.3 The Frankfurt Group

The Frankfurt Group evolved through an ad-hoc meeting between Merkel, Sarkozy, Trichet, Lagarde, Juncker and Barroso in Frankurt's opera house on 19 October 2011 (The Economist, 2011-11-04; Holehouse, 2011-11-10). The setup of the group promised to make it very powerful, assembling the most important decision-makers and moreover, the major creditors in the euro crisis.[46] Hence, even though outside the normal decision-making structure of the Union, it turned out to be very powerful during the upcoming weeks (Siegel, 2011-11-07). This power in the crisis management is best shown by three different instances, in which the Frankfurt Group was involved.

Firstly, during its meetings on the 19th and 22nd of October, the group agreed and decided upon further crisis resolution measures which were to be proposed and agreed upon with the

[45] Other sources (e.g. Gotev, 2011) argue that the postponement of the summit was caused by divergences between France and Germany, yet Ludlow (2011-11-30: 11-12) outlines in detail why this was not the case.
[46] Germany and France are the countries which are the biggest donors, Lagarde represents the second part of the security measures, the IMF, and Trichet represents the ECB and thereby the monetary policy of the euro.

euro area HSoG and the EU-27 HSoG respectively, at the upcoming summits and upon the structure of the summits themselves (Ludlow, 2011-11-30: 4-21). One of the issues the Frankfurt Group took the lead in, was the PSI in the Greek debt crisis. Two particular instances illustrate this. First, after the eurogroup finance ministers‘ meeting on 21 October did not give Vittorio Grilli, an Italian economist, a mandate to negotiate with private sector representatives about a possible haircut[47] for Greek debt, the Frankfurt Group, acting on its own authority, nominated him the next day to get in contact and negotiate with the bankers on behalf of the euro area (Ludlow, 2011-11-30: 21). The nomination was only confirmed later on in an informal decision during the euro area HSoG meeting on 23 October 2011 (Ludlow, 2011-11-30). The second instance happened on 26 October. Once a consensus on PSI was established late at night during the euro area summit, it was again the Frankfurt Group together with Grilli, which met the private investor representatives to settle a deal on behalf of the 17 euro member states (Ludlow, 2011-11-30).

Secondly, the group's impact was demonstrated in their actions and results concerning the treatment of Italy and especially Berlusconi, before the summits and in the following weeks. During the meeting on 22 October the group agreed to intervene in Italian policy. Berlusconi, who had not introduced his promised reforms after the ECB had bought government bonds, would have to be talked to (Ludlow, 2011-11-30: 21). Rompuy and Barroso, as well as Merkel and Sarkozy therefore met Berlusconi in the morning before the first European Council meeting (Gotev & Vincenti, 2011-10-24; Ludlow, 2011-11-30: 22). During a press conference, which the latter two gave on the same day after the EU-27 summit, Merkel and Sarkozy clearly showed their own doubts about Berlusconi's credibility but indicated that they had made it very clear to him that reforms were inevitable (Merkel & Sarkozy Press Conference 2011-10-23: 18:10-19:25; Gotev & Vincenti, 2011-10-24; Ludlow, 2011-11-30: 26). Even though Sarkozy himself outlined the lack of democracy that is apparent in such demands for reform in troubled countries, he argued that France and Germany saw it as their duty to exert pressure (Gotev & Vincenti, 2011-10-24). In the following two days between the split summit, Rompuy's office additionally pressured Berlusconi, sending him a letter drafted together with the Commission containing reform suggestions for Italy (Ludlow, 2011-11-30: 28) until finally, "in the course of a meeting in the headmaster's study just before the Euro Summit on the Wednesday evening, Berlusconi duly accepted the paragraphs in the draft Statement deal-

[47] In the case of the Greek crisis this means that private holders of Greek bonds would renounce parts of their claims. During the October discussions, a 50 % haircut was agreed (Reuters, 2011-11-26).

ing with Italy" (Ludlow, 2011-11-30: 22). However, after the summit reforms did not come quick enough and in a meeting on 3 November 2011 with a similar setting to the Frankfurt Group's,[48] Berlusconi denied the existence of a crisis situation in his country and refused an offer of a line of credit of 80 billion euro from the IMF (Ludlow, 2011-11-30: 40). He merely agreed that the IMF would assist the Commission in monitoring the Italian reform progress during a further meeting later that day when, Merkel, Sarkozy, Lagarde and Draghi involved the US American president Barak Obama in an unsuccessful attempt to increase pressure on Berlusconi (Ludlow, 2011-11-30: 41).[49] Within the following days, Italy further lost its credibility in the markets with the spreads between German and Italian bonds reaching record heights (Moody, 2011-11-09). The country's situation worsened to such an extent that the president Giorgio Napolitano saw himself urged to announce that Berlusconi will doubtlessly resign several days later, after a reform package had passed the parliament (Moody, 2011-11-09) and the Commission at the same time revised Italy's economic forecast downward (European Commission, 2011-11-10: 116-119). Tow days later, Berlusconi finally stepped down (Reuters, 2011-11-12). Even though Berlusconi's resignation may not have been entirely caused by the Frankfurt Group's and the European Commission's actions, they may be seen at least as one of the reasons for it as they had exerted additional pressure on him and on Italy's political elite for decisive and quick reforms (Euractiv, 2011-11-10; Ludlow, 2011-11-30: 42).

Finally, the authority the Frankfurt Group exercised in the case of the Greek referendum demonstrated its significance in crisis decision-making. Following the agreement achieved amongst the HSoG of the euro area concerning Greece on 26 October, the Greek prime minister Papandreou declared his intention to hold a referendum on the agreement (Kyriakidou & Papachristou, 2011-10-31). The announcement caused the euro to struggle in the markets, questioned the credibility of the Greek bailout plans and thereby provoked strong reactions in the European press and unease amongst European politicians (Hope et al., 2011-10-31; Taylor, 2011-11-01). In another meeting on 2 November the Frankfurt Group discussed the issue and presented the outcome to Papandreou (Ludlow, 2011-11-30: 37-38). Ludlow summarised their standpoint as follows:

- "The 26 October agreement cannot be renegotiated. Greece must take it or leave it.

[48] Juncker was not present, Merkel only half the time, while Berlusconi and Zapatero were there. The ECB was represented by the chef de cabinet instead of the president (Ludlow, 2011-11-30: 40-41).

[49] Sarkozy's hopes that the presence of the US American president Barak Obama would increase pressure on Berlusconi were frustrated when Obama stated: "I understand Silvio's position" (Ludlow, 2011-11-30: 41).

- We – the Frankfurt Group – are ready to help you, even though your unilateral action has caused us a great deal of trouble.
- There can however be no disbursement of the next EU/IMF tranche unless the Greek government accepts the 26 October agreement.
- Given the seriousness of the situation, we attach great importance to political consensus in Greece.
- If there is to be a referendum, it must take place no later than the first week of December.
- The question that you put to the Greek people must confront them with the choice between, staying in the Euro Area or leaving it." (Ludlow, 2011-11-30: 38)

All important Greek politicians had to sign the agreement to ensure it would be adhered to even after a change of government (Ludlow, 2011-11-30: 39). The following discussions between the Frankfurt Group and Papandreou with his finance minister Evangelos Venizelos were not a picnic for the Greeks who learned what their colleagues thought about their move to call a referendum on the rescue package and cause even bigger uncertainties in the markets (Ludlow, 2011-11-30: 39). The events of the day lead to the outcome that the referendum was finally cancelled (Ludlow, 2011-11-30: 39). And even though a member of the Frankfurt Group emphasised that at the end of the meeting with the Greeks, they were convinced the referendum would take place (Ludlow, 2011-11-30: 39), taking reactions of the members of the group to the announcement of the referendum, the detailed provisions they gave Papandreou for the realisation of the referendum and their treatment of the Greeks in general into account, it can be attributed to the Frankfurt Group *that* it was cancelled.

9.4 Conclusion: Group dynamics and Stress in the Euro Crisis Management

To summarise, the events in October and the beginning of November 2011 clearly show that different small groups and alliances appeared within the decision-making bodies concerned with the euro crisis. On the one hand, the strongest economies in the euro area allied with each other and further important crisis decision-makers such as the ECB and the IMF, whilst on the other hand, non-euro countries demanded not to be excluded.[50] The examples of the Frankfurt Group show that non-conformists in economic difficulties have been pressed to bow to the diktat of the better situated ones and abide by their rules. Time pressure played an important role, forcing the governments to quick reactions throughout the entire (currently still ongoing) crisis. Interviewed experts testified to the presence of pressure to act quickly (Experts 1, 3, 4, 5, 9) but disagreed upon whether this had an impact on the decisions made: “Of course that influences the quality of the decision” (Expert 3) one expert stated, while another stated that he does not think it was at the expense of national positions (Expert 4). Still, decisions during the entire course of the crisis had to be taken quicker than usually, which may have led parties to discuss less on various issues and agree quicker (Expert 9), yet only a detailed comparative discourse analysis of euro crisis discussions may reveal the truth.

Besides time pressure, another factor that increases stress during crises was present: uncertainty. Rising distrust of the Italian government and the aforementioned distrust of the Greek government increased suspicion amongst decision-makers, the markets and the public. Furthermore, the steady uncertainty about the extent of the crisis and about the effectiveness of various crisis management instruments added up to increase stress during the crisis. Even though the flaws in Greek statistics, the problems with the setup of the euro as a currency area, the danger of imbalance of payments and the fact that financial crises tend to trigger sovereign debt crises have been known before the euro crisis began (European Commission 2006: 35-38, → 3.4 Problems of the EMU Governance Setup: 27; Reinhart & Rogoff, 2009; Expert 2), it still seemed to be a surprise in Brussels. Not only the fact that it actually would happen, but even more the extent of the crisis seems to have bolt from the blue despite the mentioned warnings (Experts 1, 2, 7, 9).

Whereas it has to be emphasised that, for reasons outlined above, no definite claim about the group dynamics in the euro crisis management can be made in the framework of this thesis, it stands to reason that, through the constant stress situation of the crisis, the Frankfurt Group as a faction may have managed to create a climate of groupthink within the euro area group and the EU-27 to a certain extent. Nonconformists may have been urged to consent through peer-pressure that demanded an agreement on summits to send important messages about the willingness to take decisive action and support for the euro to the markets and the public. Yet, it is

[50] It is necessary to mention here, that the non-euro countries are not one homogeneous group, with some countries closer to the euro area, aspiring to enter it in the future and other countries more opposing the crisis management during the euro crisis (Ludlow, 2011-11-30: 20).

difficult to assess the extent of such conformity patterns. Also, the fact that all state officials are not just accountable to the European public, but much more to their national publics, has to be kept in mind. The instance described above, when Cameron chose to not agree to a treaty change in December 2011, and the example of the non-euro countries' alliance are but two out of several illustrations of the limits of the conformity patterns within the crisis. However, the lack of routines and established crisis mechanisms and instruments may have facilitated the Frankfurt Group's influence on decision-making, at least at times during the crisis.[51]

As expected, it proved difficult to assess various aspects of cognitive institutionalist crisis analysis, within the research process. Individual interpretations of the crisis as well as the crisis coping and processing capacities of the involved decision-makers were impossible to assess. Through hints from Experts and from Ludlow's analyses, it can be presumed that discussions were mostly more technical and "down-to-earth" than emotionally charged, however some heated disagreements appeared, especially in more unofficial settings (Expert 3, 5, 7). Specific decision dilemmata such as in a natural crisis where, for example, one first aid group has to chose whether to help in one place or another could not be found. Only the choice between supporting debtor countries with money at the expense of tax payers in other countries might be understood as such a dilemma. Though, it remains questionable whether this dilemma caused such high levels of emotionally charged stress that it would impact on decision-makers' cognitive capacities. The question whether there are information disparities during the crisis that could be used to one party's advantage is disputable too. Whilest some of the interviewed experts claimed there are such inequalities, for example that euro countries have access to more, especially informal, information as they are more involved in the crisis management process (Experts 3, 7, 8), other experts suggested that the entire management process is quite transparent, that all parties have experts on their side and that the Commission as well as the presidencies try to maintain an equal level of information about crisis events for all EU member states (Experts 1, 2, 5 10). Therefore it might be argued that at minimum there are no information advantages to such an extent that they would be consciously used by a

[51] It has to be emphasised that the group dynamics in the crisis decision-making shown during the autumn of 2011 are only a "snap shot" of the crisis management and therefore can rather serve as illustration for group dynamics that appeared during the crisis management than as indicator or even prove for group dynamics during the entire crisis. Firstly, group dynamics may be temporary phenomena. Secondly, the impact of different groups may vary throughout the crisis and different specific issue areas as interests of individual member states equally might vary over time and issue areas. And finally, as mentioned before, the analyses does not allow definite statements about whether, and if so which, group dynamics appear, but rather helps to assume about their presence and impact on decision-making. The same applies to the mentioned stress factors, where only estimations of their impact on decision-making can be made.

party to influence decision-making in one way or another. Finally, it remains to discuss whether the leadership of any involved group or actor may have influenced decision-making in some way. Again, answers by experts to whether there is leadership by a dominant actor or whether there is a plurality of influential actors were diverse. Different parties were suggested. The Council President van Rompuy, the eurogroup president Juncker, the tandem of dominant countries France-Germany and the Commission were listed most frequently. This suggests that at least several major actors may have had an influence in a leadership role during the crisis management. The role of Merkel-Sarkozy and the Commission have been mentioned in other parts of the thesis but an in-depth discussion of this issue here would go beyond the scope of this thesis.

10 Summary and Conclusion

The remaining section of this thesis will briefly summarise the main results of the analyses from the three different theoretical perspectives and then conclude whether and in what way they were helpful in solving the research problem. Subsequently, it is important to mention some of the problems and limits of the general research design before an outlook to further research possibilities can be given.

As expected, the three different approaches applied in the thesis highlighted different aspects of crisis decision-making in the euro crisis. Liberal intergovernmentalism emphasised the dominance of France and especially Germany, the influence that national considerations had in their positions and the significance of bargaining power in the intergovernmental setting of the European Council, which was the most important grouping for policy decisions. From the liberal intergovernmentalist point of view, the premise that the Commission as a supranational institution will not have much power can be seen being testified, considering that the main policy decisions and guidelines are made by the HSoG. Historical institutionalism opposes this version as theorists following the approach would argue that for example the Commission's tasks such as monitoring and making concrete and more detailed policy suggestions do have an impact on final decisions. The fact that the European Council is also of significance however does also not contradict the approach since the European Council is an institution too. Furthermore however, the treaties and provisions signed for the setup of the EMU as well as national legal constraints, norms and habits that developed since the initiation of the common currency are seen as historically inherited, limiting the freedom of decision-making in the crisis. Cognitive institutionalism disagrees with the former two approaches in terms of their assumption of a rational actor behaviour. Instead, it suggests that actors are influenced by various cognitive aspects and constraints. It proved very difficult to apply the theory as the necessary material for a complete analysis was unavailable. Still, it can be summarised that various stress factors were present during crisis decision-making and may have had an impact on decision outcomes. Various possible group dynamics generally appearing in crisis teams could be excluded but factions in combination with groupthink may have been present in the euro crisis management.

All in all, cognitive institutionalism was most difficult to apply to the euro crisis. To begin with, for the already mentioned reason of accessibility of data but furthermore it may not be the right theory for this particular crisis. As mentioned in the beginning, the euro crisis is not a typical crisis situation. The time span is much bigger, reaching over several years and allowing several peaks and relief phases. The extent is much larger, including various horizontal and vertical levels of governments and different policy areas. It was more predictable than for example a natural disaster and the damage it causes is much less dramatically visible but in total the political, social and nominal costs of the crisis might well exceed any European crisis in the last decades. Consequently, the challenges that decision-makers faced differ from challenges in other crises and therefore cognitive institutionalism might, even with sufficient evaluable data, not be suitable as a crisis management theory for the euro crisis. The application of both liberal intergovernmentalism and historical institutionalism proved to be more insightful and the approaches more convincing. Even though the special aspects of the crisis situation were left aside. Probably, but this also remains to be examined further in a comparative study, power relations and problems of institutional aspects showed as obviously as they did only because it was a crisis situation. Yet, as theorists from both sides claim, the aspects highlighted by their approach is the most influential or even the only relevant one, neither liberal intergovernmentalism nor historical institutionalism can be seen as a complete, or the only, approach to understanding the decision-making in the euro crisis. All three theories give answers to how we can understand the decision-making in the euro crisis while highlighting and explaining different aspects of the same event from perspectives which are characteristically different for each approach.

In total, the thesis hints to various flaws in EMU governance and crisis management. Yet, it is not possible to evaluate the management in total or more specifically certain decisions to any extent as the crisis is ongoing and only time will show what the decisions made will lead to. Nevertheless, the analyses highlight possible imbalances of power between member states, within member states and within the EU, which might, at closer examination, not withstand criticism about democratic deficits or accountability. Though, this also remains to be the subject of a further study.

Another possibly interesting aspect for future research which could not be covered by the applied approaches in the thesis is the influence of the personalities of specific actors. The analysed interviews and additional material allowed the presumption that the personal attitudes, social, bargaining and diplomatic skills as well as competence and mere sympathy of certain actors may have played a role in the decision-making during the crisis. It was for example suggested that Herman van Rompuy's actions as Council President may have been decisive at certain points. Furthermore, the evaluation of the change of government in Italy and the consequent regained acceptance of Italian representatives and politics in the EU hint to this conclusion. Therefore, it might be very revealing to analyse this aspect in more depth. Moreover, the influence of third actors such as investors, lobby groups, third country representatives and especially the important role of the ECB have been left aside in this study but would provide for interesting analyses.

Finally, it remains to hint to possible criticism of the overall concept of this thesis. It could be argued that a research design using three very different approaches tries to incorporate everything at the same time but fails to assess anything properly. This might be true to some extent but on the other hand, applying only one approach would have compromised the others and – as became clear in this thesis – left out important aspects which are not covered in the respective approaches. The three theories may still not have covered all aspects but nevertheless made it possible to gain detailed insights into euro crisis decision-making and thereby understand it better. Historians might object on the other hand, that no political or international theoretical approach at all would be needed to fulfil this goal. They could state that a detailed description of all events, like Ludlow's briefings which served as basic material for the analyses, would have been enough to understand the decision-making, rendering any theory superfluous. Using theories however allows a more structured analysis and thereby comparisons to other decision-making scenarios, even if to a limited extent. This not only enables political scientists to understand a certain event but also to set it in the context of their already existent research. Thereby, known phenomena can be tested and knowledge about them intensified and unknown phenomena newly assessed. Each study in that way contributes to broaden and deepen the knowledge in its field.

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vii. Appendix: Expert Interview Questions

The following tables list the interview questions that have been used to conduct the expert interviews for this thesis. Not all questions have been asked to all interviewees for reasons outlined in the thesis. Furthermore, the questions have not always been asked in the same order and have been supplemented with additional spontaneous questions.

Interview Questions for national Representatives

A. Preparation:

1. Is it ok, if I record the interview?
2. Do you want to be anonymous, may I name your position/your institution?
3. If so, what is the exact name of your position?

B. Questions:

1. National preference formation

1.1. Where is the fiscal policy decided?

1.2. Which considerations influence the preferences of (your country) for a certain fiscal policy?

2. Council bargaining and information sharing

2.1. Under which circumstances is (your country) ready to deviate from its original position?

2.2. When politics are debated, what type of arguments are brought forward?

2.3. Is there some kind of constraint/unwritten rule that certain arguments cannot be brought forward? (Rules of appropriateness)

2.4. Could those arguments be discussed in another setting (floor talk etc.)? Do these then influence the final decisions?

2.5. Is there information that not all countries have access to? Does it happen, that strategic information is withheld or only shared with some other countries?

2.6. Are there members that are more active/dominant in the discussions?

2.7. How does (your country) evaluate the pre-discussions of France and Germany?

2.8. Is the crisis management as a whole led by emotions to any extent?

3. Euro crisis management atmosphere

3.1. Is the time pressure of the crisis felt in the discussions?

3.2. Do the discussions in the Council/Ecofin/Eurogroup etc. concerning the Euro crisis differ from discussions on other, non crisis issues?

3.3. How is the overall atmosphere in the Council? Do members trust each other? Are there members that cannot/should not be trusted? Does the atmosphere change with a change of political leaders in different countries? (E.g. in Italy, Greece, Belgium etc.)

Thank you very much for your support!

Interview questions for other experts/scholars

A. Preparation:

1. Is it ok, if I record the interview?
2. Do you want to be anonymous, may I name your position/your institution?

B. Questions:

1. Euro crisis situation in general

1.1. Was the Euro crisis perceived as a surprise in Brussels?

1.2. Does the crisis provide enough time to consider action alternatives as compared to other crisis (such as the mad cow disease or the financial crisis in 2008)?

1.3. Has there been uncertainty about how to react to the crisis among country leaders?

2. Euro crisis understanding

2.1. Have there been or are there still differences in how various countries understand the crisis (in terms of what the problem really is)? Where do these differences come from?

2.2. The different countries also have a different understanding of how to react to the crisis, where do these differences come from?

2.3. Is there a dominant framing of the crisis?

3. Council bargaining and information sharing

3.1. Do different countries have a different degree of influence on the Council decisions?

3.2. Are there groupings of country representatives that join together in order to improve their bargaining position? Does it happen, that strategic information is withheld or only shared with some other countries?

3.3. Are there side-payments or issue-linkages in the bargaining in order to get more countries (small states/losers in a deal) to agree?

4. Impacts on decisions

4.1. To what extent do formal rules cause problems in the policy making? (E.g. national constitutional constraints or Maastricht treaty provisions)

4.2. Are there norms and values that have developed in the EU/the Council which have an impact on decision making?

5. Euro crisis management organisation

5.1. What is the interrelationship between Ecofin, the European council, the Eurogroup and the Eurogroup of state leaders during the crisis?

5.2. Which role do the Eurogroup leader Jean-Claude Juncker, the Council President van Rompuy and the rotating presidency play in the decision making?

6. Concluding questions

6.1. How would you evaluate the crisis management until now? (Does the outcome so far constitute a lowest common denominator?)

6.2. How do you evaluate the 17+ pact and the refusal of Great Britain to join?

6.3. Which are the milestones of the crisis management of the euro crisis for you so far?

Thank you very much for your support!

Annotation: The full appendix can be found in the master thesis version at the Department of Management and Engineering (Division of Political Science) at Linköpings Universitet.