UNIVERSIDADE DE BRASÍLIA
INSTITUTO DE RELAÇÕES INTERNACIONAIS

RENATO VENTOCILLA FRANCO

OF RULES AND (DIS)ORDER: THE CONFLICT BETWEEN GERMANY AND GREECE WITHIN THE EUROZONE CRISIS.

Brasília
2019

Renato Ventocilla Franco

Of Rules and (Dis)order: The Conflict between Germany and Greece within the Eurozone Crisis.

Dissertação submetida ao Programa de Pós Graduação em Relações Internacionais do Instituto de Relações Internacionais da Universidade de Brasília como requisito parcial para obtenção do grau de mestrado em Relações Internacionais.
Área de concentração: política internacional e comparada.
Orientador: Antônio Jorge Ramalho da Rocha (IREL - UnB)
Co-orientador: Roberto Goulart Menezes (IREL - UnB)

O presente trabalho foi realizado com apoio da Coordenação de Aperfeiçoamento de Pessoal de Nível Superior - Brasil (CAPES) - Código de Financiamento 001

Brasília

2019

Franco, Renato Ventocilla. **Of Rules and (Dis)order: The Conflict between Germany and Greece within the Eurozone Crisis.** Dissertação apresentada ao Programa de Pós-Graduação em Relações Internacionais da Universidade de Brasília, como requisito parcial para a obtenção do título de Mestre em Relações Internacionais.

Banca examinadora:

____

Profa. Dra. Aline Regina Martins Martins (FCS – UFG)

____

Prof. Dr. Estevão Rezende Martins (IREL – UnB)

____

Prof. Dr. Luiz Daniel Jatobá França (IREL – Unb)

____

Prof. Dr. Antônio Jorge Ramalho da Rocha (orientador, IREL - UnB)

____

Prof. Dr. Roberto Goulart Menezes (co-orientador, IREL - UnB)

Patriotismus heißt für mich, die eigenen Interessen immer auch zusammen mit den Interessen anderer zu denken. Deshalb werde ich nicht müde, immer wieder auch für eine Stärkung der multilateralen, werte- und regelgebundenen Weltordnung zu werben.
Angela Merkel, Berlin, 28 January 2019

Je le disais à l'instant, devant ce rêve carolingien à la hauteur duquel nous souhaitons être mais le risque européen aujourd'hui est, si je puis dire, un risque lotharingien, celui d'une division extrême
Emmanuel Macron, Aix-la-Chapelle/Aachen, 10 May 2018

To Fred and Jojo

ACKNOWLEDGEMENTS

My idea of researching ordoliberal ideas in the European Union has been a long time in the making. It was only possible to find it because I shared a subscription group with Antônio Teles and Igor Versiani. Funny to say that it was just the beginning. Since then, Igor and Antônio helped me in a lot of difficult situations during my Master's. Furthermore, André Segovia, Leili Sadri, Thiago Moreira, Maurício Piatti, Bernardo Leal, Henrique Félix, Luisa Freitas, and Rafael Almeida accompanied my last periods in Brasília with an infinite patient and welcoming talks. This work would be unthinkable without all of them.

Special thanks go to the following, whose company made a significant differential during the first and second year of the Master program at the Institute of International Relations: Profa. Maria Helena, Prof. Fidel Pérez, Laryssa, Lucas Baggi, Lucas Eduardo, Victoria, Angelica Szuko. My conference partners and incredible friends, Leonardo Bandarra and Luiza Cerioli, made an exceptional company in San Francisco during the ISA Conference.

I want to thank Prof. Pio Penna, who urged me to apply for the Master in International Relations. His caring support that lasts more than seven years was essential to reach where I am now. If I am deeply proud of finishing the program, it is because of his everlasting encouragement. Prof. Daniel Jatobá was the first professor that I met at UnB as an undergraduate student in History. We crossed our paths again after the Master's selection process, where he praised my object of study. I am grateful that he is present in the final phase of the dissertation, at my 'Banca', to discuss the maturation of my initial idea.

Moreover, I would like to extend my thanks to Prof. Estevão Rezende Martins (UnB) and Prof. Aline Regina Martins (UFG), who accepted my invitation to participate in my 'Banca'. Their knowledge of European Integration and International Political Economy will make a decisive contribution to the review of the manuscript. I am immensely glad that such competent intellectuals will examine my research. I was fortunate to have two brilliant and rigorous advisors, Prof. Antônio Jorge Ramalho and Prof. Roberto Goulart Menezes, who gave me invaluable remarks, intellectual insights, and backing for the time that I took to finish this dissertation. Prof. Antônio Jorge impeded me from analysing all the GIIPS, as I originally planned to do, and concentrate in Greece. Looking in retrospect, I can gratefully guarantee

that he is directly responsible for transforming this dissertation into a possible task because of his conscious advice. Prof. Roberto made sure to secure a comfortable office for me to work in the manuscript, keeping me focused on finishing the work. I will take our talks and their pieces of advice wherever I go.

I received invaluable comments during my period of the research field and tried arguments of this work in Madrid, São Paulo, Paris, Chicago, San Francisco, and Berlin. Many friends and family hosted me during that period. I appreciate the hospitality and gentleness that Baptiste, Isabella Carrazza, João Fiocchi, Henrique Barbosa, Vinicius Bivar, and Leonardo Bandarra (again, really, you saved me) gave me during my travels. Professor Adam Tooze of Columbia University gave me a generous part of his time during the "Coping with Instability" Workshop in Paris, where he revealed his interest in the evolution of German liberal ideas and the intention of transforming "Schäubleverstehung" in his forthcoming book. I became deeply inspired by his talk and motivated to contribute to the debate. At the 25th International Conference of Europeanists (CES) that happened in Chicago, I was fortunate to talk about my project with Professor Waltraud Schelkle of London School of Economics, who encouraged me to continue researching in the area of disintegration theory, saying that she would read it eagerly.

Moreover, Prof. Regine Paul of Harvard University congratulated me for being the first Brazilian ever to present a paper at CES, affirming that Brazilians should engage more with European studies. At the ISA 59th Annual Convention in San Francisco, Professor Alisson Johnston of Oregon State University gave me an excellent critique of my ideas, helping me to improve and sophisticate my argument. Talks with Professor Matthias Matthijs of Johns Hopkins University SAIS and Professor Mark Blyth of Brown University inspired me to think in alternative ways of liberalism and austerity. Thereby I am genuinely pleased for them to share their scarce time with me. I hope this work corresponds to all the insights that I gained with them, thus enhancing the quality of the manuscript.

I am fortunate to assert that my family made a considerable difference in the writing process while I stayed with them in Brasil, France, Spain, and Germany. In Brasília, my aunt Gisela, my uncle Renato, and my cousin Pedro hosted me many times and shared precious moments with me. Likewise, my grandfather José and my grandmother Marly inspired me through their academic lives in the United States and Europe. My father, Márcio, and my

step-mother, Telma, helped me move to São Paulo and understood all the absence that I took writing the dissertation, seeing the mental and physical exhaustion that it caused in the final process. In France, my sister, Manuela, her boyfriend, Fred, and my brother, Guilherme, received me in Lyon and Paris during my academic travels with a smile in their faces. It is needless to say that it made the whole work infinitely less stressful. My mother, Mônica, received me in Clermont-Ferrand and Paris with infinite love and patience, giving pragmatical career pieces of guidance and inspiring me to aim always higher. My aunt Michele, my cousin Mario and little Adelita transformed my time in Barcelona in a loving experience. Michelle read, reread, corrected and binned multiple pieces that I wrote in German, helping me to construct the perfect argument in Goethe's tongue. I visited my uncle Bruno, my aunt Miranda, and my great-aunt Kath in Wuppertal and Krefeld after some years in Brazil, never losing the feeling that I always felt home with them. They received me spectacularly and full of curiosity about my research or my time in Brazil. Bruno slyly influenced me in my decision to improve my German again. Miranda corrected more the seventy pages of previous manuscripts, instructing me to write in really plain British English. Furthermore, both of them taught me how to drink proper coffee and tea, a tradition that I never dropped. Needless to say that my family was of the utmost importance to my research.

This dissertation is dedicated to Fred and Jojo. They inspired all my intellectual journey since I was a 16-years old adolescent. To find such enlightened persons in my life during my early intellectual formation is a blessed fortune.

ABSTRACT

Franco, Renato Ventocilla. **Of Rules and (Dis)order: The Conflict between Germany and Greece within the Eurozone Crisis.** 2019. Dissertação (Mestrado) – Instituto de Relações Internacionais, Universidade de Brasília. Brasília, 2019.

This dissertation highlights the intersection of international relations, European studies and international political economy in the context of the eurozone crisis. Under the framework of Varieties of Capitalism and ideas, I stress the impact of different interests of European countries during bailout negotiations. The analyses demonstrate that economic divergence within the Eurozone is central to understand the tension between Germany and Greece during the North Atlantic Financial crisis. The crescent instability in the eurozone permitted the asymmetrical economic power of Germany to shape rules and norms accordingly to ordoliberal ideas, privileging export-led countries and causing democratic insurgency in Greece. This research helps understand why Germany to see politics of debt as a moral hazard and enforce structural reforms within the European Union, causing further conflicts between debtors and creditors in Europe.

Key words: European Union; Germany; Greece; Ordoliberalism; eurozone

This study was financed in part by the Coordenação de Aperfeiçoamento de Pessoal de Nível Superior - Brasil (CAPES) - Finance Code 001

RESUMO

Franco, Renato Ventocilla. **Of Rules and (Dis)order: The Conflict between Germany and Greece within the Eurozone Crisis.** 2019. Dissertação (Mestrado) – Instituto de Relações Internacionais, Universidade de Brasília. Brasília, 2019.

A dissertação destaca a interação das áreas de relações internacionais, estudos europeus e economia política internacional no contexto da crise da zona do euro. Sob a ótica de Variedades de Capitalismo e ideias, eu enfatizo o impacto dos interesses diferentes de países europeus durante as negociações para ganhar acesso a fundos de liquidez. A análise demonstra que a divergência econômica dentro da zona do euro é central para entender a tensão entre Alemanha e Grécia durante da crise financeira do Atlântico Norte. A crescente instabilidade dentro da zona do euro permitiu que o poder econômico assimétrico da Alemanha adaptasse normas e regras segundo ideias ordoliberais, privilegiando países de economias exportadoras e causando uma insurgência democrática na Grécia. Essa pesquisa ajuda a entender o porquê da Alemanha ver as políticas de débito como um defeito moral e pressionar reformas estruturais dentro da União Europeia, exacerbando conflitos entre devedores e credores na Europa.

Palavras-chave: União Europeia, Alemanha, Grécia, Ordoliberalismo; Zona do Euro

O presente trabalho foi realizado com apoio da Coordenação de Aperfeiçoamento de Pessoal de Nível Superior - Brasil (CAPES) - Código de Financiamento 001

LIST OF FIGURES

Figure 1 – The Euro Convergence Criteria 48
Figure 2 – Economic and Monetary Union (EMU) Overview 53
Figure 3 – Eurozone Ten-Year Government Bond Yield 68
Figure 4 – Greek-German 10 year Sovereign Yield 71
Figure 5 – Net TARGET2 Balance within the Eurosystem (Euro Billions) 81
Figure 6 – Exports of goods and services (annual % growth) 89
Figure 7 – Unemployment, total (% of total labor force) 94
Figure 8 – The Political Trilemma of the World Economy 100
Figure 9 – The macroeconomic regimes of the 1970s and today compared 101
Figure 10 – Satisfaction with Greek Democracy 102
Figure 11 – Rodrik's Trilemma Applied to the Eurozone: Core vs. Periphery 102
Figure 12 – Satisfaction with German democracy 103
Figure 13 – Export of goods and services (% of GDP) 107
Figure 14 – GDP Growth (Annual %) 108
Figure 15 – General government gross debt (Percent of GDP) 114
Figure 16 – European Semester 177
Figure 17 – Summary of Measures Taken by the EU Institutions 178

LIST OF TABLES

Table 1 – Determinants of Successful Monetary Union 53

Table 2 – EU Fiscal Crisis Measures 131

Table 3 – Exports of goods and services (annual % growth) 172

Table 4 – Unemployment, total (% of total labor force) 172

Table 5 – Exports of goods and services (% of GDP) 173

Table 6 – GDP growth (annual %) 173

Table 7 – General government gross debt (Percent of GDP) 174

Table 8 – Greek Prime Ministers (1974 – Currently) 175

Table 9 – German Prime Ministers and Coalitions (1949-Currently) 176

LIST OF ACRONYMS

ADEDY	The Confederation of Civil Servants
AFD	Alternative for Germany
AIG	American International Group
ALDE	Alliance of Liberals and Democrats for Europe
BIS	Bank for International Settlement
CDO	Collaterized Debt Obligations
CDU	Christian Democratic Union
CME	Coordinate Market Economy
CoG	Committee of Governors of the Central Banks of the European Economic Community
DiEM25	Democracy in Europe Movement 2025
ECB	European central bank
ECJ	European Court of Justice
ECOFIN	Economic and Financial Affairs Council
ECU	European Currency Unit
EDP	Excessive Deficit Procedure
EEC	European Economic Community
EFSF	European Financial Stability Facility
EMS	European Monetary System
EMU	Economic and Monetary Union
EP	European Parliament
EPP	European's People Party
ERM	Exchange Rate Mechanism
ESCB	Euro System of Central Banks
EU	European Union
EUROSTAT	European agency of statistics
FDP	Free Democratic Party
FED	Federal Reserve
FIDESZ	Hungarian Civic Alliance

GCC	German Constitutional Court
GDP	Gross Domestic Product
GSE	Government-Sponsored Enterprises
GSEE	General Confederation of Greek workers
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
KKE	Greek Communist Party
LME	Liberal Market Economy
LTRO	Long-Term Refinancing Operation
MBS	Mortgage-Backed Securities
MC	Monetary Committee of the European Community
MEP	Member of the European Parliament
MME	Mixed Market Economy
MoU	Memorandum of Understanding
MTFS	Medium Term Fiscal Strategy
ND	"New Democracy"
NPD	National Democratic Party
OMT	Outright Monetary Transactions
PASOK	Panhellenic Socialist Movement
PEGIDA	Patriotic Europeans Against the Islamisation of the Occident
PSI	Private Sector Involvement
REPO	Repurchase Agreements
SGP	Stability and Growth Pact
SMP	Securities Markets Programme
SPD	Social Democratic Party
SPM	Securities Market Program
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
TARGET2	Trans-European Automated Real-Time Gross Settlement Express Transfer
TSCG	Treaty on Stability, Coordination, and Governance
VoC	Varieties of Capitalism

SUMMARY

INTRODUCTION 16

1 SPINELLI'S DREAM AND THE FORGOTTEN LEGACY OF THE EURO 23

1.1 The US withering heights 23

1.2 Masters of the Universe and the Rise of Shadow Banks 24

1.3 Lost in Translation or The Basel Accords 29

1.4 Vanished Symbols: The Currency of (Different) Ideas 33

1.5 Götterdämmerung or The Stability and Growth Pact 54

1.6 Spinelli's shattered dream or the burst of the North Atlantic Financial crisis 57

2 THE ODYSSEY 59

2.1 An Iliad to join the EMU: Greece's path to the Euro and fiscal responsibility 59

2.2 Greece at the center of the European storm 67

2.3 Austerity, "Grexit" and the eurozone crisis 80

2.4 SYRIZA and the limits of legitimacy within the Eurozone Crisis 90

2.5 The Greek referendum between Democratic Legitimacy and Economic Governance 95

3 THE ORDER-KEEPER 99

3.1 Harmony of Dissonance or the Divergence of European Capitalism(s) 99

3.2 The uneven nature of German liberalism: The Freiburg School, Ur-ordoliberalism, the Geneva School, Alt-ordoliberalism or what? 115

3.3 Rules in the midst of (Dis)Order or the influence of Ordoliberalism in Germany 129

3.4 "Whatever it Takes" or the ECB unravelled 137

3.5 The rise of the *Altparteien* or the political consequences of the Brussels-Frankfurt consensus 141

CONCLUSION 146

REFFERENCES 156

APPENDIX A – DETAILED DATA FROM THE WORLD BANK 172

APPRENDIX B – LIST OF GREEK PRIME MINISTERS (1974 – CURRENTLY) 175

APPRENDIX C – LIST OF GERMAN PRIME MINISTERS AND COALITIONS (1949-CURRENTLY) 176
ANNEX A – EUROPEAN SEMESTER 177
ANNEX B – SUMMARY OF MEASURES TAKEN BY THE EU INSTITUTIONS 178

INTRODUCTION

On the morning of April 4, 2012, people were emerging during rush hour from a metro station nearby Syntagma Square. The city's central plaza is close to the Greek Parliament building in the centre of Athens, Greece. As the flow walked and people dispersed to go to work or other daily activities, one saw a 77-year-old man shouting "I am not committing suicide. They are killing me." at the Parliament steps, shooting himself in the head afterwards (SMITH, 2012).

Dimitris Christoulas worked as a pharmacist until 1994, when he retired to live on his pension. However, since the Greek government reined in spending, Christoulas received a cut in his pension, leaving him unable to pay for essential medications. Hopeless, Christoulas did not find another way. Soon after his suicide, bypassers left handwritten notes and flowers on the tree near the Greek Parliament which he had stood. Dimitris' death acquired special significance, representing the Greek older generation increasingly despair due to crescent slash in pensions.

The economic crisis in Greece forced the government to reduce spending on social services. Among those, health services were profoundly affected. Clinics reported more numbers of suicides and depression (STRUCKLER; BASU, 2013, p. 77). Christoulas suicide was a tipping point that sparked a series of riots against the Greek government. The police eventually suppressed protesters, but dissatisfaction remained.

Protests against social cuts were not solely in Greece. The effects of the financial crisis in the European Union (EU) provoked a sudden policy-shift in member-states. Principally in Eastern and Southern European countries, countries notably dependent on foreign credit, the rupture in the financial system profoundly affected the economies. Nevertheless, Southern countries belong in the eurozone, so they could not use monetary tools to resolve the crises as they were incapable of adjusting the currency.[1]

The eurozone languished a hindrance due to the fragility of European economies heterogeneity. Some countries within the group, such as Germany and France, bailed out

[1] It is worth noticing that Northern European countries like Iceland and Ireland entered in crisis. Likewise, France is a Southern European country. However, in terms of Varieties of Capitalism, France, England, Iceland, and Ireland have specific characteristics that differ from the cases commented in this work. For further analysis on this issue, Regan and Brazys (2017); Oren and Blyth (2018); Molina and Rhodes (2007); Schmidt (2017).

banks as a solution while others, too dependent on international liquidity, were not so lucky. The risk of contagion transformed the financial crunch in small countries into a systemic crisis that threw the single currency on the verge of collapse.

When the financial crisis hit the United States, after Lehman Brothers bankruptcy, Europeans criticised Anglo-Saxon capitalism as a problem of moral hazard (DEUTSCHE WELLE, 2009). America's thirst for financial risks and deregulation represented a perilous warning to global financial stability. One year later, Greece confessed tampering with deficit numbers, bidding financial assistance to other European countries in exchange of deficit reduction plans. With rating agencies endorsement, Greek coined fake financial data to escape the supervision of the European Commission. The Greek economy was insignificant in parallel with the European Union, but soon significant economies like Ireland and Portugal required financial help. European leaders sought to restrain the deterioration that pervaded the eurozone, but Italy and Spain too suffered downgrades. Conjectures about the future of eurozone rose. Ultimately, all those countries accepted to comply with a set of rigid rules to gain access to financial support from other European countries.

However, negotiations among European leaders reached a standstill due to the "no-bailout" rule that underpinned the Maastricht Treaty. France, invoking the principle 'European solidarity', convened European countries to coordinate a plan of European economic stimulus, which was rejected by Germany. Angela Merkel, the German chancellor, asserted that Germany would only take part of the financial package to European countries in financial difficulties if the IMF was involved. Even though the IMF participated in bailouts procedures in Eastern Europe such as Hungary and Finland, European countries from the core of the eurozone hesitated to accept Germany's proposal. There was a notorious prejudice against the image of countries that recurred support to the IMF, with an angrily Sarkozy spurning that "The IMF is not for Europe. It is for Africa - It is for Burkina Faso!" (SARKOZY apud BLUSTEIN 2016, p. 97). Nevertheless, the European Union requested the IMF to partake bailouts in the eurozone.

Eurozone countries soon approved a plan in consortium with the IMF for financial support to Greece and Ireland. Both countries had to sign a "Memorandum of Understanding" (MoU), a contract that pledged to deliver a set of economic structural reforms, in order to receive the fiscal support. The IMF, alongside the European Commission and the European

Central Bank (ECB), formed a group, later termed as the “troika", that would supervise countries that signed the MoU.

From all countries that received bailouts, Greece converted into one of the most problematical states. After severe reforms, the Greek economy still did not react. Greece received two bail-outs without a sign of leaving the adjustment program. European leaders decided to engage in negotiations with Greece for a third economic support package in 2015, but the Greek elections in January critically shifted the political landscape. SYRIZA, a small far-left party, defeated PASOK, the centre-left party that committed with the MoU. SYRIZA gained massive support from disillusioned Greeks due to its position vehemently contrary to economic orthodoxy. Accusing the MoU agreement with European countries as blackmail, SYRIZA confronted the European establishment over the years of austerity caused by economic reforms. SYRIZA was not a eurosceptic country, but the severity of the MoU and the lack of progress turned the tide of support for European, thereby ‘technocratic’ solutions.

Following a myriad of unprofitable meetings and consultations, the far-left party abruptly determined to call a referendum on the continuation of austerity in Greece in order to obtain a third bailout. Receiving no previous deliberations about the referendum, the troika and Germany asserted that it was imperative for Greece to honour its previous compromises. Otherwise, Greece had to leave the euro, as it was absorbing benefits from other member states without paying back. In the creditor's view, Greece lived beyond its means in an era of overflowing financial liquidity; therefore it should pay for its debts now that there was no financial growth.

The decision of the Greek referendum ended with a crushing 'No' (Oxi) victory. SYRIZA's intention with the result was to demonstrate to the Troika and the EU that Greece did not aim for more cuts in social spending or reforms. However, Alex Tsipras, the Greek prime minister, made a series of political miscalculations during negotiations about the third bailout that further isolated him among European leaders. There were reservations to the rigour of structural reforms even amidst European leaders and members of the Troika. However, continuously defying European authorities impeded Tsipras from pushing for attenuation of the reforms in Greece, as there were no incentives for European leaders to support the Greek's plea. As a result, Tsipras ended up accepting terms of the MoU that was harsher than the ones previously offered (BLUSTEIN, 2015, p. 435). In the end, the far-left

party ended up behaving according to the MoU norms, dwindling the possibility of a schism in the EU or further instability in the Economic and Monetary Union (EMU).

SYRIZA's capitulation to circumvent austerity exposed a particular point that fueled populist claims in Europe. The victory of a political party that rejects economic orthodoxy does not imply that it can detach from financial commitments when in power. Staying in the euro set a staggering economic limitation that was unbearably painful to the Greek electorate, but there was no other choice. SYRIZA promoted itself as the "legitimate will of the people" against austerity and used it against Greek commitments when confronted by European institutions, revealing the tenuous tension between legitimacy and responsibility (MAIR, 2009, p. 8). Greece had the democratic freedom to hold elections but lost the liberty to choose its economic policy.

The possibility of a 'Grexit' from the EU or further instability in the euro engendered by the crisis had unpredictable consequences for the eurozone, at the point of menacing the viability of the single currency as a whole. As polarisation between debtor countries, situated in the periphery of the eurozone, and creditors, in the core, grew, Germany stood alongside the troika.[2] Since the beginning of the crisis, Berlin was reluctant to coordinate European measures to resolve the crisis. Merkel reiterated the importance of moral hazard, stipulating that member states must take responsibility for their actions. Nonetheless, German inaction was unsustainable as the crisis politicised, obliging Germany to coordinate economic measures with other European countries.

Germany bolstered the value of price stability as the foremost solution to the instabilities in the eurozone. Engaging in conversations to propel a series of reforms in order to improve the rule-based framework of the single currency, Germany envisioned the institutionalisation of fiscal rules in order to correct the dysfunctional architecture of the euro. During the crisis, German leaders advocated ideas that permeated German politics since the reconstruction period. Under the inspiration of 'ordoliberalism', Merkel and other leading German actors determined fiscal reforms in the eurozone to ensure that fiscal crisis such as the Greek would not happen again. Pushing for modifications in the European mechanism of

---

[2] Creditor countries in general were Northern European countries (Germany, the Netherlands, Belgium, Luxembourg), also considered the ‘core’ of the European Union, the Coordinate Market Economies (CME). Southern Europe, or Mixed Market Economies (MME), the ‘periphery’ of the eurozone, ended up as debtor countries (Italy, Greece, Portugal, Cyprus, and Spain). England, Ireland, and Iceland, the Liberal Market Economies (LME) are liberal economies that are inserted in a different context that is not in this work due to space constraints.

economic surveillance (SGP), Merkel embedded the euro into a set of economic rules that resonates with the ordoliberal sign of "*Ordnungspolitik"* (the ordering of the institutional framework). However, the German emphasis on effective monitoring encountered resistance from part of the electorate of European countries that signed the MoU.

This dissertation highlights the intersection of international relations, European studies and international political economy regarding European economic governance in the context of the eurozone crisis. It attempts to contribute to the field of international political economy by outlining how ideas influence varieties of capitalism, thus changing the nature of macroeconomic governance in the eurozone. As the structural problems of the euro derive from the quintessential fact that the EMU was a political choice and not an economic one, the European Union had to coordinate European economies. Only by investigating systemic and domestic variables is possible to define how countries drove for or struggled against the institutionalization of economic rules.

This work proposes a framework in which the influence of ideas that advocates technocratic rule-setting engenders an antagonistic political impact in national elections, thereby threatening the previous arrangements. To do so, the hypothesis conjecture that polarization between actors escalated due to the role of principled beliefs in crisis-management policies and solely halted after the enforcement of institutional rules.

Thereby, this dissertation demonstrates the role of ideas in European policymaking in three different chapters. It begins by outlining the evolution of banking regulation after the Great Depression in the United States and Europe until the financial crisis of 2008. Likewise, it explains the divergent ideas of France and Germany regarding the economic and monetary union (EMU), arguing that instead of similarities, it was the willingness to compromise and bringing others with them that originated the common currency. However, German insistence on its beliefs of moral hazard transformed the euro into an incomplete currency. As a result, the architecture of the EMU became dysfunctional in the long term due to a rift between European monetary politics and national fiscal surveillance.

The second and third chapters will explain how ideas influenced economic policymaking in the EU and the subsequent elections during the North Atlantic Financial crisis. Thus, this dissertation will employ a case study to analyse the central argument. The consequences of the ideas will demonstrate how the European Union dismantled the process

of economic convergence through the ascension process of European member states that did not qualify for the convergence criteria. As a result, macroeconomic imbalances within the eurozone increased due to the lack of economic harmonisation intertwined with lax national regulation. The close links between financial markets in the United States and Europe transformed the impact of what looked like a bank run in American financial markets into a multiscaled North Atlantic Financial crisis that was so close to collapsing the global financial system that Ben Bernanke confessed that "we may not have an [American] economy on Monday" (BERNANKE apud SORKIN et al, 2008). The massive crash in Europe hindered recovery. The structural imbalances in the euro architecture appeared, leaving eurozone countries like Greece, Ireland, Italy, Spain, Portugal, Cyprus, and Iceland on the edge of failure (notwithstanding the calamitous effects of the crisis in Latvia, Finland, Estonia, Lithuania, Hungary, Czech Republic, Slovakia, Bulgaria, and Romania). This dissertation will thus explore the relationship between Greece and its creditors, therefore Germany, during the crisis. The belief of creditor as 'saints' and debtors as 'sinners' influenced the eurozone crisis, opposing Greece and Germany as two opposite models. Germany is considered the Northern country that "closely approximates the virtues of stable money, sound finances, and efficient local-factor markets […] and is essential to any solution to Europe's crisis.", while Greece "most closely approximates the opposite of German virtue on all three dimensions" (JONES, 2012, p. 166).

In Europe, member states committed to sign a MoU if they not coped with financial duties. Greece was the first member state to request financial aid to the EU. However, structural reforms required by the MoU caused a counter-movement by the electorate, politicising the crisis in the eurozone as other European taxpayers did not want to pay for profligacy countries. Greece fit in this situation because, after two support packages and bitter structural reforms, the Greek electorate voted for SYRIZA, a far-left populist party that wanted to dismiss Greece's previous commitments to its creditors. Consequently, Germany, already considered the European 'hegemon', engaged in negotiations with Greece to ensure that the Greek crisis would not contaminate the rest of the eurozone and threat the euro. Therefore, polarisation paved the way for populist countries in both creditor and debtor member states.

The craft of the case study consisted of analysing the role of ordoliberal ideas in the European monetary governance through the eurozone crisis. To do so, the author observed the political and economic effects of the crisis in different types of European capitalism through the methodological-typology of Varieties of Capitalism. Likewise, the methodological use of 'historical institutionalism' was a paramount tool, as the concept of 'critical junctures' was essential to examine the critical processes and events that influenced the transmutations of European monetary governance during the eurozone crisis. The research demanded a myriad of references, ranging through primary and secondary sources. The former constituted of datasets from the World Bank, European laws, official reports from the European Commission, statistics from European Central Bank, statements from the International Monetary Fund and the OECD, and autobiographical records of the events. The latter was a literature review on European governance, international political economy, democracy and democratic erosion, Greek politics, German politics, macroeconomic policy, regional integration, contemporary history of Europe, economic sociology, populism, and the crescent field of regional ‘disintegration’ theories.

Moreover, international newspapers, magazines, and think tanks reports were fundamental to conduct the research. All information contained in biographies, interviews, and in the press that ended into the dissertation passed through a rigorous process of fact-checking. The myriad of sources in the dissertation thus contributes to the literature a new perspective on how ordoliberalism, the economic ideas that influenced Germany in the reconstruction period, shaped European economic governance during the eurozone crisis. Besides, the structure of the dissertation introduces the possibility of developing the analytical framework of the research by adding less studied countries of interest like Portugal, Spain or Italy. Although the crisis emerged as a recurring object of research in recent years due to Lehman's bankruptcy tenth anniversary, research concerning the relations between European monetary governance interwoven with the successful "Geringonça" left-coalition in Portugal, or the rise of the alliance between the League and Five Stars are still underdeveloped.

1 SPINELLI'S DREAM AND THE FORGOTTEN LEGACY OF THE EURO

1.1 The US withering heights

A financial crisis is capable of changing the world. Crisis creates challenges, induce policy shifts, and turn priorities upside down, hence transforming politics. A crisis is capable of altering how we perceive our worldview. Defying established rules that reigned in different places such as academic classrooms or policy auditoriums, such events easily break old paradigms.

An essential step to understanding a financial crisis is to review the flaws of the current conventions. The financial crisis of 2008 represented one event of those events. Ending the prosperity cycle known as the "Roaring Nineties", it crashed the power and beliefs of "The Masters of the Universe" (STIGLITZ, 2003). Martin Wolf (2015, p. 34), the chief economics commentator at the Financial Times, asserted that it is crucial to find the intellectual meaning of the crisis to understand its impact. Economists as policy-makers must rethink their understanding of the world to answer what indeed happened. The 2008 crisis showed that established visions of how the economy and the financial system worked were absurd premises. Adam Tooze (2018) affirms that crisis can be misleading, prompting us to think only about the consequences or the next one, instead of what was it.

Even discussions about the chronological order of the North Atlantic crisis seem arbitrary. Academics disagree over the issue due to different frameworks of what caused the crash. To pinpoint an event of action requires the assignment of a worldview, thus exposing different narratives that diminishes divergent views while supporting others. According to economist Andrew Lo (2012, p. 152), there are multiple discussions about when the crisis started. Assuming accounts by politicians, economists, analysts, there is a myriad of testimonies that attest different truths about what the crisis was and how it happened. Moreover, as time passes, historians use new sources and methods to uncover different points of view that were absent during the clash. They are capable of finding indirect relations with new phenomena, reviving discussions under the scrutiny of the political moment (THOMPSON, 2017).

However, one can be confident that the crisis gained worldwide repercussions when Lehman Brothers filed for bankruptcy during the morning of September 15, 2008 (WEARDEN; TEATHER; TREANOR, 2008). The so-called "Lehman Day", the demise of one of the biggest North American investment banks, startled investors around the globe. The bankruptcy was a reckoning that financial stability was menaced, creating apprehension that other American banks could follow Lehman Brothers' same path. Financial interdependence meant instability in the whole system if one major bank faltered. Politicians from diverse continents understood that their economies were not invulnerable to the shock. They had to convene to develop a global solution in case the United States was not able to contain the crisis alone.

The first interpretations of the origins of the North Atlantic financial crisis considered the structural fragility of the North American housing system. That view was detailed by Robert Schiller when he analysed home-price indexes, looking for repeat sales instead of appraisal values. Schiller, an economist from Yale, stated that a bubble's burst in housing prices could engender severe impacts on the American economy. The Yale economist demonstrated that a pervasive contagion of mistaken beliefs about future economic behaviour was driving up real estate prices, thus popping the housing bubble and declining prices (LO, 2012, p. 156). According to his view, the lack of common knowledge delayed the burst and intensified the impact.

The formation, and next burst, of the housing bubble, exposed a systemic failure of the North American banking system. The evolution of the banking system in the United States after the Great Depression followed a path of countermeasures against regulation imposed by the American administration. Therefore, the housing bubble originated from the continuous deterioration of the Glass-Steagall Act of 1933 that dismounted 'universal banks', separating commercial banking from investment banking. The Glass-Steagall Act "prevented deposit-taking from engaging in security and insurance underwriting" (EICHENGREEN, 2014, p. 66). The Act impeded the expansion of investment banks with deposits from commercial banks that combined spiralled the damage of the North Atlantic Financial crisis.

1.2 Masters of the Universe and the Rise of Shadow Banks

The end of the Bretton Woods system in the 1970s eroded the competitiveness of commercial banks. The sharp rise of inflation diminished investment returns offered by regulated banks. As a result, insured deposits fell heavily. The destabilising factor was the higher uninsured returns provided by shadow banks that looked increasingly competitive in comparison to regulated commercial banks. The growth of shadow banks in the North American banking system was a direct response to the lack of regulated banks' competitiveness. Inattentive to the changing trend, regulators did not realise the expansion of shadow banks. Without supervision to oversee their operations, investment banks filled the space that previously belonged to commercial banks.

Shadow banks are, as a matter of fact, investment banks. Functioning as lightly regulated firms, they offer two forms of deposit. The first is the money market mutual funds, where someone buys shares in a mutual fund that invests in safe short-term assets that pay interests similarly to regular deposits. The other is the repurchase agreement, consisting of assets sold to depositors with an agreement to buy back (repurchase) it at a fixed price in a later time, in which the difference of both prices would act as the interest rate (BAYOUMI, 2017, p. 45). Both methods had less regulation than the conventional practices of commercial banks, so uninsured deposits allured attention increasingly from depositors.

The higher returns of uninsured deposits incentivised a financial interest movement from commercial banks. As returns continued growing, regulated banks also started to deposit their loans in shadow banks instead of maintaining them in their balance sheets. The move generated mutual gains. Commercial banks regained competitiveness. As shadow banks held low amounts of capital against loans, the capital invested by commercial banks would dilute the minimum required for investment banks to hold.

Moreover, commercial banks gained because they could obtain more knowledge of their clients to create loans and transfer them to investment banks. Through securitisation, the process of selling loans, such as mortgages, in exchange for money, commercial banks intertwined their clients with investment banks. Securitisation, therefore, served to transform "illiquid loans into tradable securities" (GABOR, 2016, p. 2). Regulated banks used securitised assets to sell loans to shadow banks. As a result, regulated banks could regain competitiveness because of discarding the assets enabled regulatory and tax benefits to them. Moreover, the banking sector was able to develop a system of borrowers credit-worthiness in

standardised credit-scores, thus creating conditions to evaluate riskiness and independent checking of consumers (BAYOUMI, 2017, p. 48).

The American state was the first to establish close ties with mortgage finance. The Federal housing policy initiated the practice of securitisation by lowering mortgages costs to create a secondary market where investors could commercialise loans. Fannie Mae and Freddie Mac, government-sponsored enterprises (GSEs), spread the practice of mortgage-backed securities (MBS) in order to "issue simple bonds backed by packages of mortgages they held" (HELLEINER, 2011, p. 70). Helen Thompson (2012, p. 402) highlights that since the 1930s the American government created conditions to engage in and support mortgage lending. Responsible for the first wave of securitisation, Freddie and Fannie would eventually shift practices when private firms entered the market. Even though the American Federal Government underlined that GSEs' bonds were not guaranteed, investors believed the contrary (THOMPSON, 2009, p. 17). GSEs became increasingly interwoven with regulated and shadow banks through new private label securitisation, increasing the crash's intensity later.

Since 1970, Fannie Mae and Freddie Mac were the dominant GSEs. Fannie Mae was the larger one, transformed into a private shareholder in 1968 due to a regulation made by the Department of Housing and Urban Development. Its purpose was to support home ownership and devote a proportion of its mortgage purchases to low-income housing. Freddie Mac appeared later, created by the Emergency Home Finance Act in 1970, to aid specialised mortgage lenders to overcome difficulties such as high inflation and interest rates. Both GSEs pursued different business models. While Fannie Mae kept mortgages in its balance sheet, Freddie Mac bundled its mortgages into mortgage-backed securitisations and then sold to investors. Due to investors' belief that both agencies were close with the federal government, Fannie Mae and Freddie Mac borrowed below market rates while central banks bought their debt "in the same way as US treasury bonds to hold as foreign exchange reserves" (THOMPSON, 2009, p. 17). Investors presumed that both agencies had insurance against default by homeowners, as their objective solely targeted protection. As Freddie Mac did not hold any mortgage on its sheet, it could not be affected by interest rates and soon became more profitable than Fannie Mae.

In the 1990s, the agencies became significant players in the securitisation of loans to low and mid-income earners. Freddie Mac operations in sub-prime securitisation influenced Fannie Mae to abandon its business model and follow its sister. Instead of issuing single bonds, the GSEs packed a myriad of differing mortgages with different risk, including sub-primes, turned them into MBSs and sold their loans directly to investors. Both companies acted as financial intermediaries, selling mortgages to investors with insurance. Furthermore, "the resulting MBSs themselves also began to be divided and repackaged together into new collateralised debt obligations (CDOs) whose cash flows derived from other bonds" (HELLEINER, 2011, p. 70).

Securitisation transformed the American financial market. In the 1980s, home mortgages issued by banks remained in their balance sheets. After the end-1990s, Fannie Mae and Freddie sold home mortgages in large scale to investors, creating the national housing market (BAYOUMI, 2017, p. 50). Financed by borrowing, both agencies could make a profit using borrowers' information and knowledge of the market, leaving them as the largest buyers of sub-prime and Triple-A mortgage-backed securities. Consequently, sub-prime lending increased and enticed the attention of members of Congress, but, Freddie Mac and Fannie Mae easily raised the argument that regulators were "opponents of affordable housing and unsympathetic to minorities" to keep pressure low (THOMPSON, 2009, p. 23).

Private label securitisations increased advantages of shadow banks in comparison to regulated ones. Likewise, it created incentives for commercial banks to use their private label securitisations and transfer them to shadow banks. As a result, shadow banks bundled their loans with the ones from regulated banks. Regulation to commercial banks transfigured shadow banks into efficient recipients of private mortgage securities. Commercial banks created loans for buyers but sold them to shadow banks instead of keeping it.

Under increasing pressure from regulated banks, the FED reduced restrictions on commercial banks to pursue activities similar to investment banks. It was a shift of paradigms to the Federal Reserve's philosophy that the market could be able to look for itself. Thus, regulators advocated deregulation as the best method to increase fair competition. Furthermore, the Graham-Leach-Bliley Act of 1999 deregulated national banks. Even the Federal Reserve assumed that investors would be more efficient to supervise those banks than public regulators (GREENSPAN, 2008, p. 372). The growth of shadow banks intrinsically

interlaced with regulated banks. Although shadow banks could not receive government support and access to emergency Federal Reserve funds, those banks were out of the FED scrutiny.

Investment banks implemented creative solutions such as secondary markets, allowing trade among investors and institutions after the initial offering. Different from the primary markets, where banks set prices, supply and demand of buyers and sellers that determine prices in secondary markets. It permitted institutions to operate among themselves. Likewise, the increasing complexity of finance attracted engineers and statisticians due to the utility of mathematics techniques to maximise return in comparison with risk. Through sophisticated techniques of derivatives to create incentives to develop new instruments in finance, such as hedge funds, technology transformed the banking system, restructuring the dynamics of financial market regulation.

The hedge funds had as primary objective to make financial returns on riskiness. They were exempt from disclosure requirement by regulatory entities; hence funds could operate without state supervision (KUTTNER, 2018, p. 88). They increased liquidity in the financial market and created demand for products derived from investment banks, such as returns on mortgage-backed securities. It was a virtuous circle in which investment banks and the hedge funds supplemented each other.

The quest for deregulation was a consequence of multiple pressures from commercial banks. The increasing competition for international investors generated a demand for liquidity. A flexible and convenient solution for providing liquidity in the banking system was the use of repurchase agreements (repo). According to Gabor (2016, p. 2), Repos involve the sale and repurchase of an asset (also called collateral). In a repo transaction:

> One institution agrees to buy an asset from another and sell the asset back to the borrower at a pre-agreed price on a pre-agreed future date. If the borrower is unable to repurchase the asset, “the lender gains the fee (repo interest rate payment) and can sell the asset. (GABOR; BAN, 2016, p. 619)

Repo markets also involve third-parties, “where management of collateral is outsourced to an agent” (GABOR, 2016, p. 2). Reforms to facilitated access to repo markets deepened the role of US assets in international banking, incentivising universal European banks to do the same.

Consequently, banks continued pressuring further deregulation in the United States. The evolution of the banking sector abandoned its ancient model in the 80s, where small

regional banks still predominated, to the rise of regulated national banks such as Citi and JP Morgan in the 2000s. The emergence of those institutions through acquisitions and mergers increased competition against smaller investment banks like Bearn Stears and Lehman Brothers (BAYOUMI, 2017, p. 67). The expansion of investment banks to compete with the national banks intensified the participation of European universal banks in the United States. European banks acquired securitised assets through repo markets, accelerating house prices and financing the creation of sub-primes (p. 93).

The belief that national houses prices in the US had never fallen induced banks and investors to continue expanding. Rather than verifying the capacity of borrowers to pay back, the GSEs continued accepting riskier mortgages, securitising them and charging banks for insured creditworthiness (p. 68). The positive cycle of rising lending, spending and asset prices created a trend. European banks used repos to access dollars, intertwining European capitals with the expansion of US repo markets. As a result, the growth of the United States in the 1990s absorbed more imports from abroad, which raised deficits and increased borrowing. Americans were living beyond their means.

In Europe, a similar phenomenon was happening in the eurozone. Southern European countries such as Greece increased its trade deficit due to artificially low-interest rates. As the European single currency reduced risk, markets equated Greek rates with German ones, resulting in the fall of long-term interest rates. Greece ignored its trade imbalances and continued importing without attending to the crescent bubbles that blossomed in US and European markets.

The global financial system depended on its supposed never-ending liquidity. However, American politicians and economists believed that China, whose holdings of dollar-based assets and securities were close to $700 billion, could destabilise the system (BRADSHER, 2009). Trying to control the crescent trade deficit, the FED was controlling inflation without considering demand factors.

The regulation was unable to perceive the growing instability of the financial system. Central bankers in Europe overestimated the resilience of the Euro, and the FED continued incentivising deregulation. The rating agencies remained. However, the close relationship between rating agencies and investment banks affected the criteria for ratings. As the North American financial market obliged agencies to be close to investment banks, their ability to

evaluate bonds riskiness became frail due to difficulties in discerning loans. Investment banks and rating agencies had opposed intentions. Shadow banks created loans that would maximise the possibility of receiving high grades from rating agencies, biasing them to reflect the imperfections of the risk agencies evaluation program. Ergo, they adapted their models to pass undetected through agencies, transforming risky assets into safe products (BAYOUMI, 2017, p. 62).

Ranging from derivatives to collateralised debt obligations (CDOs), diverse products were evaluated by rating agencies as average assets. The consequence of that practice permitted investment banks to focus on the possibility of default instead of losses in case default would occur, blinding the whole financial system to the belief that regulation was working due to the markets. As Robert Kuttner (2018, p. 87) argues, interactions between shadows banking and ranking agencies interweaved commercial banks and the two bigger GSEs into the idea that investors were better at managing risks. National regulation was unable to verify the American and European financial system. Global regulation followed the same path.

1.3 Lost in Translation or The Basel Accords

The Bank for International Settlement (BIS), based in Basel, organised a series of efforts to standardise global finance in 1974. The solution involved the development of a system in regulating global banking standards. There was an interest in controlling capital regulation to avoid a series of subsequent crisis that happened during the 1970s, such as the failure of the Franklin National Bank and the Herstatt Bank in 1974.

Monetary authorities decided to establish the ‘Basel Committee on Banking Supervision’ within the Bank for International Settlements (BIS) to discuss such questions. Central bankers were convinced that regulation should prevent bank failures and the global crisis that could emerge as a consequence of new transnational banks. To standardise capital, central bankers envisioned to cover “risk reduction, lowering liabilities, and reaching an agreement on acceptable practices” (MAJOR, 2014, p. 200).

The initiative to make adequate standards questioned advantages from different national rules that provided a competitive edge to national banks at the international level.

Regulation aimed to contain internationally active banks, capable of holding more significant margins of capital. Competitive pressures from new financial hubs in international banking pressured the reach of an agreement. Likewise, it represented a forum of discussion to present ideas capable of regulating transnational capital flows, as national policies were unable to touch it (MAJOR, 2012, p. 543).

Worries over the question escalated when banks' bankruptcies surged international demands over capital flights, prompting countries to continue the discussions in order to formalise an accord. Progress happened when the United States and the United Kingdom decided to build a universal rule on capital. The negotiations of 1987 defined uniform norms for bank assets and which asset was considered capital (BAYOUMI, 2017, p. 25).

In 1988, the talks settled a set of rules about adequate banking standards that should be internationally adopted. The first Basel Accord, or Basel I, had to be implemented by all member states until 1992 (BANK FOR INTERNATIONAL SETTLEMENTS, 2018). Basel I included two levels of minimal capital buffers to supervise banks that held thinner margins of it. The Accord also supervised banks that diluted capital to pretend a secured margin of capital. The International Organization of Securities Commissions (IOSCO) would conduct the monitoring of global securities markets.

Basel I represented a breakthrough in a new era of transnational finance, where central banking practices focused on inflation targeting and price and exchange-rates were highly volatile (MAJOR, 2012, p. 542). Basel standards covered prudential measures to "bank supervision, securities regulation, insurance, accounting, auditing, payment systems, and corporate governance" (HELLEINER, 2011, p. 72). Notwithstanding its supervisory functions, the Basel Accords was a technocratic body that aimed to diffuse norms of behaviour to Central Banks, inclosing them from constitutional powers. Moreover, Basel I did not develop defences against instruments developed by shadow banks.

The changing trend of the period posterior to the Bretton Wood system also influenced the weaknesses of Basel I. Central bankers had to keep inflation under control to avoid the flight of investment. The high capacity of capital's mobility pressured governments to cede autonomy to central banks, so measures to contain capital flight were immune to democratic backlash. It was a signal of a broader trend that emphasises the role of markets self-regulation, in which the state's role, with little multilateral cooperation, to regulate bank

capital reserves should be minimum. The pressure to maintain inflation under control further legitimised the monetary policies of central banks, engendering international competition for foreign capital (MAJOR, 2012, p. 551).

The Basel Accords fixed various ratios of capital to debt concerning different categories of bank assets. Such a measure had the purpose of reducing riskiness in the international banking system. Nonetheless, it was not enough to sway globalised capital. The BIS was unable to supervise securitised assets if it did not appear in bank's balance sheets, so banks were not obliged to accumulate reserves in terms of the Basel Accords. According to Major (2012, p. 544), financial institutions started to securitise assets to increase the supply of asset-backed securities in global financial markets. The method attracted banks precisely because it was efficient to avoid regulatory supervision. Therefore, Basel I ended up stimulating the practice of assets securitisation, making it extremely difficult to evaluate bank balance-sheets (MAJOR, 2012, p. 548). By the end-1990s, it became clear that banks have hidden quantity of capital reserves through securitisation.

European banks expressed discontentment against Basel I. They called the agreements counter-productive, as they created safeguards that diminished incentives to create internal risk models. In 1996, the Committee modified the rules on international capital buffers, allowing large banks "to use their internal value-at-risk models to calculate capital changes for market risk" (HELLEINER, 2011, p. 72). As Bayoumi (2017, p. 29) asserts, regulators agreed that banks were better at understanding risk than supervisors. To increase their banks' competition, "both US and European regulators allowed banks to lower their reserves through the purchase of CDS contracts, even though issuers were not subject to the same capital requirements as banks" (HELLEINER, 2011, p. 72). Rather than manage transnational capital flows and monetary stability, Basel I "created powerful incentives for financial institutions to securitise debt and for investors to purchase new forms of debt securities" (MAJOR, 2012, p. 538).

Instead of halting softer capital standards, the Committee condoned Basel I to permit the use of internal models. The outcome of the Committee engagement with international banks was the enforcement of a "market-friendly" bias that trusted self-regulation. It indicated the pervasive belief among international institutions and countries that market discipline was enough to contain risk. International banks continued adapting its capital buffers to use their

value-at-risk models, impacting the surge of competition in European markets. As a result, European investment banks developed more aggressive risk models.

After the end of the Bretton Woods system, new banks grew under capital ratios that were below the ones permitted in the United States and Europe. However, it raised fears that improved competition would turn systemic banking crisis such as the ones in the 1980s more common, thereby a new set of regulatory measures was required. Consequently, the G7 countries pressured the Committee of the Basel Accords to promote the global adoption of international standards. Meanwhile, the Basel Committee still tried to converge new capital standards through new rounds of negotiations (KUTTNER, 2018, p. 64). The impact of the 1994 Mexican crisis and the 1998 financial crisis in East Asian countries influenced the Committee to initiate talks to overhaul the Accord. The Committee enhanced the Basel I framework, although still permitting "larger banks to use internal risk models to determine the amount of capital to put aside for overall credit risk" (HELLEINER, 2011, p. 72).

The outcome of the alteration was the Basel II Accord, finished in 2004. Instead of evaluating assets into broad categories, banks could use their models to analyse assets. As a result, Basel II widened the use of risk models to create credit on loans. That change permitted banks to use different manners to evaluate assets with similar risk. Hence, banks could lower the risk of their assets based on their preferred system. The supervision of the new method was assigned to a small number of recognised credit-rating agencies such as Moody's and Standard and Poor's (MAJOR, 2012, p. 548). As previously discussed, agencies gained regulatory authority, keeping a close relationship with banks, which affected their internal ratings-base approach. Mathematical modelling that was easily manipulated therefore substituted real regulatory oversight.

The effect of Basel in Europe was the massive growth of European universal mega-banks. The reduction of capital buffers and the extension of the use of internal risk models to entire operations permitted those European banks to abandon the European core and move to the United States and Southern Europe. Without constraint from European supervision, as banking supervision in Europe was a national obligation, universal banks expanded in an unsustainable manner. As Basel II reduced control from national states and gave permission for banks to move to subsidiaries, "there was very little regulatory power in international supervisory bodies" (MAJOR, 2012, p. 545).

In the United States, the FED maintained a hard stance against the Basel Accords. Basel I was incapable of expanding securitisations that American regulations wanted to lift. Moreover, there was discontentment with the regime imposed by Basel II. The Committee adopted a complacent attitude towards the FED, offering constant revisions to entice American supervisors. The FED ended up accepting Basel II, promising to incorporate the international standards by the end of 2007.

The Basel Accords tried to standardise a system of rules that would ease central banks pressures against each other. Nevertheless, it permitted major banks, under the protection of developed countries, to continue expanding using sophisticated processes of asset securitisation. Rather than controlling supervision, the agreements restrained international supervisory bodies through rating agencies that were not able to visualise the flaws of the financial system. On the other hand, there was already pressure from the United States to alleviate rules of the Basel Accords. The FED willingness to lift regulation of regulated banks was incompatible with the primary intention of the agreements.

In the end, the Basel process was compromised with regulators inclined to trust the capacity of markets self-regulation while the United States banking system privileged risks (KUTTNER, 2018, p. 92). The solutions proposed by the Bank for International Settlements, also reiterated by the International Monetary Fund during the 1990s, was capable of containing inflation and volatile exchange rates. However, it was insufficient to contain financial instruments that developed to bypass regulation and the structural flaws of the European single currency.

1.4 Vanished Symbols: The Currency of (Different) Ideas

The creation of the Euro was a complicated process with constant withdrawn and slow progress. Ideas about a single monetary instrument in Europe were present in economic debates since the sixties. Institutions moved carefully to promote economic and financial integration, notwithstanding the setbacks that paralysed the procedure. The initiative of convening the Committee of Governors of the Central Banks of the European Economic Community (CoG) in order to set up talks about a unified monetary system was a pivotal step.

The purpose of a European common currency was defined before its creation when the German chancellor Konrad Adenauer discussed in Parliament that the European project had political ends instead of an economic ideal. However, France and Germany disputed the role of monetary integration. The controversy between 'monetarists' and 'economists', where the former was following France's ideal of "plans for greater exchange rate stability and exchange rate support mechanisms" and the latter "under Germany, emphasized the coordination of economic policies and convergence of economic performances, especially inflation, as a precondition for EMU" (MAES, 2004, p. 21). Those debates defined the future of European monetary integration in a period where postwar miracles, such as the *Wirschaftswunder* in Germany, the French *Trentes glorieuses* or *il Boom* in Italy, encouraged European countries to shape the monetary system to its interests.

Support for integration in Europe increased due to beliefs that the creation of the European Economic Community promoted impressive European growth.[3] The popularisation of pan-Europeanism ideologies in the 1960s gave impetus to that trend. Nevertheless, Harold James (2012, p. 36) argued that the EEC was part of a broader trend of postwar efforts at trade liberalisation that reinforced integration. European countries promoted trade within the European Economic Community (EEC) but were unable to expand overseas due to agricultural protection within the United States. American retaliatory tariffs imposed constraints in markets that ventured outside the European area, thus stimulating commerce within the continent.

The consequence of the EEC to European countries was that coherent economic policy required a higher degree of harmonisation (JAMES, 2012, p. 41). Policies to coordinate European economies were paramount in order to elaborate on effective economic planning. Consequently, the Treaty of Rome stipulated the creation of the Monetary Committee of the European Community (MC) to oversee monetary and financial policies that established obligations and responsibilities to member countries. The function of the MC was not related to the creation of a single currency due to the incompatibility of a fixed exchange rate regime at the time, as American influenced all sorts of economic affairs. Bretton Woods sustained the

[3] The Treaty of Rome was signed in 1957, creating the European Economic Community (EEC). It was composed by Belgium, France, Italy, Luxembourg, the Netherlands and West Germany. The Treaty aimed to progressively reduce customs duties and establish a custom union. Moreover, it suggested the creation of a single market for goods, labour, services, and capital among member states. The Treaty also discussed the foundation of a Common Agricultural policy, a Common Transport Policy and a European Social Fund.

global economic system. Therefore, the American consensus shaped regulation through international organisations.

The international organisation was responsible for European economic affairs was the Bank for International Settlements (BIS), based in Basel. The BIS conveyed the responsibility of monitoring the European Recovery Plan. European central banks could engage with the BIS in Basel, cooperating through the MC to coordinate conjunct action. Likewise, the MC was an entire discussion forum to central banks because those institutions lacked continued active cooperation. As political parties controlled central banks, central bankers were chosen based on political preferences. Nevertheless, the desire for further cooperation among central bankers within the MC pervaded dissatisfaction in certain European countries.

The president of the *Deutsche Bundesbank*, Karl Blessing, remained a sceptic that the MC should be considered central bank cooperation (JAMES, 2012, p. 44). Contrarily to other European central banks, the Bundesbank was already independent due to the Bundesbank Act of 1957 (BIBOW, 2009, p. 155). The sole priority of the Bundesbank president was to maintain the stability of the German currency. As cooperation among central banks could eventually muster policies to harmonise European countries, it would foster an inflationary bias in Germany. Therefore, Blessing was against any measure that coordinated Germany with other EEC member countries.

Progressive current account surpluses in Germany in the late 1950s epitomised a trend that repeated continuously during contemporary German politics. German stubbornness to keep account surpluses raised multiple criticisms from Europeans and Americans. At the height of Adenauer’s popularity in Germany, Blessing convinced him to disregard central bank cooperation with the MC, as cooperation policies would alter price stability in Germany. Economists attribute German high growth during Adenauer’s *Wirtschaftswunder* to stability-oriented monetary policy and union wage moderation (SCHARPF, 2018, p. 5). Nevertheless, German postwar exceptional performance resulted from the macroeconomic rationality of Adenauer’s finance minister, Ludwig Erhard, who lifted wages and price controls while liberalising trade (2018, p. 10). Without consulting other EEC members, Americans pressured Germany and the Netherlands to adjust their currencies in order to correct imbalances within the EEC.

The domination of American institutions in monetary policy reduced the role of central banks. The stability of the Bretton Woods system made the case that "so long capital markets were not connected and exchange rate policies were not problematical, the case for greater monetary cooperation was pretty weak" (JAMES, 2012, p. 44). Monetary policies that created instabilities in the system, such as the Italian Lira in 1964 and the crescent over-liquidity of the Dollar in the monetary system, divided Europeans in CoG discussions.

The CoG provided short-term financial facilities and a swap network to support European currencies in difficult. As a forum of discussion, it permitted Europeans to formulate a collective action to international financial problems that affected Europe. France accused Americans of using the Dollar as an "Exorbitant Privilege", accumulating huge deficits without having enough gold or assets and using collective trust in the Dollar as insurance. Germany still preferred US solutions instead of engaging the initiative to develop a European system.

The German position in the CoG was to ensure monetary stability and discard disturbances that could undermine monetary policymaking (JAMES, 2012, p. 58). It sharply contrasted with France's profile. The divergent positions created a dilemma in which France needed to contract its economy or Germany should pursue expansive measures.

Keynesian economics predominated at the French Planning Office. Elites in public service originated from the "*Grandes Écoles*", composed an "epistemic community" that permitted informal ties between government and market forces. Strongly influenced by the engineering tradition in economic thought, French economic strategy prioritised industrial expansion and focused on market imbalances (MAES, 2004, p. 24).

The French economy centred towards the role of the exchange rate, as it favoured expanding the economy to focus on domestic policy priorities. Stimulating economic activity and inflation, the Franc created pressures on the EEC. Contrarily to the French mainstream, the finance ministry was orthodox, pressuring for intense periods of devaluations to restore competitiveness during periods of crisis. Thus, the position between Keynesianism or a free market-oriented pro-European divided France.

France accompanied the United States as a country vulnerable to deficits. However, de Gaulle's anti-Americanism influenced him to refuse any concerted action against surplus countries such as Germany, the Netherlands, and Japan. The alternative was to bid for

American creditors to act within the CoG. The European response gave credit lines to France, strengthening French reserves. Even the Bundesbank accepted the case due to fears that the Deutsche Mark could suffer severe revaluation. Nevertheless, the vulnerability of the American dollar prompted action among EEC members. France devaluated the Franc in 1969, refraining inflation and creating an opportunity for concerted European action to create a common market (MAES, 2004, p. 24).

Speculation facing the Franc engaged the EEC in discussions about cooperation in monetary and economic policy. The fixed-exchange-rate regime was increasingly vulnerable, causing worries that American institutions would not sustain the system permanently. The shifting conditions of the end-1960s in international monetary politics compelled European countries to engage with other members of the EEC. Even Germany, initially wary of the CoG, envisaged it as a forum to develop economic and monetary solutions to guard their economy against an unstable economic system.

American policymakers rested assured that the United States was not responsible for global instabilities in the economic system. In their view, West Germany and Japan were currency manipulators, gaining recurrent current account surpluses on the expense of the rest. Such tensions forced Europeans to ambition a monetary currency that reflected their interests, independent from the US. However, differences between France and Germany continued emerging.

Germany was unwillingly to abstain from surpluses and low inflation, so European economic coordination had to be an effort from other countries' adjustment. Finance Minister Strauss of the conservative Bavarian Christian Democrats opposed any movement of the Deutsche Mark, paralysing discussions about effective European coordination. German immobile pressured France that received support from European countries to fix its exchange-rates and adopt monetary orthodoxy (JAMES, 2012, p. 60).

The development of the German growth model was a profound reaction against the planned economy of Nazi Germany. Likewise, the influence of the United States in German reconstruction stimulated the decentralisation of the German political economy. Inspired by a group of academics from the University of Freiburg, Ludwig Erhard interlaced the principles of social elements with economic liberalisation to elaborate reforms in Germany during Adenauer’s term. The combination of free markets with social protection under a strict

regulatory framework to conduct the economic reforms of 1948 engendered the *Wirtschaftswunder* in the 1950s. The German "social market economy" was a product of the interdependence between the economic order and legal, social, and political sectors (MAES, 2004. p. 25).

The emphasis on "social market economy" remained in policymakers. 'Ordoliberal' ideas, derived from the Freiburg school, endorsed a free market economy under the tutelage of an active state with limited duties. Ordoliberals quintessentially advocated the state to participate in the economic order, regulating cartels and monopolies to enforce fair competition. Moreover, ordoliberalism underlined the importance of the state in the foundation of the *Ordnungspolitik* (Policy of order), the settlement of a rule-based framework to coordinate the economic order.

Ordoliberals focused above all on the capacity of safeguarding currency stability. Avoiding the planned economy of Nazi Germany and the liberal surge that caused the Great Depression of the 1930s, they envisioned a state model that would reduce monetary instability in case of inflation or uncertainty. Thereby, it was an utmost necessity to give autonomy to an independent central bank in order to solely pursue price stability.

Differently from France, Germany was determined to maintain price stability as its primary focus. However, German foreign policy priority envisioned the reconciliation with France. Erhard, an ordoliberal economist, was a sceptic of European monetary integration. The German finance minister thought that further integration with other European countries would supersede the consistency of the German growth model. Germany strived for a European common market similar to its own, a rules-based market economy, but faced stiff opposition of the French.

In December 1969, Georges Pompidou assembled European leaders at the Hague Summit. Constant devaluation crisis of the franc persuaded the French president that European monetary union had to be pursued. Nevertheless, Pompidou maintained the Gaullist tradition of promoting a European currency as a French instrument (MODY, 2018, p. 37).

The Hague Summit of 1969 materialised monetary union as the prime goal of French diplomacy. European leaders convened at the Summer agreed on the economic and monetary union as a goal of the European Community. European leaders gathered a Committee to identify "the basic issues for a realisation by stages of economic and monetary union in the

Community" (JAMES, 2012, p. 74). Chaired by Pierre Werner, the president of Luxembourg, the Committee reunited a team of specialists. The result of the "Werner Committee report" was the prediction that "the inevitable tensions and pressures within the incomplete monetary union would force member nations toward "progressive development of political cooperation"." (MODY, 2018, p. 46). The "Werner Report" thus assigned that European member states should pursue a political union (EUROPEAN COMMISSION, 1991).

The Werner Report exposed the fundamental differences between France and Germany. The ambiguity of the "Werner Plan" showed the contrasting economic ideas of European countries to the purpose of the monetary union. France, Luxembourg, Belgium, Italy, and the Commission wanted an accelerate monetary integration and small exchange-rates fluctuations. In their view, monetary union would inevitably lead to political union. On the other hand, Germany and the Netherlands argued for economic harmonisation, suggesting that all European countries should adjust their economies to the markets.

The Werner report explored the vague idea of 'stability' to appeal to the Germans and the French. The "Werner Committee" proposed three stages without timetables. The measure envisaged to avoid pressure on European member states, but the Committee set the achievement of an economic and monetary union within ten years (EUROPEAN PARLIAMENT, 2015). The report enticed both French and German policymakers using a language of harmonisation intertwined with independence from the dollar. Moreover, the Committee emphasised flexibility in the first stage to allure wary European countries to join.

However, Germany continued unwillingly to step further into financial integration, still insisting that political union as a first step before the monetary union. As France disagreed over any possibility of longer-term institutional integration, Germany rested assured that there was no possibility of deep commitments.

The report offered specific details solely into the first stage of monetary union, leaving open the future process of monetary integration. The solution to avoid conflicts between French and Germans was to allow "parallel progress" in monetary and economic areas (EUROPEAN COMMISSION, 1970). The report emphasised fiscal transfers in the long-term to avoid fears that economic differences could erode integration.

However, conservative Gaullists criticised the Plan because of its supranational aspects (MAES, 2004, p. 28). Talks about the European central bank continued a sensible

issue. German policymakers continued advocating autonomy while the French aimed to restore the franc evaluation through central bank cooperation and coordination of fiscal policy.

The reflection of Germany in the plan's framework increased France's dissatisfaction. Even though a monetary union prescribed "coordination of short-term economic policy, including the harmonisation of fiscal policy, and intensified bank cooperation", France resisted integrating further than the first phase (JAMES, 2012, p. 83). France's wariness to transfer sovereignty to European institutions reflected different economic perceptions. Economic policies in France were still extremely nationalised, different from stability-oriented policies in Germany (MAES, 2004, p. 29).

The lack of a deadline to accelerate the new phases of the integration process ended up harming the Werner plan. Without France cooperation to pursue further integration, Germany proposed in 1971 a plan of continuing monetary integration if accompanied by measures to coordinate economic policy. Apart from the seeming disposal to continue the process of economic integration, the lack of cooperation between the two countries halted the progression of the Werner. Even though Germany was not interested in the monetary union, "Germans wanted to be perceived as good Europeans citizens", thus avoiding the image of "setting back European integration" (MODY, 2018, p. 53).

Before initiating the agreement, a combination of external constraints with internal constraints intensified the pressure on the EEC's monetary unification. The Werner Plan stressed the assumption that the US dollar would remain stable (EUROPEAN COMMISSION, 2015). Nevertheless, a high inflow of dollars in Europe destabilised the German monetary system. Policy coordination remained limited, constraining German action without the support of other European countries. Biding to European countries to temporarily widen the margin of bands so the mark could fluctuate, Germany expected that concerted floating would force the "United States to devalue the dollar" (JAMES, 2012, p. 86). Without success to convince its European counterparts, Germany floated unilaterally, engendering inflationary pressures. The movement strained relations among Germany and other European countries. Policy coordination remained limited, constraining German action without the support of other European countries.

In August 1971, out of nowhere, the United States suspended the convertibility of the dollar into gold. Richard Nixon, president of the United States, declared that the US would leave the fixed-exchange-regime without any previous consultation, signalling the end of the Bretton Woods system. Volatile exchange rates became the norm. The unstable monetary system rifted the coordination of European economies objective, ending the Werner Plan.

The plan's abandon demonstrated the potential consequences of policy convergence combined with divergent ideas. Notwithstanding the crescent frailty of the Bretton Woods system, consistent Keynesian policies in European countries impeded the harmonisation of economic and monetary policies. However, Amy Verdun (2001, p. 96) points out that the Delors Commission's blueprint of economic and monetary union is extraordinarily similar to the Werner Plan's framework.

As an effort to continue monetary cooperation, European central bankers developed approaches to reduce fluctuations among different European currencies. In April 1972, they signed the "Basel Agreement", devising the 'Snake in the tunnel' mechanism. Under that system, "European currencies could fluctuate within narrow limits against the dollar" (EUROPEAN COMMISSION, 2015). All members states of the EEC entered the mechanism. Even European countries in the period of ascension, such as Britan, Denmark, and Ireland joined the snake before gaining EEC membership.

Eventually, disputes between Germany and France arisen. The mark received a tremendous source of capital from other European countries. However, capital flight to Germany weakened other currencies. Under speculative pressure, France demanded to Germany to aid other countries through lower interest rates. Germany refused, thus forcing Britain to leave the snake in June 1972, delivering a blow to France (MARSH, 2011, p. 66).

After Britain, the 'Snake in the tunnel' destabilised after the oil crisis and the dollar's float in 1973. In Europe, Italy left the snake in February 1973, ending abruptly "*il Boom*", its postwar miracle. As pressure grew, France was unable to keep pegged to the Deutsche Mark. Despite German endeavours to maintain the franc in the system, France abandoned the snake in January 1974. Pompidou's successor, Valéry Giscard d'Estaing, promised to bring the franc back to the snake mechanism, which happened in July 1975. However, "the Snake had stopped being a Community mechanism and had become instead a club of strong

currencies” (JAMES, 2011, p. 137). High inflation and succeeding current account deficits forced France to leave the snake again in March 1976.

The ‘Snake in the tunnel’ mechanism agonised. France was unable to compete with the Deutsche Mark, and inflation was rising through EEC members. The turbulence of the Snake notwithstanding, Germany perceived it as the core of economic and monetary cooperation. The Snake mechanism forced market discipline, so European countries were forced to adjust to remain in the group or leave.

In 1977, Roy Jenkins, president of the European Commission, developed a new proposal to proceed with the economic and monetary union in Europe. After initial scepticism, Giscard d’Estaing and Helmut Schmidt, the German chancellor, supported a limited version of the proposal. The new effort to EMU was the transformation of the ‘Snake’ into the European Monetary System (EMS) in 1979. The EMS consisted of the European Currency Unit (ECU), a basket of national currencies, and an Exchange Rate Mechanism (ERM), a system that reduced exchange rate within narrow margins of the ECU for each currency of the EMS. Thereby, bilateral rates could be fixed. Giscard d’Estaing emphasised the ESM as a symmetrical system, where the Deutsche Mark would act as an external anchor for weaker currencies. Interventional obligations calibrated the EMS, ceded by Schmidt, and guaranteed short- and medium- term credit assistance. Germany preserved the autonomy of the Bundesbank. German policymakers were wary of the chancellor’s compromise with Giscard d’Estaing to ensure the EMS, as Schmidt’s stance to Europe was divergent from previous chancellors. The German leader was concerned about the dollar’s instability, so he intended to shield the Deutsche Mark through a European monetary system.

The answer of American policymakers to the new system was cold. The British were hesitant to join due to the notable anti-American tone of Schmidt (JAMES, 2012, p. 149). Other European countries were less reluctant, as Ireland entered the EMS as part of a diplomatically strategy to reconnect with the rest of Europe and release itself from British rule (MARSH, 2011, p. 86). Likewise, the Italian government was reluctant, as it feared that high-inflation would soon become uncompetitiveness within the system while optimists aimed to import German discipline.

However, geopolitical questions interwoven with monetary issues confirmed Italian angst. The Iran-Iraq war in 1979 soared old prices, inducing inflation. As the obligatory

German compensations in the EMS were subtle, high inflation in EMS countries engendered the loss of competitiveness to deficit-led European countries (MODY, 2018, p. 59). Like in the 'Snake' mechanism, Italy and France devalued their exchange-rates. Moreover, Carter's support package in November 1978 depreciated the dollar in order to increase competitiveness and coerce the German economy to reduce its surpluses through monetary expansion. Schmidt refused, calling the strategy of the American treasury secretary, Michael Blumenthal, suicidal. Consequently, the devalued dollar deteriorated European monetary coordination due to the appreciation of the Deutsche Mark (JAMES, 2011, p. 152). The "dollar/Deutsche Mark Polarization" indirectly weakened European currencies within the EMS.

The transatlantic political crisis concluded after Paul Volcker, the Federal Reserve chairman, announced spending cuts, capital control, monetary tightening in 1980. The Bundesbank answered by suspending lending, hence skyrocketing interest rates to 30 per cent (MARSH, 2011, p. 97). The effects of the sudden-stop caused profound electoral changes in the United States and Europe.

In 1980, Ronald Reagan defeated Jimmy Carter in the American elections due to Volcker's relentless fiscal tightening. In Europe, the asymmetrical costs of the EMR adjustment resulted in Giscard d'Estaing's defeat to François Mitterrand in the 1981 French elections. After ceaseless endeavours, Schmidt failed to convince the Bundesbank to lower interest rates and stimulate the economy. Receiving a no-confidence vote in the Bundestag, Helmut Schmidt concluded his chancellorship.

The impact of Bretton Woods and the first oil shock shifted assumptions of monetary policy and exchange rates. Ideas of Anglo-Saxon economics to contain inflation became predominate in the economic mainstream. The emphasis on supply-side policies gained momentum as price stability began to be pursued by governments. Likewise, central bank interdependence, initially supported by German policymakers, gained scope in economic discussions. In that changing macroeconomic regime, France elected its first socialist president.

After Giscard d'Estaing's orthodoxy, Mitterrand promoted an intense expansionary economic program, emphasising interventions and privatisations. However, France's weakness to external factors, capital outflows, and declining competitiveness pressured the

franc, strangling the economy. The oil crisis forced the socialist president to abandon his original economic planning in 1983. Refusing to continue devaluating the franc, Mitterrand adopted the "*Politique de Rigueur*", a set of conservative policies to stabilise the economy (MAES, 2004, p. 30).

François Mitterrand would become the last president to adopt interventionist policies, orienting the French economy towards the German growth model after two years of economic expansionism. The French government liberalised priced, settled the exchange rate, and focused on "sound money" policies. The economic activism from the Socialist Party vanished, becoming the *franc fort* policy. Therefore, the French commitment to fiscal discipline reduced inflation and interest rates converged to a lower level.

The growing consensus about "sound money" is pinpointed by the political scientist Erik Jones (2013, p. 147) as crucial furtherance towards Economic and Monetary Union (EMU). The French compromise with economic stability quelled the economic divergences between Germans and the French. As coordination among European countries increased, Mitterrand shifted his priorities to European policies. French policy-makers accepted German conditions to move France in the direction of the European Monetary Union.

Jacques Delors, President of the European Commission, established liberalisation of capital movements as a measure to promote the internal market through the Single European Act in 1987. That decision was a positive signal from Mitterrand to accelerate European economic integration. The act transformed the European Community, inaugurating arrangements such as the free movement of capital and services. Banking activity, mainly, grew massively after regulatory barriers were lifted. The opening of capital markets in Europe-wide banking territory permitted the expansion of a single banking model that would predominate in European territory. However, almost all of the increase came from the northern core of the EEC and the lack of cross-border takeovers induced large banks to overseas investment banks operations (BAYOUMI, 2017, p. 33).

The harmonisation of European economic and monetary policies did not diminish French complaints against German dominance of the EMS. They were still common during Mitterrand's term. Helmut Kohl, the German chancellor, was quite reticent to discuss the advancement of EMU. Kohl himself opposed the system of exchange rates. Conscious of

criticism against the EMU because of the lack of European countries' convergence, he tried to stall conversations about the creation of a single currency. (MODY, 2018, p. 66).

Mitterrand coaxed Kohl to proceed with the single currency, but the German chancellor was more worried about internal affairs. In the same way as Adenauer, Kohl considered that the ultimate goal of European cooperation was a political union, not an economic one. He wanted to strengthen the European Parliament and more powers to European decision-making but was reluctant to reduce Germany fiscal sovereignty. Kohl was aligned with the Bundesbank president, Karl Otto Pöhl, who was a critic of the idea of a European single currency.

Despite protests of German asymmetry in the ESM, Mitterrand could not inveigle Kohl to agree with the single currency. Moreover, geopolitical questions were counter-manoeuvring French influence. Americans and Soviets were supporting the process of German reunification, and there was nothing that France could do (MODY, 2018, p. 78). East Germans immigrated in high inflow to West Germany because of economic penury and reunification seemed an adequate response to the situation. Kohl placated Mitterrand announcing in a conference in Strasbourg that he would proceed with the European single currency after introducing a ten-point plan to German reunification. However, German intentions did not appease every European leader.

Margaret Thatcher was especially frosty to the hypothesis of reunification. Against the German plan, the British prime minister tried to convince Gorbachev to oppose the plan. In a reunion with Mitterand, Thatcher showed maps of Germany's border before and after the Second World War. Pointing to Silesia, Pomerania, and East Prussia, the British prime minister said that the Germans would eventually capture all those territories alongside Czechoslovakia (MARSH, 2011, p. 141-143). Mitterrand used Thatcher's German scepticism in order to bargain with Kohl further conditions to the EMU.

Kohl erstwhile reticence to EMU still aimed political union as an end. However, France's refusal to abstain of sovereignty left the question of the EMU's purpose. The German chancellor was opposed to burdening sharing through the economic union. Furthermore, Pöhl and the East German Bundesbank president, Horst Kaminsky, were still opposed to any idea concerning EMU.

The German Federal Election in 1990 curtailed the stalemate. Kohl used German reunification and the single currency proposal to his gain, making a campaign where European and German integration were his achievements. Promising a reunification process that would engender no cost for West Germans and investments to Easterners, Kohl branded critics as nationalists or anti-Europeans. In order to win, he assured the electorate that he was responsible for the new European impetus. The German chancellor reluctance to the single currency turned into zestful vindication.

Kohl's campaign distanced him from Karl Otto Pöhl. The Bundesbank president alleged that European nations were not prepared for monetary union. Even though Pöhl was a pro-European, he believed that Europe could only work under a strict set of rules. Inspired by Ludwig Erhard's idea of *Ordnungspolitik*, Pöhl feared that the wave of European integration could drive the monetary side unilaterally without economic harmonisation (JAMES, 2016, p. 178).

Mitterrand considered that a monetary union should be a collective undertaking but was aware that the Germans would not disregard economic stability. Karl Otto Pöhl 's stance concerning the single currency did not change, but Kohl was decided to proceed with it. To assuage German discomfort, Mitterrand indicated Jacques Delors to be chair of the European Commission. Delors possessed an orthodox view of economics, working previously as Mitterrand's finance minister. Mitterrand and Kohl supported the Delors Committee in economic issues due to the technical expertise of its members, composed generally by central bankers (BAYOUMI, 2017, p. 122). Nevertheless, the homogeneity of economic thinking within the Commission was not enough to avoid clashes.

Pöhl was extremely irritated to the point of bashing in a reunion with the Bundesbank council that the European Commission would "dominate the work of the Committee and that 'Latin' monetary views would prevail at the expense of German commitment to the culture of stability" (JAMES, 2016, p.181). The Bundesbank president was inclined to refuse his participation in the Delors Committee. Even so, Wim Duisenberg, his Dutch counterpart, and others convinced him that was more effective to strive for 'sound public' finance and an independent central bank within the Committee than outside it (MARSH, 2011, p. 125-126).

Pöhl views were non-negotiable, presenting a challenge for other central bankers. His cold attitude towards the Committee was perceptive, preferring to show a "disdainful body

language than outright discussions […], leaving critical views on monetary union to be articulated by Denmark and Luxembourg" (MARSH, 2011, p. 129-130). Delors understood that the Bundesbank president "had political instructions, from the German government, to be cooperative, and that he could not block agreement" (JAMES, 2016, p. 182). However, Pöhl kept a hard line against political interference in economic affairs, defending slower institutionalisation and financial regulation at the national level. Likewise, the Bundesbank president proposed the Bundesbank's framework as the ideal version of a hypothetical European central bank. Pöhl was against any consensus that Europe's monetary union needed a fiscal union (MODY, 2018, p. 84). So, an independent European central bank would not be constrained to burden-sharing European economies. Moreover, Pöhl defended that the sole duty of the central bank should be the enforcement of price stability within the European Community.

Contrary to his initial expectations, Pöhl got involved with the Committee to push for an independent European central bank blueprint. He preferred a slower institutionalisation of the integration process, but the EMU's advancement forced Pöhl to remark his *sine qua non*-conditions. Wim Duisenberg, a Dutch central banker, supported German demands alongside Denmark and Luxembourg. Also, Delors, himself a technocrat, acknowledged the fact that Pöhl was disposed of "to do anything that was needed to get a result which looked like a Bundesbank-type central bank" (JAMES, 2016, p. 182).

However, Pöhl's disinterest to shape agreements in the Committee was an obstacle to his ideas. That permitted other members of the Committee to drive the Commissions agenda. Even though Duisenberg set out German policies more consistently than Pöhl, the French Jacques de Larosière and the British Leigh-Pemberton efficiently pushed their agenda through diplomatic dialogue. The Italian Tommaso Padoa-Schioppa, deliberately left space for further economic integration in the future (BAYOUMI, 2017, p. 122).

Pöhl's case for an independent central bank was part of a series of German movements that advocated 'sound money' policies within the EEC. Likewise, the European Act of 1986 that established the abolition of tariffs and free movement of goods, services, labour and capital was a French-German instituted to persuade Germany to accept the EMU. Delors knew that his liberal orientation made him a consensus among Kohl and Thatcher and any weaver toward Mitterrand's economic gestures would paralyse the integration process. The

Germans were still wary that the French planned to use the EMU for pipe-dream of '*Gouvernement Économique*', so any discussion of the central budget would cause an uproar in Germany. A fiscal union was one step ahead of the still on-going process of monetary union.

Mitterrand and Kohl were focused on their agendas and not for advanced economic debates. The German chancellor expressed unambiguously clear that Germany chose the monetary union because of political reasons, not economic ones. Delors knew that European countries' unwillingness to pursue further financial integration, thereby he instructed Padoa-Schioppa to leave a space in the original report to continue discussions in the future (JONES, 2012, p. 153).

The Delors Committee finished the report counting with the participation of the Euro System of Central Banks (ESCB) to coordinate the program. The report carried Pöhl's influence on rules and supported the competitive market established by the Rome Treaty. The 'Delors Report' targeted two questions. First, related to economic arrangements procedures that could guarantee a monetary union. The second concerned the adequate mechanisms that should be adopted in order to accomplish the monetary union (MAES, 2004, p. 33).

The predominance of German emphasis on stability still disturbed Mitterrand, who imposed date for the start of the 'monetary union' as a counter-measure. Moreover, France craved for a German commitment to common obligations. The Germans continued insisting that economic criteria should be more efficacious. German fixation with rules even distressed Delors. However, Germany and other European countries were a sceptic that European countries such as Italy would be able to take part in the European single currency. Still, the European commissioner complained that obsession with numbers could be unrealistic in the face of the EMU future challenges. Consequently, the solution to Franco-German disagreements over the transition was a set of rules that stimulated economic harmonisation.

The final draft presented in 1989 fixed German demands and enshrined economic themes into rules. The final agreement, composed of three phases, was the basis of the future Maastricht Treaty. The Maastricht agreement allowed European countries to retain sovereignty of their tax revenues and spend it on their national priorities. The Treaty established a single currency, an independent European central bank, norms to ensure monetary stability and a "no bailout" rule. There would be no supranational aid for European

countries in crisis. Europeans could call it a monetary union, but the lack of fiscal union impeded the term.

Pöhl was still pessimistic about the future of the EMU. Regarding the main difference of European economies as irreconcilable, the Bundesbank president believed that the common currency was destined to fail. The European experience would have the destiny as the disastrous conversion of the Ostmark into the Deutsche Mark (MODY, 2018, p. 83). Similar to his initial preference to 'slow institutionalisation', Pöhl defended that any commitment about the monetary union should not circumvent necessary discussions about harmonisation. Later, he would "present himself as someone who had been trying to prevent 'disaster' in Europe' (JAMES, 2016, p. 192). His differences with Kohl, a wholehearted exponent of the EMU, increased until he resigned from the Bundesbank in 1991. The new Bundesbank president, Helmut Schlesinger, continued pointing out Pöhl's objections about the single currency.

In 1992, European leaders convened to sign the Maastricht Treaty. The European Community became the European Union (EU). The Treaty allowed EU member states to meet a set of specific economic conditions until 1997 in order to enter the final stage of the EMU. European countries that complied with the Maastricht rules would be able to adopt the euro in 1999.

The convergence criteria for joining the euro was the institutional consolidation of German stability-oriented policies. It did not consider that "fiscal responsibility was "socially embedded in very different national contexts" (JONES, 2012, p. 149). The focus on inflation control intertwined currencies with the European central bank, whose sole purpose was to ensure the stability of the euro. Moreover, 'sound' public finances and limits on national debt repudiated European particularities, such as the Italian economy. The harmonisation of European economic through macroeconomic efforts required a sudden period of austerity and orthodoxy in South European countries.

Figure 1 – The Euro Convergence Criteria

What is measured:	Price stability	Sound public finances	Sustainable public finances	Durability of convergence	Exchange rate stability
How it is measured:	Consumer price inflation rate	Government deficit as % of GDP	Government debt as % of GDP	Long-term interest rate	Deviation from a central rate
Convergence criteria:	Not more than 1.5 percentage points above the rate of the three best performing Member States	Reference value: not more than 3%	Reference value: not more than 60%	Not more than 2 percentage points above the rate of the three best performing Member States in terms of price stability	Participation in ERM II for at least 2 years without severe tensions

Source: EUROPEAN COMMISSION, 2019

The rules seemed unachievable to certain countries. In September, investors abandoned the Italian Lira. Panic in markets drove Italians to expect German solidarity by lowering interest rates, engendering a shared adjustment to relieve distressed European countries. The Bundesbank showed a display of its independence and kept its interest rates. The economic slump in European countries affected new members as well. Greece, Spain, and Portugal had high inflation and worryingly numbers of unemployment. However, the first victim of the instability in European markets was Britain, who release the pound from the ERM and threw questions about the viability of European institutions in periods of crisis.

Similar to the pound, The franc was vulnerable to speculative attacks. The French economy had high unemployment that was set to worse if France raised its interest rates. Germany worried that further instability could force France to leave the ERM, menacing the common currency. As a result, the Bundesbank devalued the Deutsche Mark. In 1993, France was hit again by a recession that menaced the Franc's permanence into the EEC. Unlike the last time, German support did not come. The Bundesbank defended that European countries

should abandon the ERM and float their currencies. The Bundesbank hesitated to alter the interest rate in order not to threaten the German economy, forcing France to devalue the franc.

Germany favoured other options for European devaluation instead of appreciating its interest rates. However, European countries continued under an increased margin in the exchange-rates of the ERM solely to keep France in. The issue was especially sensible for France, that kept the "*franc fort*" policy as its pivotal symbol. Although both countries wanted economic coordination of economic policies, France expected displays of 'European solidarity' from Germany.

German wariness with France increased after the French elections of 1995. Jacques Chirac, the French president, criticised austerity. The European margin constrained France to maintain orthodox economic measures even if the French president preferred otherwise. It was seemingly clear that France's commitment to the European Monetary System seemed to be solely political. Lionel Jospin, the prime minister from the socialist party, promised to break the 3 per cent of GDP limit on the French budget. Jospin wanted to reclaim control over monetary policy in 1997. His ideas over expansive economic measures were capable of causing deficits that would fall over other European countries.

Kohl continued determined to comply with the Maastricht Treaty. However, Germany needed an assurance from France, as the German chancellor had to contain the fierce domestic opposition. During 1996, the SPD, a party of the opposition, frequently attacked the capacity of the EMU to ensure stability in Germany. Kohl was conscious that German voters would not accept a transfer union. The idea of sharing economic risk with other Europeans, or German taxpayers unwillingly transferring cash to other countries, was one of the main reasons for the EMU slow progress. Reassuring Germans that he did not permit the bailout of other European countries, the German chancellor would pressure for stricter fiscal rules. As there was no possibility of renegotiating the convergence criteria of the Maastricht Treaty again, Theo Waigel, the German finance minister, elaborated a surveillance mechanism for further economic convergence. Waigel proposed a scheme of mutual supervision that triggered automatic economic sanctions in case of excessive deficits. In December, European countries reached a compromise over Waigel's proposal with the European Council, turning it into European legislation. The so-called 'Stability Pact' (SP) would observe European

economic performance, penalising current account deficits with the 'Excessive Deficit Procedure'.

Jospin was tempted to keep its campaign promises but abandoned his planning in exchange for a compromise with the German chancellor. France would promote economic growth in exchange for a revision on the Stability Pact, renaming it as Stability and Growth Pact (SGP). As a result, France respected the deficit limit, complying to the SGP and the Maastricht Treaty.

Different from France, Italy left the ERM in 1992. Suffering difficulties to recover, Italians industries could not compete with East Asian countries and cheap Eastern European products. Nonetheless, Italy tried to enter the common currency without meeting the convergence criteria. Italian leaders believed that European institutions would force countries like Italy to develop discipline with the rules. The Dutch and the Bundesbank were vehemently against the Italian bid. As a sign of good faith, prime minister Romano Prodi managed to put the Italian budget under control, but the Italian debt still reached 120 per cent. It was far away from a minimum of 60 per cent allowed (MODY, 2018, p. 120). Italy was incapable of respecting the requirements. The circumstances changed because of Kohl intervened, supporting the Italian bid to join the euro. However, it was a political decision rather than a straightforward economic answer.

In 1998, Kohl signed the adoption of the euro at the Bundestag, becoming one of eleven countries to use the single currency. The economic and monetary union worked under three conditions: fixed exchange regimes, price stability, and fiscal austerity. A German victory during the Delors talks, as the French privileged an institution prone to democratic accountability, the European central bank (ECB) was immune to external interference. Its only responsibility rested in maintaining price stability.

The architecture of the EMU highlighted the division of powers to different authorities, ranging from the European Central Bank to national financial regulation. France strived for the *tradition republicaine*, built on the principle of sovereignty and trust on the technical expertise of the Banque de France to implement economic policies. Nevertheless, Germany vetoed. Northern European emphasis on decentralisation prevailed. The German model, underlining rules and order, left an imprint in financial regulation and monetary policy.

The ECB controlled monetary policy and left fiscal and structural responsibilities to individual member states. The asymmetry of economic and monetary coordination demanded economic surveillance with rigid rules to minimise fiscal profligacy. However, The ECB had no control of national economic decisions within the economic bloc. The fact that the Maastricht Treaty restrained financial regulation to the national level notwithstanding, the Treaty kept supranational institutions unable to control banking activity. The European single currency functioned without a banking union, although the European Commission left orientations to fix that frailty in the future through a fiscal union. In sum, there was no institution overseeing the evolution of the European banking system.

The process of economic integration within European reflected largely in industries. It was complicated for banks to perform in other European countries. National regulation differed across Europe, impeding the possibility of cross-border banking. Due to different tariffs and complex regulations, European banks preferred to operate within their country borders. Moreover, the costs to exchange currency discouraged cross-border activity.

However, German preferences over liberalisation of goods, capital, and services soon reflected in banking activity. The Single European Act synchronised the European banking model through the Second Banking Directive in 1989. Determined by the European Commission, the directive allowed operations of investment and commercial banking through the EEC. The ideas emphasising strong competition and the elimination of trade barriers eventually permitted the multiplication of pan-European banks.

While the universal banking model popularised, huge banks expanded to other European countries, becoming “national champions” (BAYOUMI, 2017, p. 37). Universal banks that united commercial and investment services were common in European countries like Germany. However, the rules’ homogenization through the EEC expanded banks services and stimulated competition. A small number of universal banks from Germany, France, the Netherlands, and Belgium expanded continually, becoming mega-banks. Even though regulation remained at the national level, European countries softened supervision to support the expansion of national banks against other European banks (GABOR; BAN, 2016, p. 623).

National regulations from core countries gave a stimulus to create mega-banks as counter-measure to larger banks from abroad. Deutschebank, ING, Societé Générale, and others grew so much that by the 2000s they transferred their banking systems in risky areas to

invest in the periphery of the Euro area. Furthermore, these mega-banks diversified their portfolio internationally, as the core of the eurozone remained unattractive.

Supervisors were unable to control banks that operated in the eurozone, so they stimulated smaller Southern European banks to merge vastly in their regions as a defensive agglomeration against mega-banks. As commercial banking practices were widespread in Southern Europe, mega-banks had the leverage to invest large amounts of capital on investment banks operations. Therefore, they obtained an advantage to compete with commercial banks. Soon, the process of banking expansion permitted growth in Southern Europe generated by loans given by the core. As a result, the expansion of mega-banks within the eurozone permitted a consisted growth of different European economies.

As the ECB centred its policies solely towards monetary issues and there was no continental banking supervision, the lack of communication hindered the possibility of controlling the unsustainable growth of the banking sector. National responsibility was obstructed by European competition in order to guarantee the protection of domestic banks against foreign mega-banks. The European dissensus about the EMU was too involved in monetary affairs to discuss the financial dynamics of the EU.

The compromise between Mitterrand and Kohl was based ultimately in a political calculus, hence there were no concerns over the geofinancial consequences of the European banking sectors expansion. Germany advocated the separation of monetary and national fiscal regulation under the idea that states should take responsibilities for their actions. German policymakers would not allow transforming the euro into a fiscal union if that meant giving to other countries access to German funds. Talks to define the economic and monetary union defined by the Maastricht Treaty exposed German and Dutch unwillingness to subject their tax revenues to a European regime. The political commitment interlocked the economy into a framework of ideational norms.

Capital market integration and liberalisation of cross-border banking in the end-1980s framed the structural foundation of the euro (JONES, 2015, p. 44). However, Germany entrenched the euro as a monetary union without a fiscal union intertwined with an independent central bank that only complied with stability-led measures. As the growth of shadow banks in the US forced supervisors to dismount regulation and subdued Basel II

regulation, European banks became less capitalised in order to be more competitive (BAYOUMI, 2017, p. 91).

The norms that reigned the eurozone from Maastricht and onward would not herald a coherent worldview due to the omission of a banking union. Weak regulation would cause inaction capable of paralysing integration and engendering conflict within the eurozone area. As McNamara (2015, p. 26) argues, a currency is a political symbol that depends on the notion of 'embeddedness' to control dovetail social, cultural and economic differences in a region. Therefore, the euro was a political symbol that was incomplete to operate as a complete currency of heterogeneous economies. Consequently, the unfinished European monetary integration enthralled many criticisms from American economists, accusing the common currency as inadequate to be an "optimum currency area" (OCA). The currency had only monetary functions, as the table shows:

Figure 2 – Economic and Monetary Union (EMU) Overview

	Monetary union	Economic union		
	Monetary policy	Fiscal policy		Economic policymaking
What does it cover?	Price stability: setting of interest rates for the euro area to maintain inflation at just under 2 % --- Circulation of euro coins and banknotes	Public finances (levels of spending and borrowing by national governments)	Taxation (government income)	Decisions concerning education systems, labour markets, pensions, ...
Who manages?	The European Central Bank (ECB) sets interest rates and prints euro banknotes --- National governments issue euro coins in quantities approved by the ECB	National governments' responsibility --- The EU enforces common rules on national deficits/debts	National governments' responsibility	National governments' responsibility --- The EU coordinates and makes recommendations in the framework of the European semester

Source: EUROPEAN COMMISSION, 2014.

The theory of the OCA established the criterion for a sustainable currency operate in the long-run. It demanded free movement of people, goods, and services to ensure 'factor mobility' and a degree of homogenous adjustment in the economy to economic shocks (MUNDELL, 1961). Furthermore, a central bank should coordinate fiscal transfers to create a harmonious equilibrium among diversified economies (KENNEN, 1963; MCKINNON, 1969). However, the architecture of the euro skipped the mechanisms that comprised a real monetary union.

Table 1 – Determinants of Successful Monetary Union

Optimum Currency Area Theory (OCA)	Embedded Currency Area Theory
Factor Mobility (K & L) (Mundell)	A "True" Lender of Last Resort function (LOLR)
Wage and Price Flexibility (Mundell)	Fiscal Redistribution, Sovereign Debt Pooling (Fiscal Union)
Openness to Global Markets (McKinnon)	Financial Market Regulation, Bailouts, Resolution Mechanisms, Deposit Guarantees (Banking Union)
A diversified Economy (Kenen)	Legitimate and Democratic Institutions of Governance (Political Union)

Source: MCNAMARA, 2015

According to critics, the European consensus of a single monetary currency area is far from a truly common monetary area. The ambiguous purpose of the euro as a "currency of ideas" in European politics, meaning the culmination of German foreign policy of "good European" or the French reversal of the franc decline concerning the Deutsche Mark, is the answer. Paradoxes of politics would trump economic rationality.

Ambivalent pacts towards the rule-settled monetary framework demonstrate that asymmetrical economic relations can shape the eurozone through minimum consensus. Such a position was evident when the German Constitutional Court (GCC) ruled out that no German or European institution could set up economic burden-sharing. Consequently, German decision-making is neither an ideology nor macroeconomic policymaking, but the foundation of a paradigm, the "Brussels-Frankfurt consensus". As Erik Jones (2012, p. 152-153) highlights, "[the consensus] works like a paradigm insofar as it sets out a clear notion of progress with shared assumptions […] Many of the mechanisms at work in Kuhnian 'normal science' operate within the context of interlocking ideational commitment". Germans established a minimum agreement with other European countries emphasising stable money, 'sound finance', and market-structured reforms. Nevertheless, Germany's push for banking supervision at the national level exposed the "principled belief" of moral hazard to justify normative assumptions (KEOHANE, GOLDSTEIN, 1993, p. 9). Thus, German insistence that individual members states should supervise their banking regulation was an ideational commitment towards fiscal integration that only reinforced German views on price stability.

Concrete measures to intensify economic integration could resolve the dysfunctional financial regulation in Europe. Delors and Padoa-Schioppa left space for integration reforms in the Maastricht Treaty. However, after the economic reforms to meet the convergence criteria requirements, eurozone countries had no political will to continue the integration process. There was no pressure to adopt reforms nor consensus about which integration, as the Germans were resolute to veto financial reforms and the French were unwilling to cede sovereignty to the EU. As a result, the space opened by Delors and Padoa-Schioppa in the Treaty was ignored.

1.5 Götterdämmerung or The Stability and Growth Pact

After initial fears, the Euro seemed stabilised as a common currency. Even though European countries like Italy or Greece did not meet the convergence criteria, there were legitimate efforts to comply with economic harmonisation. However, after adopting the euro, European countries stalled economic adjustments. In the aftermath of the German elections in 1998, Gerhard Schröder, Kohl's successor as chancellor, promised job created as the most important factor of his agenda.

There were few motives to believe in Schröder's promise. Due to the European central bank constant evaluation of the euro as an effort to converge European economies, German exporters suffered heavily. German capitalism was an export-led economy, so Germany depended on devaluation to have competitive products in markets abroad. However, East Asia and the economic collapse of Russia plummeted German exports. Consequently, unemployment soared, dropping the German economy on the verge of a recession. Germany was "the sick man of Europe" (THE ECONOMIST, 1999).

In 2001, the contraction of world trade exacerbated the stagnation. The extreme circumstance plummeted the French economy after keeping up growth alongside smaller European countries. Germany's stagnation induced deficits, leaving the German public finances dangerously close to the limits established by the Stability and Growth Pact (SGP).

The SGP was designed to decline the risk of fiscal crisis in individual states. As the impact of a crisis could hit all European countries within the eurozone, European leaders realised that there were no incentives to prevent states from relaxing their fiscal policy. The European Commission was responsible for reviewing each economic program and making recommendations. If the report were incapable of succeeding, the Commission would send the case to the Economic and Financial Affairs Council (ECOFIN), where it could exhort a veto and subsequent sanctions. (BAERG; HALLERBERG, 2016, p. 972-973).

The European Commission eventually blacklisted France, Germany, Italy, and Portugal as budgetary offenders. European leaders pleaded flexibility while some, like Romano Prodi, complained: "I know very well that the stability pact is stupid, like all decisions which are rigid." (PRODI apud L'OBS, 2002).

The Stability and Growth Pact enshrined convergence criteria limits—fiscal deficits lower than 3 per cent of GDP and government debt around 60 per cent—into law. The European Commission set up the process of giving forewarning to follow the SGP. However,

the German economy exhibited no signs of recovery, so Germany ignored the warning. The rule of mutual surveillance presumed that European countries would coerce breachers, but fears of future admonishments pervaded reluctance to notify German leaders. France, Portugal and Italy were particularly hesitant to take any action against Germany (MODY, 2018, p. 146).

However, the ECB and the International Monetary Fund (IMF) sided with the Economic Commission. On November 2002, Italy decided to enforce the rules, recommending an Excessive Deficit Procedure (EDP) against Germany. Defying the European Commission, Schröder allied with Chirac against the ECB and Italy. In 2003, the European Commission settled that Germany and France breached the SGP and demanded that both approved spending cuts. The German response to the Commission was a fiscal package and insistence on flexibility encompassing growth instead of fixation with fiscal discipline.

The French and German violation of the SGP seemed to polarise the European Union, as Italy took the stance of the Commission with the ECB. The Commission initiated the sanctioning process against France and German. Nevertheless, Chirac and Schröder gathered political support to influence the intergovernmental European Council to rescind the supranational Commission. As a result, the ECOFIN council eschewed from approving the sanctions. France and Germany nullified the procedure.

The European Commission protested alongside the ECB, the Italians, and the Dutch. Furthermore, the case provoked a revolt in smaller European countries. Worries that largest countries like Germany or France could rig European institutions succeeded in the promises that such states would set the example (MARSH, 2011, p. 218). Italy accused Germany of violating the rules, raising the case to the European Court of Justice (ECJ) to revoke the council decision. Even though the ECJ affirmed that excessive deficit should not continue, the council acted within its jurisdiction (MODY, 2018, p. 151).

The creation of the SGP happened due to the asymmetrical influence of Germany in shaping fiscal policy within the EU. However, the severe recession that affected European countries like Germany and France between 2002 and 2004 ended those countries' support for the SGP. After disclosing the rigidity of the SGP as sternly rigid, Schöder backed changes in the mechanism. Consequently, the Netherlands and Austria still enforce the SGP, but their bargaining power is far inferior to Germany (HEIPERTZ; VERDUN, 2011, p. 776).

In 2005, European member states revised the SGP. They weakened the EDP and allowed the European Council to interfere with the interpretation of the 3 per cent deficit rule. Moreover, countries experiencing negative annual growth or accumulating a loss of production during long periods of slow growth were exempt from the EDR (MATTHIJS, 2016, p. 381). The revised changes permitted members to pursue budgetary plans independently of sanctions, point out any justification for economic decline and present it to the Commission.

German and French efforts to diminish the SGP and weaken the ERD had consequences for the future of the euro. The erosion of the Commission's ability to oversee European budgetary activity skipped "the main institutional bulwark at the European Union level against higher deficits and debts" (BAERG; HALLERBERG, 2016, p. 997). Likewise, the overhauling of the Commission influenced states to pursue un-cooperative strategies. The SGP modifications ended up creating incentives to the contrarily of the originally intended.

1.6 Spinelli's shattered dream or the burst of the North Atlantic Financial crisis

When Mussolini's Fascist Special Tribune condemned Altero Spinelli, he gained the right to renounce his ideas and obtain a revision of pardon to his 16 years sentence in jail. Born from a socialist family and a communist himself, Altero refused. Held captive on the island of Ventotene, he eventually abandoned communist ideas and envisaged a utopic future after World War Two, where a European federalist movement would triumph as an antithesis of fascism. Inspired by the federalists' writings and other political prisoners, Spinelli wrote the "Ventotene Manifesto", describing his vision about a federalist Europe. The Manifesto is one of the first documents defending the idea of a European constitution and a supranational European federation of states (EUROPEAN COMMISSION, 2019).

The postwar period was a time of opportunities to Spinelli. The former Italian war-hero advocated further European integration in the Italian government, and his political initiatives catapulted him to the European Parliament (EP). As a Member of the European Parliament (MEP), he made his demands heard, as the Parliament approved his "Draft Treaty Establishing the European Union", also known as the "Spinelli Plan". The document settled the framework of the Single European Act of 1986 and for the Maastricht Treaty, driving

European integration further. Positive economic outcomes would inevitably lead to harmonious politics, triggering a vicious circle. Spinelli thought that a European union should be the highest outcome to reach; hence he criticism towards politicians that adopted a hesitant position towards integration. He was a believer that Europe was a forward-looking process of appeasement but did not imagine that Europe could ever polarise through stepping closer towards integration.

Optimism in American markets inexorable raised concerns about the sustainability of the positive trend in the North Atlantic financial system. The American boom in housing prices accompanied a gradual fall in long-term interest rates. Meanwhile, overconfidence in the MCU continued attracting investments in Europe due to lower funding costs. However, the massive dollar reserves held by emerging markets, European banking expansion, and the liquidity of safe assets caused curiously decreasing returns of yields (BAYOUMI, 2017, p. 99-100).

It became a matter of time until investors eventually realised mortgage-backed securities kept most of the bad loans sold. After lenders questioned the value of collateral and the viability of banks, they recognised that by private mortgage-backed assets companies that dominated markets depended on risky loans to survive. In mid-September 2008, the American government rescued Fannie Mae and Freddie Mac because of the massive losses that both GSE's suffered (HELLEINER; 2011; p. 69). The loss of confidence froze repo markets. Without access to tri-party repo funding, Lehman Brothers and Bear Stearns collapsed (GABOR, 2016, p. 2). Failure of American consumer protection for subprime mortgage left borrowers exposed to risky loans by lenders. Moreover, the American government rescued and nationalised the world's largest insurance company, American International Group (AIG).

In Europe, the European central bank envisaged the European repo market as an integrationist of a single financial space for the transmission of interest rate decisions (GABOR; BAN, 2016, p. 618). The European financial system should be large enough to sustain the sudden shock, but as European mega-banks invested massively in the United States, they held less capital in their balance sheets. The impact of Lehman's bankruptcy induced an extreme liquidity freeze in European banks. Consequently, the capital inflows from Northern universal banks to the periphery of the eurozone evaporated.

The effects of the North Atlantic financial crisis decimated the stability that reigned in the eurozone since its creation. Likewise, the mess that pervaded Europe unveiled the deficient structure of the Economic and Monetary Union. Instability in Europe rifted the continent into polarisation and political disputes. Likewise, it shattered Spinelli's dream of European unity when the European economy burst.

2 THE ODYSSEY

2.1 An Iliad to join the EMU: Greece's path to the Euro and fiscal responsibility

During the mid-1970s, Greece became a democratic regime after a dictatorship that lasted from 1967 to 1974. Under the leadership of Konstantinos Karamanlis, a former prime minister that spent the dictatorial period in exile, Greece fulfilled the transition to democracy. The "Colonel's regime", as the dictatorship was known, ended with Greece under institutional chaos, internationally isolated, and on the brink of war with Turkey.

As the first prime minister of the democratic period, Karamanlis had as its first objective to stabilise Greece. The new Greek prime minister made pivotal improvements on democratic, economic, and institutional issues. Karamanlis tried to transform the country and guarantee membership at the EEC, thus ending the period of international isolation and enhancing the economy. The prime minister also reformed institutions to be compatible with liberal democratic values, legalising the Greek Communist Party and other previously banned leftist parties while neutralised the army's political influence (PAPPAS, 2013, p. 34).

In 1974, the prime minister made a plebiscite about the monarchy continuity, despite keeping the president's seat and the 300-members unicameral parliament. In 1975, Karamanlis approved a new constitution, thus strengthening inclusive political institutions and a plural party-system. As part of the process, the prime minister also founded his party, the liberal-conservative "New Democracy" (ND).

In the European strategic sphere, Karamanlis signed Greece's full EC membership in May 1978, even before other European countries that also passed through dictatorships such as Portugal or Spain. The membership eventually led to Greece's entrance to the European Community in 1981. The primary purpose of the negotiations to enter the bloc was to enforce liberal democracy in Greece due to the EC's influence. Still considered a "frail democracy" and one of the countries that belonged to the "third wave of democracy" that was stabilising itself from a dictatorship, Greece still needed support to achieve full democratisation (HUNTINGTON, 1991).

Membership in the European Community was essential to the Greeks because of its symbolism. The process answered domestic doubts about Greece's identity belonging to the

West or the East. In terms of security, dependency on the US diminished as Greece entered the EC's orbit. Karamanlis took advantage of the EC's funds to modernise the economy, still based on agriculture, attempting a development model close to the French "*Dirigisme*" that emphasised state capitalism (PAPPAS, 2013, p. 34).

Karamanlis abandoned the premiership in 1980 and became president. The Panhellenic Socialist Movement (PASOK) won the legislative elections in 1981 and obtained the premiership. PASOK was a democratic socialist party that adopted a high confrontational style, attacking the process of democratic transition initiated by Karamanlis from a left bias. Andreas Papandreou, leader of PASOK, became prime minister. Papandreou was the son of a former Greek prime minister, Georgios Papandreou, who governed Greece before the Colonel's regime, but a monarch's plot with the army arrested him in 1967.

To gain the elections, PASOK adopted a populist style in the campaign, dividing society between the "pure people", represented by PASOK, and the political establishment as "corrupted elites". Exploiting the image of itself as "defender of the people's will", the party defeated New Democracy and gained the elections with a considerable margin, enabling significative changes in the premiership. According to Takis Pappas (2013, p. 35), PASOK was the first single-party governing the country, being able to change the distributive model, thus rejecting the state-led growth promoted by Karamanlis' ND. Focusing on directed redistribution, Papandreou created a symbiotic relationship with political actors that settled Greece's model of capitalism.

Not only PASOK but also ND tried to form clientelistic ties with labour unions appointing a myriad of clients to the public sector. They used the monopoly in electricity, telecommunications, transport, water, sewage, ports, radio, television, petrol, defence, and cement to build a robust clientelistic network. However, the left party was more successful due to its close relations with the public sector.

Andreas Papandreou kept anti-competitive regulation, barriers to trade, and stable product-demand. The Greek economy continued with a high level of structural unemployment, a large informal economy, attachment to statism in services, and low reform activity (FEATHERSTONE, 2011, p. 197). Papandreou held firm control of the party's labour organisation, expelling unionists or leaders that expressed signs of autonomy or factionalism,

hence making the unions excessively dependent on the approval of the party's leadership (TRANTIDIS, 2015, p. 9).

The Greek state functioned as a paradox, according to Kevin Featherstone (2011, p. 196). It combined a mixture of governance that tried to be labelled a liberal democracy while intermixing clientelism, rent-seeking, and high standards of corruption. The prime minister possessed almost presidential powers, leaving other ministers with low ministerial powers, enabling poor coordination, low efficiency, and weak control of expenditures, thus permitting high quantities of tax evasions.

State-society relations in Greece depended solely on decisions taken by the governing party, thus creating a "parentela" framework of highly fragmented demands that competed with each other, incapable of establishing common social policies capable of improving society (TRANTIDIS, 2015, p. 9). Unions knew the channels to make their bids, so they lobbied the formation of centralised parties that kept clientelistic networks active.

Greece's development within the European Community meant that the Greek economy interacted with European economies embedded within international institutions that stimulated domestic political stability. The process of institutionalising coordinated economic action among markets and states to ensure prosperity, or the "embedded liberalism" regime, served to consolidate social coalitions within the state (RUGGIE, 1982). Although Greece grew exposed to higher levels of competition within the European Community, the EEC membership increased disparities between the urban and rural sectors and kept internal economic divisions (FIORETOS, 2013, p. 312). The regime stabilised PASOK's influence in Greece along with its ND, its main opposition.

Interest groups within the Greek state used the economic growth that Greece gained due to its integration with financial markets to pressure for higher state spending. The public sector grew significantly despite the European Community's calls for economic reforms to harmonise the Greek economy with European laws notwithstanding (TRANTIDIS, 2015, p. 10). Furthermore, the reforms on market liberalisation, state aid, and competition created conflicts between PASOK and unions, resulting in mutual losses at the Greek legislative elections of 1985.

Andreas Papandreou was re-elected but suffered significant losses in the parliament seats. European institutions demand to shift the economic policies adopted in Greece

threatened PASOK's influence in the public sector, thus harbouring conflict with its supporters. After the election, Greece entered in crisis due to its balance of payments, creating a rift with PASOK's bases. The prime minister pursued austerity policies, froze wages, increased taxes, and devaluated the drachma, which led to two-digit inflation. As a result, unions affiliated with PASOK distanced themselves from the government and aligned with the Greek Communist Party.

Under the definition of Varieties of Capitalism, which is "the conception of how behaviour is affected by the institutions of the political economy", Greece represented an ambiguous type (HALL; SOSKICE, 2001, p. 4). Initially considered to some extent a "Mediterranean economy", Greece combined a large primary sector and a constant history of state-intervention. Therefore, it enabled specific characteristics of a coordinate economy while keeping liberal aspects in the economy, specifically in the labour market due to benefits in specific sectors while strong competition in others (HALL; SOSKICE, 2001, p. 21).

According to Trantidis (2015, p. 6), Greece "developed under the long-term exchange of benefits, morphing the pattern of collective action into a clientelistic system that proportionated mutual individual and collective benefits entrenched in preference formations of the bargaining power". Whence, the main political parties, focus on guaranteeing political stability through cooperation with interest groups, thereby aligning preferences to obtain political hegemony.

PASOK's support base was pressuring a change of the economic policy's course as tension soared because of Greek discontentment. Rebel unionists even tried to take control of one of the leading associations connected with the private sector to show dissatisfaction with the situation (TRANTIDIS, 2015, p. 11). Eventually, Andreas Papandreou stopped the reforms and tried to alleviate his economic policies one more time to gain support for the 1989 election. To protect his supporters in the public sector, Papandreou abandoned plans for privatisations, market deregulation, end of state-owned companies, and reductions of the state. Unionists that previously joined other leftist parties returned to support the PASOK candidate and preserve the status quo. Nonetheless, PASOK lost in the 1989 legislative election.

After the three months in 1989-1990 of the caretaker government of Xenophon Zolotas, who became prime minister when there was no clear majority for any of the main

parties, ND returned to the premiership in 1990 under the command of Konstantinos Mitsotakis. The new centre-right prime minister tried to strengthen the economy and reinforce political institutions. Mitsotakis made the Greek entrance for the European Single Market as the government's primary objective, creating a plan that centred on cutting public spending, reforming the civil service, and privatisations (PAPPAS, 2013, p. 35). The reformist agenda received strong opposition from PASOK's bases and deputies in the government, which were able to halt part of the original plan.

ND was defeated again in 1993, restoring Andreas Papandreou in the prime minister's office. The Greek legislative election of 1993 represented the collapse of New Democracy. Trying to label itself as a viable alternative to PASOK's policies, ND started to use the language of the "people's party". Under the new leadership of Kostas Karamanlis, nephew of Konstantinos Karamanlis, the party expelled right-wing liberals and propelled rhetoric similar to PASOK's leadership.

As stated by Takis Pappas (2013, p. 41), that moment represented a critical point in Greek politics as both parties became populists. The concept of populism denotes a thin-centred ideology that considers society to be divided between the "pure people" against the "corrupt elite" and that politics should follow the general will of the people (MUDDE; KALTWASSER, 2017, p. 6). Its thin-centred characteristic permits assimilation by different ideologies so left and right can possess similar populist features. Using a polarised discourse that generated political instability and enabled the creation of a zero-sum game, in which one's losses would result in the other's gains, ND and PASOK's electorate flourished. The strategic polarisation was pursued by the two pragmatic parties to reduce political competition to a single dimension, thus keeping the narrative of confrontation between a moral majority against a corrupted minority symbolised by the other party.

Andreas Papandreou initiated his term in 1993 by excluding all possibilities of privatisations and suspended structural reforms. Those politics increased PASOK's influence with political actors, hence consolidating its hegemonic position among unions. The left party promised higher wages in the public sector, generous pensions, and early retirement age. The attention given to those sectors rendered support from sectoral organizations (*kladikes*) to PASOK, which also controlled most unions and the two leading Greek associations: The Confederation of Civil Servants (ADEDY) and the General Confederation of Greek workers

(GSEE), which reunited the private-sector and state-owned enterprises (TRANTIDIS, 2015, p. 9).

Papandreou was not able to finish his term as prime minister, retiring in January 1996 due to an illness and dying months later. In his place, Kostas Simitis assumed the premiership. The new leftist prime minister was a moderate and a technocrat. Different from Andreas, Simitis decided to take on economic reforms to ensure Greece's entrance in the Economic Monetary Union.

Conscious that the Greek electorate had a strong feeling towards European integration, Simitis used it in his favour, justifying that economic reforms were a precondition to enter the EMU (FEATHERSTONE, 2011, p. 198). The prime minister was forced to carry the reforms either way because he knew that Greece would lose creditworthiness if it were out of the Euro. Using admission to the EMU and the bid for the 2004 Summer Olympic Games in Athens as symbols attached to his mandate, Simitis was able to maintain his popularity.

The prime minister had a strategy to shift the Greek state permanently. He invested in public infrastructure, raised taxes, and made a gradual reform in the pensions and the labour systems. Planning to lighten European attention at the Greek economy, he modernised the economy harmonising Greece's economy with European directives such as the Maastricht Convergence Criteria and European policy surveillance. Nonetheless, Skeptics at the EEC, especially from the Netherlands and Germany, considered Greece unprepared to enter the EMR and consequently to the euro due to its chronic macroeconomic imbalances relative to high inflation and unemployment (MODY, 2018, p. 106).

The possibility of privatisations made unions and the public sector wary of the prime minister. However, Simitis and PASOK were not disposed to lose the union's support. The government reassured that would sell only minority shares of state-led companies, and the state would maintain control. The Greek government would protect enterprises from competition through informal barriers and protect employees from the public sector while hired new ones without the benefits, preventing disruption.

The reforms carried by the government soon lost steam. Informal clientelistic ties that ranged from ministers to unionists ensured workers that support from the Greek government would persist. Unions and politicians shared mutual interests in a PASOK's successful government as unionists were aware that an alliance with PASOK implied the possibility of

ascension in politics. Avoiding the error made in 1985, when unionists rebelled and abandoned the party, unions instead declared opposition to the reforms but remained in the party, obtaining concessions through negotiations (TRANTIDIS, 2016, p. 13).

The strategy functioned, which delayed significant economic reforms. Simitis won the legislative elections of 1996 and signed a social pact with unions in 1997, establishing wage moderation, but giving benefits in modern employment law. However, the prime minister inability to carry on the reforms would create structural damage in the Greek economy, resulting in Greece's economic frailty during the Eurozone crisis. As stated by Hall and Soskice (2001, p. 13), the importance of informal rules was fundamental "to securing the equilibria in the many strategic interactions of the political economy". The Greek economy eschewed responsibilities to keep its dependence on agriculture instead of improving the manufacturing sector, using EU funds to foster the public sector and maintain clientelistic relations with unions.

Greece experimented economic growth in the late 1990s, even though it resulted in a higher demand for imports, inflows of foreign capital, and cheaper credit (FIORETOS, 2013, p. 313). Simitis knew that reforms were a critical condition to Greece obtain access to the Euro. However, during his whole term, he needed to negotiate with PASOK unionists and contain the possibility of a confrontation that would appear during the implementation of orthodox economic measures.

Criticism against the Greek prime minister due to his economic policy pervaded intermediaries of the party to unions and associations. Leaders within PASOK knew that they could not rebel against Simitis due to Greek desire to enter the EMU. Even though the Maastricht criteria forced the imposition of austerity to regulate Greek macroeconomic imbalances, unionists pressured to avoid the costs of the reforms and channel it towards other sectors.

Simitis continued part of the orthodox program until 1998 when the Greek government sold a middle-sized bank. The continuity of reforms caused an uproar among PASOK supporters. The reaction to the privatisation caused a rift between the party and its unions. To appease PASOK supporters, Simitis declared it as an isolated case and rejected the possibility for more significant structural reforms and cancelled further privatisations.

In 2002, the Greek prime minister tried to impose a reform in the pension system that mainly affected the public sector. Opposition to the measure was fierce, as protesters emerged in the streets and gained strength when GSEE and ADEDY threatened to engage in a mutiny. The Greek government halted the idea to avoid conflict and passed a timid reform as a substitute. The politics of "coordination with co-optation", in the words of Trantidis (2016, p. 14), were not enough to control the unions and prevent dissension. The Greek prime minister proposed a reconciliation offering protectionist benefits and promised to stop the reforms in exchange for support from unionists to proceed with minor reforms that would not dissatisfy PASOK's supporters.

In 1998, European leaders excluded Greece from entering the euro due to the macroeconomic imbalances. Nevertheless, Greece's progress in adopting orthodox measures engaged in discussions in 1999 that recognised Greek efforts to control its fiscal deficit (MODY, 2018, p. 133). At first, European leaders asserted that inflation in Greece was still higher than what was limited by the Maastricht criteria, but due to Simiti's efforts to continue the austerity program, they alleviate the rules to let Greece in. Even though interest groups reduced the possibility of economic coordination to guarantee its privileges from the Greek state, Greece eventually gained access to the EMU in 2000.

Containing the 'reform fatigue' from endeavours to obey the Maastricht criteria, the prime minister decided to use the inflow of cheap capital from Northern European banks to regain support from the Greek electorate instead of continuing reforms to increase competitiveness (NÖLKE, 2015, p. 12). That was an important measure to reestablish conciliation between the government economic policies and the public sector expansion that led to PASOK's victory in the legislative election of 2000.

Historically, Greece never achieved the conditions to enter the EMU. The Maastricht criteria were supposed to be a severe condition for European countries' admission in the EMU, but its rigidity was weakened by Kohl to admit Italy, whose debt surpassed by far the 60 per cent required. Thereafter, the French and the Germans lobbied to expand the eurozone and label critics as eurosceptics, letting Greece enter as a sign of strong Europeanism.

The macroeconomic stability enshrined by the Stability and Growth Pact was never achieved in Greece since European governments had no reason to supervise each other as Germany and France had already broken the rules. Nonetheless, the costs of the adjustments

were imposed differently across the population due to the core interests of PASOK's client groups in the public sector (TRANTIDIS, 2016, p. 16). The preservation of those ties within the party corroborated the clientelistic networks with unions that PASOK maintained to assure its hegemonic position within the left.

The unequal costs of liberalisation in Greece to different sectors meant that Simitis was not able to govern without continuing the practices of cronyism, corruption, and inefficiency. PASOK was unable to detach itself from the image of a corrupt party. That represented a political liability during the Greek legislative elections of 2004, as PASOK lost to ND.

The centre-right party promised to transform the state administration and end inefficiency and corruption altogether. Kostas Karamanlis became prime minister and initiated a program of full privatisations of the state communications, enterprises, and banks during his term. ND was not dependent on the support from the public sector, so Karamanlis faced fewer costs to carry on the reforms. However, the party kept clientelistic ties with specific professional associations, so ND protected them from liberalisation policies. Therefore, practices to improve the public sector and increase transparency were not implemented in all sectors, only varying the losers of the conservative measures.

ND's failure to cope with its promises opened space for PASOK at the 2009 Greek legislative elections. George Papandreou, the president of the leftist party, became the new prime minister. According to Pappas (2013, p. 33), Greece was a "populist democracy" until that time. The government served solely to ensure economic distribution to certain sectors of the Greek society, using its clientelistic clients to remain in power. The two-party system heightened polarisation and increased the costs of bargaining to approve conservative measures; thus resistance to approving reforms in order to gain benefits was extremely effective.

Two mechanisms sustained Greek democracy: The two-party system and clientelistic ties with unions and associations that were protected by the state. According to Kevin Featherstone (2015, p. 299), the Greek state had strong and deep-rooted legal formalisms, it was hierarchical, emphasised a centralist model, and stressed on procedural regulation over innovation. The Greek model of growth functioned upon New Democracy's periods of selective orthodoxy and variations of PASOK's ties with unions, defined by Trantidis (2015,

p. 10) as "open confrontation", "coordination with co-optation', and "contained confrontation". Relations with the public sector and associations of workers were determinant to keep the government functioning. Thereby, Greek democracy was only functional until the eurozone crisis.

2.2 Greece at the center of the European storm

After worries with subprime loans in 2007 became global panic with Lehman Brothers' bankruptcy, loss of confidence paralysed investors and halted repo markets, ending the abundance of liquidity that reigned in global finance. Market prices plummet, causing a frenzy of write-downs in American and European banks, hollowing the capital in banks balance sheets and promptly affecting them, as they were forced to raise capital somehow to meet the minimum capital obligations.

Initially, politicians from the periphery used the opportunity to denounce the decadence of Anglo-American capitalism. The former president of Brazil, Lula da Silva, claimed that G7 nations "no longer spoke for the world" and demanded a new economic order (apud LYNN, 2009). The French president, Nicolas Sarkozy, expressed concern over global finances and advocated for a rewriting of banking rules to end the "folly" of deregulated finance (CODY, 2008). Europeans, in general, wanted to dismiss the financial crisis as an American problem of markets' ambition.

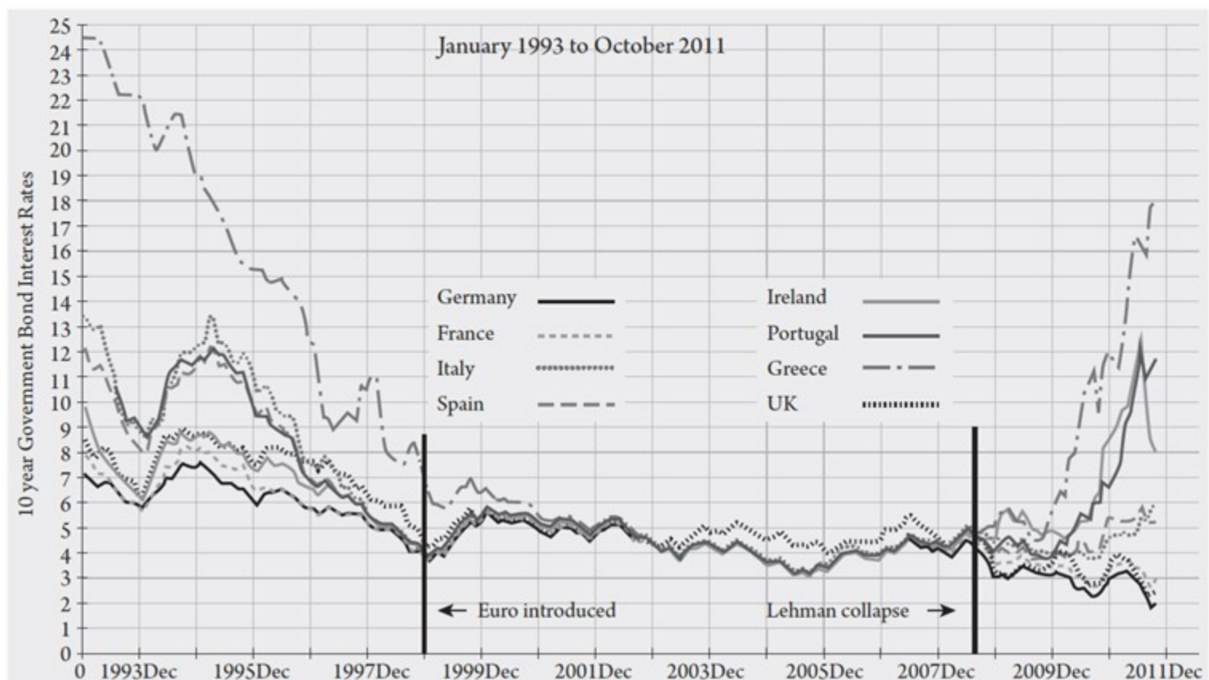
A general perception that the Dollar weakened while the Euro gained influence pervaded global politics. Sarkozy's condemnation of the American financial system shed light on the desire for a new economic order in which the European Union could be the leading player (CODY, 2008). European economic hegemony entailed the possibility of the Euro relishing the same position of "exorbitant privilege " that the Dollar possessed. French ambitions notwithstanding, Europeans realised that the North American financial system deeply intertwined with their banks.

As Bayoumi (2017, p. 105) points out, regulated American banks were better capitalised than European ones. Even though American investment banks were extremely vulnerable and the economy fell steeply, the burst of housing and financial market would undoubtedly affect the European Union. However, the intensity of the crisis astonished

European politicians. Different from the US, the European banking system carried an incomplete monetary union. Furthermore, European countries that adopted the euro were unable to print their currency and keep monetary liquidity in case their conditions deteriorated.

Greece abandoned austerity and reforms on its growth model since the launch of the euro, using the common currency's interest rate to expand the economy. Nonetheless, the country did not converge its economy with other European countries, producing external deficits. The euro was not an optimum currency area in the conception of Mundell (1961), but the Delors Commission highlighted its economic benefits to proceed with the “One Market-One Money” program (MCNAMARA, 1998). Greece could stimulate its economy using interest rates similar to Northern European countries, but it did not imply that its economy was similar to Germany.

Figure 3 – Eurozone Ten-Year Government Bond Yield



Source: BLYTH (2013); European Central Bank Statistical Data Warehouse.

According to Nicolas Jabko (2015, p. 73), the “institutional architecture of EMU reflected, but did not resolve, the deep tension between those two different concepts of monetary union”. As Verdun (2015, p. 222) complements, the euro lacked a supranational structure to enhance the role of the ECB within the eurozone. Moreover, the European institution framework weakened due to Germany and France’s manoeuvre to avoid the

consequences of the SGP breach in 2005. The rule-based governance was thereafter formally reinforced, but European smaller countries that initially supported it perceived that strict rules were political issues prone to dissuasion.

The reason for the incomplete integration of the EMU is explained by a combination of the main theories of European integration. Finishing the EMU required a banking union and a mechanism of economic governance. Nonetheless, as the common currency seemed a success, there was no political will to pursue further financial integration. As stated by Moravcsik (1993), integration happened only as an agreement of the lowest common denominator bargaining among member states, in which each pursued its domestic interests. Furthermore, the neofunctionalist would emphasise that spillovers from the monetary union would create incentives for member states to strive for deeper integration, as the incremental improvements possessed fewer constraints (HAAS, 1958; PARSONS, MATTHIJS, 2015).

The process of entering the EMU required further reforms after its adoption, but the enforcement of those rules weakened after the SGP breach. As the political costs to initiate reforms during the first years of the common currency increased, there was no reason to continue the process of economic convergence. Besides, economic issues such as risk-sharing or banking union could oppose European countries as it already did in the past, so there was no political will to continue persisting in divergent European positions as a manner to find a solution to the incomplete nature of the EMU.

The North Atlantic financial crisis rapidly morphed into a eurozone crisis as Greece, and other European countries realised that they were unable to resolve it alone. After a brief period of resurgent Keynesianism among policy-makers of advanced industrialised countries, European politicians started to deal with a crisis within the eurozone.

Nicolas Sarkozy, the French president and chair of the European Council, made efforts to approve a "European action plan" to avoid a crisis in the European banking sector.[4] In the end, the coordinate response was closer to an accumulation of national action plans, as France and Germany used their funds to rescue national banks (TRAYNOR, 2008).

---

[4] The European Council defines the EU's overall political direction and priorities, setting the EU's policy agenda by conclusions during European Council meetings. The members of the EC are the heads of state of the 28 EU member states. From 1975 to 2009, the President-in-Office of the EC was an unofficial semiannually rotating position held by a leader of a member state.

Eastern and Southern European were not so lucky, as the lack of economic governance hardened the burst in these regions of the EU. As credit froze, Eastern European banks were forced to stop lending. Eastern European economies, whose mortgage loans were in euro or Swiss franc, busted (APPEL; ORENSTEIN, 2018, p. 143). Lacking ECB support, the IMF agreed to support the EU to capitalise Hungary, Romania, and Latvia in order to avoid the contagion of the Latvian financial sector, strongly intertwined with Nordic countries. Eastern Europe entered a deep recession as Ukraine, Latvia, Estonia, Armenia, and Lithuania contracted over 14 per cent in 2008 (APPEL; ORENSTEIN, 2018, p. 144).

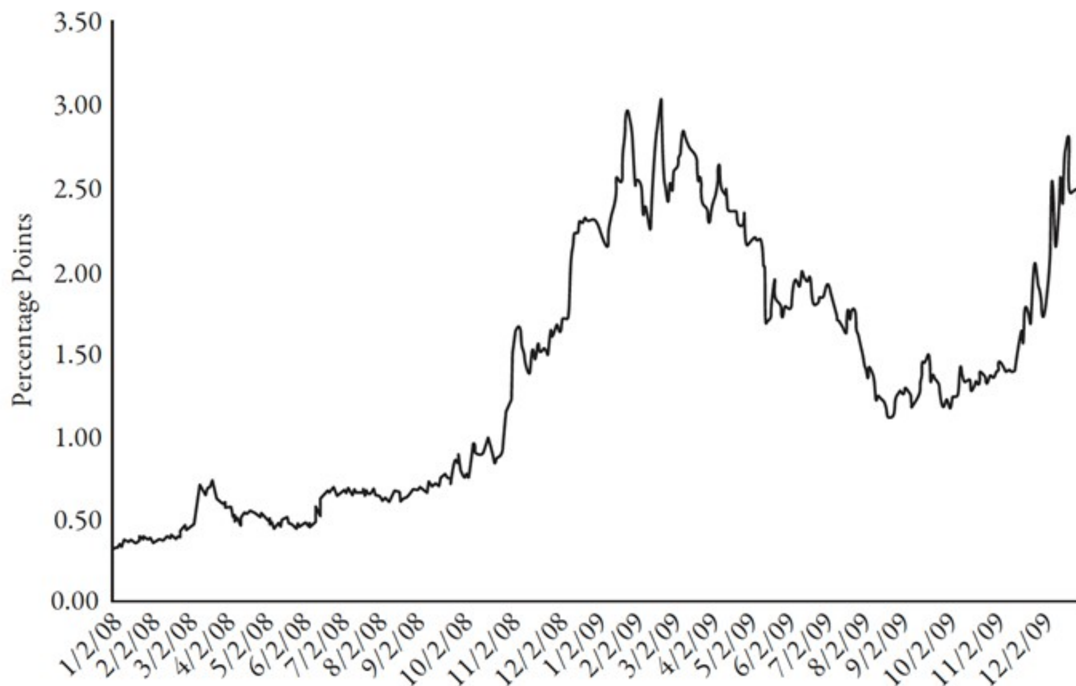
After Sarkozy's term, concerted European action seemed distant as Angela Merkel, the German chancellor, stressed the importance of debts and responsibility within the eurozone. The financial system's paralysation affected Southern European economies that functioned through the expansion of consumer demand, or 'Mediterranean market economies' in the definition of Peter Hall (2012, 2014, 2017). Without a system of economic governance, the imbalances caused by the flawed architecture of the EMU generated a dysfunctional democratic system that inflicted the whole cost of the fiscal adjustment to Mediterranean market economies (MATTHIJS, 2014, p. 103).

Around late October, two weeks after the 2009 Greek election, George Papandreou prepared an announcement on occasion of the new government's vote of confidence. The Greek prime minister and his minister of finance, George Papaconstantinou, studied the Greek economic situation from its predecessor and affirmed that public debt shot up from €160 billion in 2004 to €300 billion in 2009. The previous administration increased debt and used false statistics. Greece's fiscal deficit of 6.5 per cent of GDP was 13 per cent of GDP.

George Papaconstantinou (2016, p. 25-26) detailed how he came to discover the situation in his biography of the events. Soon after the victory, the new finance minister visited his office and could not find any files, correspondence archives nor hard disks on the computers. October was the budget month in Greece, and there was no draft budget left by the previous administration, solely a previous New Democracy administration report to the statistics agency of the European Union explaining that they expected a deficit of 6 per cent of GDP. Looking after the never published monthly bulletins on budget execution from the previous finance minister, Constantinou discovered that the deficit would be around 10 or 12 per cent of GDP, almost twice the number previously reported. The markets panicked, soaring

the disparity spread between Greece (risky) in comparison to Germany (safe), as displayed in figure 4:

Figure 4 – Greek-German 10 year Sovereign Yield



Source: JONES (2015), based on data from IHS Global insight

George Papandreou won the elections claiming for a leftist economic reform, against austerity measures and assuring higher pensions and salaries (AFONSO; ZARTALOUDIS; PAPADOPOULOS, 2014, p. 326). However, the crisis that affected Greece also originated from political problems (HALL, 2012, p. 361). Greece passed through a period of economic growth since its entrance in the EMU, enabling a higher number of imports and increased wages. However, Greek wage standards soon outmatched the modest growth that Greece experienced during those years, generating economic imbalances because of its persistent deficits, high debt, and low productivity. The Greek economy decreased since 2006, ending up with -0,33 per cent of GDP in 2008, Karamanlis' last year in office. After announcing that Greek data was unreliable and the economy was dicey, Papandreou and his finance minister understood that the Greek economy required parsimony and that diminished growth was, in fact, a tendency, not a political choice.

After announcing the new numbers, Papandreou promised to protect the more vulnerable and the middle class. However, the finance minister had no choice. As specified by Matthias Matthijs (2014, p. 103), Greece abstained from two national shock absorbers, namely external devaluation and domestic fiscal stimulus, in order to adhere to the euro.

Without any solidarity mechanism, the Greek government started a program of fiscal austerity.

Greece's credibility with other European countries sapped. The deficit was worse than expected and did not meet the Maastricht criteria. Even though France and Germany avoided the SGP, their stance hardened due to the case of Greek fake data. Contrary to expectations of any financial support, the Ecofin and the ECB demanded Greece fix its problem after Papandreou announcement that the government debt for 2009 was the triple of the expected (FEATHERSTONE, 2011, p. 202). In a press conference, the chair of the Eurogroup, Jean-Claude Juncker, announced that "the game is over, we need serious statistics" (DEUTSCHE WELLE, 2009). In January 2010, EUROSTAT, the European agency of statistics, established that Greek data was not reliable to seek verifiable information (FEATHERSTONE, 2011, p. 199).

Financial markets panicked about the possibility of a Greek default, provoking a European "Lehman moment". Fear that other European countries also had falsified their data pervaded economic analysts, distressing the European bond market. Rating agencies downgraded Greek bonds to "junk status". Juncker pointed out personally to Constantinou the existence of economic imbalances within the Eurozone, affirming that the evolution of wage costs in Greece was faster than in other European countries, thus the Greek economy remained uncompetitive within the bloc (PAPACONSTANTINOU, 2016, p 36).

Contrarily to the chair of the Eurogroup position, there were reports of Greek misconduct with data since 2004, which provoked an infringement procedure against Greece by the European Commission. Moreover, Constantinou affirms that the European Commission knew that the Greek government faked their economic data. According to the Greek finance minister (2016, p. 29), there was a note from the Commission that was never made public stating the increasing Greek debts, noting that "Should these trends continue over the year the central government deficit would exceed 10% of GDP, which contrasts with the […] of 5% of GDP". Additionally, Athens had already provided false deficit figures between 1997 and 2003, so the Commission was conscious about successive breaches of the EU budget rules (PARKER; ATKINS, 2004).

Before the crisis, Greece used cheap credit available to sustain its economic growth. The European Union saw Greek efforts to reduce its debt and did not pressure it. The Greek

government made a deal with Goldman Sachs, letting Greece swap a small portion of its debt, thus reducing its debt immediately in exchange of future payments to the investment bank. The credit that appeared as swap was thus dismissed from Greek debt statistics (STORY; THOMAS JUNIOR; SCHWARTZ, 2010). The process served to Greece as an incentive to borrow more, thus promoting an illusion created by cheap credit. After the crash, the situation turned upside down, and Greece was unable to finance itself.

As Greek politicians needed to combine clientelistic favours and rent-seeking in its decisions, it diminished the possibilities of reforms and centred it towards higher government spending. George Papandreou faced a dilemma between legitimacy or responsibility to deal with the Greek economic crisis. Peter Mair (2009, p. 10) states that parties make commitments to win elections, but may not be able to comply with it when in government due to responsibilities, thereby undermining their legitimacy with the electorate. Successive Greek governments increased public debt since the 1990s, keeping support with the public sector and strong unions through high wages and other benefits. In government, they were never pressured to choose between pragmatism or their electorate.

Austerity aside, Greece remained with the final option of default. That measure signified an exit from the Euro, reestablishing a devaluated drachma and high inflation. However, the flow of capital flight from Greece would heavily damage the country. Besides, the possibility of “Grexit” could be devastating to the European banking sector, especially to French and German banks, whose debts intertwined with Greek finances (FEATHERSTONE; PAPADIMITRIOU, 2017, p. 245-246). It would also entail the precedent of European countries leaving the Eurozone, an issue never established in any treaty.

Accepting austerity measures to decrease deficits, increase competitiveness and remain in the euro, Papandreou reunited with European leaders to discuss the crisis on March 25. Germans were a sceptic that the French approach towards the Euro could lead to a transfer union, disrespecting the article 125 of no-bailout to European countries. In the German view, support for Eastern European countries did not fit into the rule as the IMF rescued them. To guarantee that there would be no risk of burden-sharing, the German Chancellor, Angela Merkel, insisted in parliament that a contingency plan would only be accepted if the IMF was involved (STRUPCZEWSKI; TOYER, 2010).

The possibility of calling the IMF was polemical and encountered resistance among European leaders. Jean-Claude Trichet, president of the ECB, opposed the IMF because it would hint that European institutions alone could not resolve the Greek crisis. Besides, it could serve as a stimulus for other European countries to avoid complying with the eurozone's budget deficit rules. Sarkozy, wary of Dominique Strauss-Kahn political ambitions, was reluctant to involve the IMF due to his belief that the principle of "European Solidarity" should be enough to halt instability in the European Economic Area, already constrained by fears that Greece would default its debts (BLUSTEIN, 2016, p. 98).

The initial reluctance to involve external actors in the discussions did not impede George Papandreou of conversations with Strauss-Kahn about technical issues. Papaconstantinou (2016, p. 72) affirms that Papandreou and Strauss-Kahn talked in January 2010, during the World Economic Forum in Davos about the possibility of IMF aid to Greece. The IMF president said that the institution's mission was to lend money to countries that lost access to markets, but Greece depended on the approval of European countries that were present at the IMF board of directors, as they could block the Greek bid for help. Besides, the ECB would also need to support the IMF, as recommendations made by the Fund usually suggested alterations in the currency, but with an independent Central Bank, systemic solutions in Greece had to be discarded (BLUSTEIN, 2016, p. 107).

The European leaders' reunion ended with an assurance that they were willing to assist Greece in cooperation with the IMF. In the solution denominated "Ultima Ratio doctrine", Germany and France accepted the IMF involvement in the eurozone to look after Greece's economic and budgetary policies (BLUSTEIN, 2016, p. 98). European countries would liberate coordinated bilateral loans complemented with IMF financing. However, Greece would be subject to high interest rates to stimulate a return to financial markets in a brief period. Additionally, the rescue deal would be valid only if Greece accepted a Memorandum of Understanding (MoU), permitting to be subject to regular observation by European institutions and the IMF.

According to Jean Pisani-Ferry (2015, p. 78), markets had already realised that Greece needed outside help, but European countries were reluctant to provide it. Northerner European countries, led by Germany, were emphatic that "European solidarity" was not in question and that Greece should comply with the rules to stabilise itself. Merkel even declared that "a good

European is not necessarily one who offers help quickly. A good European is one that respects the European treaties and national rights so that stability of the Eurozone is not damaged" (MERKEL apud STRUPCZEWSKI; TOYER, 2010, 2010).

The IMF was hence called to join the European Commission and the European Central Bank, configuring a group that would be known as the "Troika", to oversee Greece. The IMF was in a different situation than it used to be, as the Fund would support a central bank to monitor a European country, instead of orienting customary changes in monetary policy. As stated by Blustein (2016, p. 116), the IMF would hide its preferences to maintain a coherent position with the other two institutions. The most divisive topic among them was how fast Greece should be required to implement orthodox measures.

On May 2, the Eurogroup, the eurozone's finance ministers meeting, declared a package of €110 billion to help Greece. Member States of the eurozone would contribute with the sum of €80 billion, giving €30 billion in the first year (EUROGROUP, 2010). The requirement for the financial aid was strong policy conditionality, based on the program negotiated with Greece by the ECB, the Commission, and the IMF.

Greece faced immense difficulties to raise cash even to refinance itself, as investors looked only for German or American bonds to protect themselves from the crisis. Papandreou adopted a soft-bargaining strategy, as there was no way to pay the debts and the only option that remained was to accept the rescue plan. Zahariadis (2016, p. 9), interviewing one of the high-level negotiations Greek participants, registered that "we had no idea what we were writing", assuring that it was merely a cut-and-paste job from other memoranda.

The reluctant and slow European solution to the Greek situation spread the sensation that the economic crisis could disseminate through the eurozone. Irish and Portuguese spreads reached the level of the Greek ones, menacing the economic stability within the bloc. Jean Pisani-Ferry (2014, p. 79) asserts that fears of the Greek crisis spiralling out of control ended up inducing the formulation of agreements. The American administration accompanied the Greek crisis with attention, constantly lobbying for the Europeans to act (TOOZE, 2018, p. 366). Until that moment, European leaders were not prepared to make a systemic set of economic policies to forestall the crisis, preferring instead to emphasise the moral hazard of macroeconomic imbalances within the eurozone. Put just, European leaders became aware

that the economic stability of their own countries depended on small countries within the eurozone (JONES, 2012).

Contrary to what Papandreou promised during the Greek elections of 2009, the Greek prime minister raised pay cuts in the public sector, cancelled contract workers, raised the minimum pension age, increased taxes, and lifted caps on the private sector. Unable to devalue the currency, the Greek government had to cut spending and public investment. The compromise with the austerity program proposed by European leaders heavily hit the electorate. As Greece implemented the conservative economic program, support for the Greek prime minister and PASOK fell.

In periods of economic activity, the Greek state preferred to increase taxes rather than targeted cut spending. The demand-side of the economic adjustment in Greece forced PASOK to abandon its ties with interest groups and use the funds that remained to keep the state functioning. Without complying with its commitments to public-sector unions and other associations, PASOK disarranged the possibility of aligning preferences to soften the economic burden of the adjustment, thus increasing political disunity, as coordination between groups became challenging to rectify.

The clientelistic cooptation enforced by PASOK depended on the economic expansion and the political capacity of the prime minister to bargain positions and avoided cuts in strategic areas. Party patronage in Greek bureaucracy was strong because of the use of resources to increase support of the electorate (AFONSO; ZARTALOUDIS; PAPADOPOULOS, 2014, p. 320). However, after Greece signed the MoU in 2010, establishing the conditions to be met and justify the continued issuance of funding, the political mechanisms that kept PASOK's support in government broke (FEATHERSTONE, 2015, p. 296). The Greek crisis affected the clientelistic networks because the economic adjustment enforced a new paradigm upon the Greek variety of capitalism.

The bailout program delimited by the troika expected the Greek GDP to decrease by 14.5 per cent over five years. Deep cuts in social spending such as schools and hospitals also accompanied constant monitoring from the European institutions. Kevin Featherstone (2011, p. 207) considers the agreement as the beginning of a new form of European economic governance within the eurozone. The Greek administration lost control of the reforms agenda

to the troika, impeding any political manoeuvring by Papandreou to regain support from the electorate.

There was concern that Greece would be unable to respect the budget discipline required to guarantee a satisfactory performance to creditors. Greece had already defaulted three times in its history, during the 1830s, the 1890s, and the 1930s (FEATHERSTONE, 2011, p. 205). Moreover, contrasting agendas between Greece and creditors created difficulties to settle any assurance of future mutual compatibility, as PASOK worried about the next elections and the troika rested with the timetables (FEATHERSTONE, 2015, p. 303).

The troika emphasised reforms that altered the whole shape of the Greek economy. The Greek government was obliged to comply with the set of administrative reforms required to satisfy the terms of the bailout. Additionally, they prescribed enhanced efficiency and effectiveness in the public service, working to improve data quality available to the Greek government. Changes in financial management affected the budget management, that was also responsible for tackling corruption. The troika demanded a change of policies and practices, reducing the Greek government's staff that were protected by the constitution. Unable to contain the external capacity to alter policies, PASOK's bases collapsed without expansion of the public sector and the shrank capacity of distributive politics.

It was not enough to appease markets. Fears of a general sovereign debt crisis emerged in Italy, France, and Portugal. European leaders urged the European Central Bank to act, but the Germans, the Dutch, and the Finns vetoed. The principle of an independent central bank was immune to political quarrels. Accordingly to its primary duty, The ECB was created to act against inflation, not to buy government bonds. Trichet wanted European countries to adopt austerity policies instead of any possibility that would involve spending the European taxpayer money in the bond markets. If the ECB proceeded with that expansionary option, it would mutualise European debt among Europeans, promoting the very policy that Germans and Dutch were against since the negotiations to establish the EMU.

The European deadlock faced an impasse in how to finance the bailout fund and the legal implications of the agreement. According to Löw and Gamely (2014, p.75), The possibility of debt mutualisation was discarded because Germany would not accept any form of risk-sharing. The solution developed by European leaders was to create the European Financial Stability Facility (EFSF), that would assist eurozone member states in distress.

European governments funded it with €440 billion, plus €60 billion of the Commission and €250 billion bestowed by the IMF (COPELOVITCH; FRIEDEN; WALTER, 2013, p. 5). The ECB was not going to be directly involved. Functioning as a private-sector organisation at the tax haven of Luxembourg, the EFSF permitted Eurozone governments to transfer money without involving any supranational European institution.

On May 9, the Council of Economic and Financial Affairs (Ecofin) announced the creation of the EFSF, a rescue mechanism to prevent unsustainable debt, shortly before markets opened in Asia in order to appease economic distress that battered the eurozone economy. Nonetheless, the EFSF would take months to be completed, and markets needed immediate support. Trichet, satisfied with the EFSF agreement, decided to intervene. During the same day, Trichet proposed to the ECB Board to purchase Greek government bonds on the secondary markets to contain the rise of spreads, which gained the majority approval (PISANI-FERRY, 2014, p. 79).

As a result, the ECB eased the standards for asset-backed securities, thus increasing liquidity in the euro area. The combined action of eurozone countries and the ECB to finance a Member State with a fund of €250 billion calmed the markets. However, the bailout of the eurozone created uncertainty as the ECB abandoned its commitment to the no-bailout clause, but indicating that financial aid to Greece was only temporary as the ECB overexposed it to a higher pressure to change its model of growth (FEATHERSTONE, 2011, p. 203).

The European Council eventually transformed the EFSF in December 2010 into a treaty-based financial institution. The reformulation of the EFSF into the European Stability Mechanism (ESM), served to function as a permanent crisis resolution operation for the countries of the Euro area. It would begin in 2012, replacing the EFSF. Moreover, the European institutions discussed the creation of the European semester,[5] a review of annual budgets made by European states, and altered the SGP's 60 per cent rule on debt, postponing penalties until ensuring that debt was downward and sustainable.

It was surprising that the Greek economy, corresponding to 2.7 per cent of the EU in 2010, created such an impact in the eurozone. Prospects for recovery were low, as in agreement with Orfeu Fioretos (2012, p. 306), specialists on the political economy of Greece were sceptic that the conflictual party system, the culture of clientelism, the rent-seeking

[5] Further information of the European Semester can be found in the annex A.

public sector unions, and the small export sector could be adapted to satisfy the preferences of EU institutions.

Paralysed by fiscal obligations that kept its economic autonomy in check while the public sector resisted abiding by the losses of its benefits, Papandreou transformed the Greek political landscape. According to Takis Pappas (2013, p. 43), without the funds to guarantee the political order and the collapse of the two-party system, the whole Greek political spectre became an extremely multipartidary polarised system. The electoral expectations of the 2012 elections ignored PASOK and ND's dominance, pulverising its support and giving space to radical movements such as SYRIZA and Golden Dawn, a far-right movement.

As the Greek political situation worsened, Papandreou saw himself isolated. In the creditor's view, the Greek government was unable to deliver the downsizing promised to the Troika. Furthermore, the EU continued pressuring Greece to reduce posts in the public administration (FEATHERSTONE, 2015, p. 307).

Northerner Europeans mistrusted ECB operation, as they interpreted the situation as an attempt of sharing transfers from northern Europe to irresponsible southerners. The action of the European Central Bank to bailout Greece caused a division among central bankers and the board of the ECB.

The Germans continued sceptic about the possibility of transfers. Axel Weber, the president of the Bundesbank, favoured the purchase of government bonds. However, the fear of German hostility to the proposal forced him to change his opinion, consequently opposing the ECB operation together with the German board member of the ECB, Jürgen Stark (TOOZE, 2018, p. 375). The German government was in an awkward position, as it had to choose between bailout Greece or the German banking system that lent irresponsibly, as it exported credit dependence to other European countries (FEATHERSTONE, 2011, p. 203).

In March 2011, after negotiations to strengthen the SGP, the European Commission presented the "Six-Pack", a combination of six legislative proposals that would monitor and prevent economic imbalances and excessive deficits. Composed of five EU regulations and one EU directive, the package did not require treaty changes and could be implemented in the SGP, reorienting the economic governance of the euro area towards a strong rule-based framework. Establishing stronger macroeconomic surveillance, the "Six-Pact" meant

guarantees from the ECB that it would buy sovereign debt on markets under the Securities Market Program (SPM).

The necessity to enforce surveillance mechanisms happened because the crisis worsened, interweaving other European countries besides Greece. After a sequence of localised crisis, Ireland (fall 2010), Italy (summer 2011), Portugal (spring 2011), and Spain (summer 2011) accepted the conditions and agreed to implement orthodox economic policies in their economies, commonly denominated as GIIPS. In addition to the purchase of Greek bonds, the SPM also acted on Irish, Italian, Portuguese, and Spanish bonds. Portugal and Ireland received bailouts from the European Union and the IMF. The ECB purchased Italian and Spanish sovereign bonds.

Even though the ECB and Germany carried on the fiscal stimulus necessarily to rescue Greece, there was its dissatisfaction about Keynesian policies to bail out European countries that were in distress. Senior officials at the ECB expressed in interviews to Henry Farrell and John Quiggin (2017, p. 274) that it was necessary to “stress financial confidence, EU rules on deficit reduction, and the need to return to fiscal consolidation”.

German policymakers and voters were consonant in opposing any activist fiscal policy. Notwithstanding pressure for a stronger stimulus from other European countries, the United States, and even German large firms and unions, Germany resisted and recapitulated that “markets would brutally punish states that did not move towards fiscal austerity" (FARRELL; QUIGGIN; 2017, p. 278). The lack of formal international institutions to coordinate macroeconomic governance permitted Germany not to assume any compromise, only taking part in a G20 informal calling for fiscal stimulus until global signs of recovery appeared.

The German interpretation of Greek SGP breach did not mean an equivalence with the German and French transgression of the pact in 2005. The large economies breach of the rules did not render sanctions, indicating that it lacked enough credibility to be accepted by Member States (FIORETOS, 2013, p. 313). Nevertheless, in the German view and contrary to other European leaders calls for flexibility, breaking the SGP rules meant that it should be stricter, as Friedrich Merz, the CDU leader, recalled in 2003 (MATTHIJS; BLYTH; 2017, p. 5).

In place of giving financial flexibility under the principle of solidarity to European countries embroiled in crisis, Germany and Trichet made the political decision to allow the ECB solely pursue price stability while the crisis menaced the European banking system (MATTHIJS; BLYTH; 2017, p. 7). In sum, the rules established by the Brussels-Frankfurt consensus continued influencing the economic governance of the eurozone.

2.3 Austerity, "Grexit" and the eurozone crisis

Disagreements over the decisions taken by the European Central Bank in February 2011 resulted at the resignation of Axel Weber, president of the Bundesbank president. One of the favourites to succeed Trichet, Weber defended sternly that the ECB had the sole responsibility of defending price stability. In his view, the ECB was insulated from the economic welfare of its member states or of the eurozone at all (TOOZE, 2018, p. 389).

There were clear signs that Greece was insolvent. Unable to command its monetary policy to improve competitiveness, as devaluation was under the full responsibility of the ECB, Papandreou continued the budgetary adjustment proposed by the Troika. However, there was constant complains of the reforms due to the reluctance of the Greek administration to target sectors sensible to its electoral interest (FEATHERSTONE, 2015, p. 303).

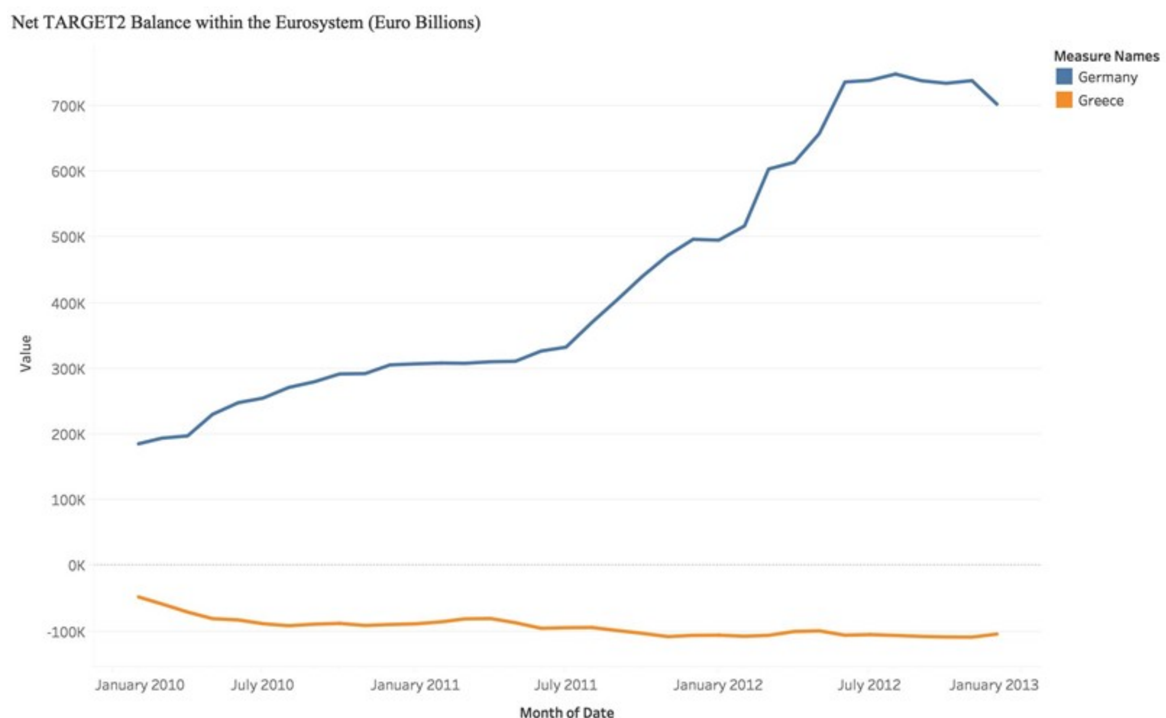
From May to June, upheaval against fiscal austerity emerged. Hundreds of thousands of participants protested at Syntagma square against the cuts in pensions, salaries, and social services. Disillusioned with PASOK, Greeks campaigned for SYRIZA, a far-left party that interlaced elements of antiglobalisation with ideas from the Communist party. Denouncing a supposed "diktat" derived from German imperialism in Europe, SYRIZA supporters divided the streets with radicals from the neofascist Golden Dawn, that clashed against the police and menaced leftists.

According to Kevin Featherstone (2017, p. 245), Greece was bailed out assuming that its economy would shrink 5.5 per cent, but economic growth would appear in two years. In reality, there was no growth, and the economy plummeted 17 per cent. It was clear that Greece would not be able to access capital markets in 2012, requiring new loans from the Troika or the reduction of Greece's obligations with its creditors. Furthermore, debt

restructuring was out of the question to the ECB and Germany, refusing the extension of payments and the interest rate owned in April 2011 (CONSTANTINOU, 2016, p. 202).

Trichet wanted European countries taking over the process of bond market stabilisation that the ECB initiated. The EFSF began operating in 2010, but “its legal status was frail, funding was voluntary, bilateral, and should be used only in emergencies to buy new debt from states shut out of the market” (TOOZE, 2018, p. 401). On the other hand, the possibility of establishing a European fund for bond market stabilisation could appeal to some European countries such as France but was declined by Merkel due to the political cost of such measure. Domestic factors in Germany such as the coalition between the CDU (Christian Democratic Union) and the FDP (Free Democratic Parties) made any scale of burden-sharing too politically costly for Merkel to bear. Therefore, Merkel pressured Trichet to continue the ECB policy of bond purchases. However, the ECB asserted its independence from European governments when it decided to raise interest rates because of higher inflation in Germany and other (Northern) European countries. Figure 5 displays the capital flow from Greece and transfers to Germany through TARGET2 (Trans-European Automated Real-time Gross Settlement Express Transfer System).

Figure 5 – Net TARGET2 Balance within the Eurosystem (Euro Billions)



Source: Author’s elaboration, based on data from the Euro Crisis Monitor.

The result of Trichet's decision caused a massive money flow from the GIIPS to Northern European countries.[6] While Northern countries stocked a massive amount of credit, Greece entered into an economic crisis because it had no substitute source of cash to recover from the capital flight that exited its banks. In 2010, Strauss-Kahn had already advocated for a "European Resolution Authority", which was a jointly funded bank to fix the disequilibrium that afflicted the eurozone (BLUSTEIN, 2016, p. 332). Privately, the IMF grew increasingly dissatisfied with solutions proposed by European institutions to individual cases without considering the crisis as a systemic problem in the EU (BAN, 2015; CLIFT, 2018).

In June 2011, rating agencies downgraded Greece one more time to the lowest score attributed to a sovereign borrower. Over July, markets questioned that if the Eurozone could not fund Greece, it certainly would not be able to bail bigger states, such as Spain or Italy. The reluctance of European leaders to settle an agreement created further mistrust in the markets, thus capital continued flowing from Southern European countries.

Nicolas Sarkozy, worried that contagion from Greece and others could affect France, encountered Merkel on July 21 to end the impasse over the economic crisis in Europe. After the meeting, they decided that Greece would receive a second bailout of €109 billion, interest rates lowered to 3.5 per cent, and maturities would extend from 15 to 30 years. Moreover, Private Sector Involvement (PSI) would be accepted in Greece voluntarily, the ECB would be indemnified in case of losses, and the recapitalisation of Greek banks would come out of Troika funds. Talks about reducing Greece's debt burden would happen if it achieved primary surpluses. In terms of economic governance, Merkel and Sarkozy emphasised that PSI applied only to Greece. The EFSF would be strengthened (becoming the ESM) to create credit lines for Italy and Spain. It would no longer function as an "ultima ratio" solution, but as an agency to stabilise markets and anticipate economic distress in European countries.

The Greek situation remained difficult as debt targeted 143 per cent of GDP in 2011. It became politically burdensome for Papandreou to defend a new Memorandum of Understanding in Greece as there was no assurance that orthodoxy would imply discussions on debt relief (FEATHERSTONE, 2017, p. 245). Furthermore, the recession that appalled the

---

[6] TARGET2 is the real-time gross settlement (RTGS) system owned and operated by the Eurosystem. Central Banks and commercial banks can submit payment orders in euro to TARGET2, where they are processed and settled in central bank money. It settles payments related to the Eurosystem's monetary policy operations, as well as bank-to-bank and commercial transactions. (EUROPEAN CENTRAL BANK, 2019).

Greek electorate distorted the image of the troika, becoming extremely difficult to justify a political narrative that legitimised the European institutions in Greece. With plummeting popularity, other mainstream parties distanced themselves from PASOK to avoid electoral losses. Even New Democracy left its fiscal orthodoxy to oppose PASOK, refusing to form a coalition in 2011 due to the political cost of austerity.

Papandreou, dissatisfied that the recession was deeper than expected, affirmed that it was also increasingly difficult for him to continue with conservative measures. Adopting revised targets to comply under the Medium Term Fiscal Strategy (MTFS), the Greek prime minister started negotiations for a second bailout. As Zahariadis points out (2016, p. 11), Papandreou abandoned the soft stance adopted in order to negotiate the first bailout and pursued a hard bargaining strategy because of his low domestic support.

Papandreou renegotiated the bailout terms with creditors in October 2011, obtaining a haircut of 50 per cent of its private debt, so that Greek debt could lower to levels below 120 per cent of GDP. Nevertheless, the terms determining more orthodox measures suffered strong criticism from all other parties. The rejection of austerity in Greece elevated fringe parties and made ND more stringent. Conscious that assumptions that it was possible to remain in the euro and refuse the agreements influenced the opposition to PASOK, the Greek prime minister proposed a referendum on the bailout terms. That measure would force the opposition to change its discourse and surge PASOK's support along the Greek electorate. However, the referendum proposal received a strong backlash.

Domestically, his party rebelled against him for complying with the MoU and demanded his resignation. Nonetheless, Antonis Samaras, leader of ND, abandoned the pragmatism and supported the referendum defending the bailout terms. Externally, Europeans leaders expressed disapproval when they called Papandreou to explain himself during the G20 Summit in Cannes on November 2. Nicolas Sarkozy frowningly criticised Papandreou, who saw the operation as a gamble that could cost the whole stabilisation plan. Furthermore, European leaders reiterated that the referendum should pose a clear question on Greece's permanence in the eurozone instead of accepting the MoU terms (PAPACONSTANTINOU, 2016, p. 225).

The possibility of "Grexit" also appeared in the news after Papandreou called for the referendum on the Greek bailout in November. Even though European leaders pressured the

Greek minister to back off, they could not make any convincing intimidation as “there was no legal base in the EU treaties for the eviction of a eurozone member” (FEATHERSTONE, 2017, p. 245). Embedded in the “Ever-Closer Union” logic, which meant that European integration is irreversible to European member states, leaving was an option up to the Greek government. When Wolfgang Schäuble—the German finance minister—recommended the idea after the referendum announcement, he was swiftly rebuked by Merkel in such a manner that the proposal never turned into an official European statement.

What dismounted the idea of the referendum was Samara’s suddenly agreement with the troika program after attacking PASOK’s economic policies. Papandreou was not isolated in his defence of the bailout deal anymore, so European leaders felt assured that other Greek politicians would continue the proposals set by the troika. Back in Athens, the Greek prime minister cancelled the referendum and gained the vote of confidence with the support of his party, but stepped down afterwards, liberating the premiership to a technocratic government that would lead the country to elections after signing the bailout terms.

Meanwhile, Nicolas Sarkozy convened European leaders during the G20 Summit in Cannes to discuss the Italian crisis on November 4. However, they became astonished when realised that Barack Obama, the president of the United States, was present in the room as chairman. Through Sarkozy’s invitation, Obama demanded Merkel to cede on political and legal issues and attain an agreement relative to the eurozone crisis (SPIEGEL, 2014). The French and American president were convinced that the EFSF was insufficient to guarantee a flexible program of bond-buying. However, Merkel refused any prospect of a proposal.

The Bundesbank mistrusted any plan that would transfer influence to the EFSF, as it had already caused an entrenchment among German political actors. After Weber’s resignation, Jürgen Stark, the German member of the ECB’s board, stepped down as well in September 2011 due to differences over the ECB’s program of sovereign bonds purchases. Notwithstanding German economists objection to any form of economic burden-sharing, the German Constitutional Court (GCC) in Karlsruhe took up the question, judging that the economic programs agreed thus far did not violate the German constitution. The GCC defined that the German government should seek prior approval of the Bundestag for all future EFSF programs and ruled out in advance the creation of Eurobonds.

The purchase of sovereign bonds from European countries in crisis was debated in the European Commission and by academics for a long time as a solution to harmonise the structural divergence within the eurozone. Think tanks in Europe had already developed the idea between 2009 and 2010 (MATTHIJS; MCNAMARA, 2015, p. 236). The European Commission worked on the idea in a Green Paper, but instead of using the term 'Eurobonds', negatively associated with money transfer in rich countries, they called them 'Stability bonds' (MATTHIJS; MCNAMARA, 2015, p. 238). The Commission's effort was not praised in Germany, where newspapers, tabloids and politicians from centre parties were in opposition to any form of debt socialisation (MATTHIJS; MCNAMARA, 2015, p. 240).

As specified by Johnston and Regan (2017, p. 7), free movement of capital and the removal of adjustment mechanisms that controlled inflation privileged export-oriented growth models such as the German and the Dutch. On the other hand, Eurobonds could redistribute the gains obtained by some models and socialise the costs among the eurozone. However, German resistance to the idea of Eurobonds stemmed from social processes - in this case, the German cultural disposition to view the crisis in solely one framework.

German public opinion saw the crisis as a classic balance-of-payment misbalance that affected European countries that had become far dependent on foreign lending (COPELOVITCH; FRIEDEN; WALTER, 2013, p. 5). Systemic approaches, such as sovereign debt purchases, were translated as money transfers from creditor European countries to poor ones. The argument of moral hazard in Germany was too strong to consider a systemic approach to the Eurozone crisis instead of national economic ones. Thus, it was not feasible for the German chancellor to acquiesce in American and French demands.

The crisis would not be solved by individual economic measures, because the EMU is not an optimal monetary area. As Peter Hall (2012, p. 356) clarifies, the single currency was a political project designed to bind a unified Germany to Europe. However, the euro was in charge of an independent central bank without the capacity to co-ordinate policy over the medium-term (HALL, 2012, p. 357). The lack of a coordinated strategy would inevitably cause shocks of preferences inside the EMU. In the eurozone, the GIIPS would prefer the ECB to buy sovereign bonds and devaluate the Euro. However, Northerner European countries would lose competitiveness in the international markets, hence entailing a deadlock between nations. The solution adopted by the troika was to give financial bailouts to the

GIIPS in case they accepted the MoU that fixed fiscal orthodoxy. As currency manipulation was not possible, European countries had no alternative. Nevertheless, the bailouts eroded the northern public opinion towards Southern European countries. Under a problematic domestic coalition that was wary of sharing economic risk, Merkel preferred to achieve solutions by fiscal adjustments in countries that accepted the MoU instead of proposing systemic reforms that would menace her hegemony within the German political landscape.

After the G20 summit reunion, there was no satisfying solution in sight to both sides. The European Commission proposed in November two new regulations to improve budgetary surveillance and monitoring of member states facing financial instability, receiving financial assistance, or exiting a financial assistance program (MATTHIJS; BLYTH, 2017, p. 9). Termed as “Two-Pack”, it would serve to underpin the “Six-Pack”.

On December 1, Mario Draghi—the former governor of the Banca d’Italia that succeeded Jean-Claude Trichet as the new president of the European Central Bank—proposed the “Fiscal Compact” —or Treaty on Stability, Coordination, and Governance (TSCG)—an intergovernmental agreement. Although it was outside of the framework of the Lisbon Treaty, hence not a European Law, the TSCG would enforce fiscal rules in the same way that an independent central bank ensures price stability as its fundamental monetary policy.

As a cover for French, American, and other Europeans bids to increase the size of the EFSF or permit debt mutualisation, Germany proceeded only with the alteration of the EFSF into the permanent ESM in July 2012. On the other hand, the TSCG consolidated the institutional design that German envisioned for the eurozone. The fiscal compact established that European budgets should make a surplus or remain balanced. Deficits would be restricted to 0.5 per cent of GDP. The European Court of Justice was to oversee those rules at a national level, ruling that states with deficit superior to 3 per cent of GDP would be subject to sanctions unless a qualified majority of states opposed the measure.

Furthermore, it could require that countries with debt levels above 60 per cent of GDP adopted debt reduction policies (TOOZE, 2018, p. 468). Amid dramatic tensions resulted from clashes between Greeks and the riot police during the end of October, Greek leaders of PASOK, ND, and LAOS agreed to declare joint support for the appointment of Lucas Papademos as the new prime minister. A former governor of the Bank of Greece and ECB vice-president, Papademos was sworn minister on November 11 and would lead a coalition

composed by the three parties in a transition government to ensure the negotiations of the new bailout.

The manifestations in Greece that happened during 2011 intensified when compared to the ones in 2010 (KARYOTIS; RÜDIG, 2016, p. 2). The occupation of central squares by a new movement called "*Aganaktismeni*", inspired by similar actions done by the Spanish "Indignados", evinced the importance of social media and the presence of different positions through the political spectrum to strengthen Greek protests against the government. Due to the protests, anti-austerity parties displayed new forms to show their dissatisfaction of Greek mainstream politicians to the electorate. Inspiring a new group of protesters that was older and politically alienated, differing from the social protest culture that dominated Greek politics until 2010, the *Aganaktismeni* represented a change in Greek politics (KARYOTIS; RÜDIG, 2016, p. 7).

The Greek crisis continued to conjure fears in Europe in 2012. Papademos scheduled the Greek elections to April 2012. The new prime minister pretended to run, but his lack of legitimacy as a technocratic governor denoted that New Democracy would obtain the premiership in the next election. Apprehension for the results summoned shadowy discussions among European leaders about Greece's fate in the euro. European governments developed a "Grexit" plan of last resort until August 2012, concluding that Greece would be forced either way to attain to fiscal responsibility outside the eurozone (TOOZE, 2018, p. 475). Schäuble, the German finance minister, even proposed to suspend the Greek elections to avoid risk the key measures settled with the troika be scrapped by the new Greek government (WEISMANN; PEEL, 2012).

Papademos implemented the restructuring program and negotiated the terms of private creditors haircut before the Greek elections. Nonetheless, the reduction of debt resulted in its further concentration to public creditors. Ergo, public debt replaced private ones (BLYTH, 2013). Concerns of German and French universal banks exposition to a Greek default dwindled as Greece became dependent on the European Central Bank, the EFSF, and the IMF.

On May 6, a significant cataclysm ensued the Greek elections. PASOK and ND gained cumulatively only 42 per cent of total votes, a minor number compared with the 77 per cent that they obtained in 2009. PASOK and New Democracy lost their bases of support, which scattered through new parties, so there was no coalition. PASOK was decimated, and ND

weakened, became the main party. The elections of 2012 turned the populist bipartidarism that reigned in Greek politics into a dysfunctional system, unleashing an extreme pluralism as a wave of parties such as SYRIZA, ANEL, KKE, DIMAR, LAOS, Golden Dawn (AX), and DAOS entered parliament (PAPPAS, 2013, p. 41).

Trying to establish a new coalition that would comply with the agreement that Papademos settled with the troika, ND invited all parties to take part of the government except AX but still failed to form a cabinet, prompting a new election in June 2012. After numerous remarks of European politicians that the Greek election result was a referendum on the euro, Antonis Samaras was nominated prime minister in June after contriving a new coalition composed by PASOK, ND, and DIMAS. The far-left party SYRIZA appeared as a significant force in Greek politics, almost beating New Democracy in the new round of elections.

With a dispersed Greek parliament, Samaras started his premiership with new cuts to meet the targets set by the troika programme (PISANI-FERRY, 2014, p. 95). However, the three-party coalition engaged in intra-government disagreements, representing difficulties for the troika to arrange a consensus that could align the institutions' interests with the Greek cabinet (FEATHERSTONE, 2015, p. 296).

The pulverised Greek party-system still revealed a definite polarisation. According to Fioretos (2013, p. 306), the elections of May and June showed that the political environment divided parties between the ones that agreed to the terms of the bailout and the ones against the troika. Former main parties, such as PASOK and ND, continued to approve austerity, even if meant causing disillusionment with the electorate, as Samaras did when he was against austerity reforms - only to implement them when he entered government in order to keep Greece in the euro. New parties that entered in the political scene, such as Golden Dawn and SYRIZA, got support due to resentment against Northern European countries, claiming that the crisis was caused by mainstream political parties that were disinterested in the agonies of the Greek people (VASILOPOULOU; HALIKIOPOULOU; 2015, p. 46).

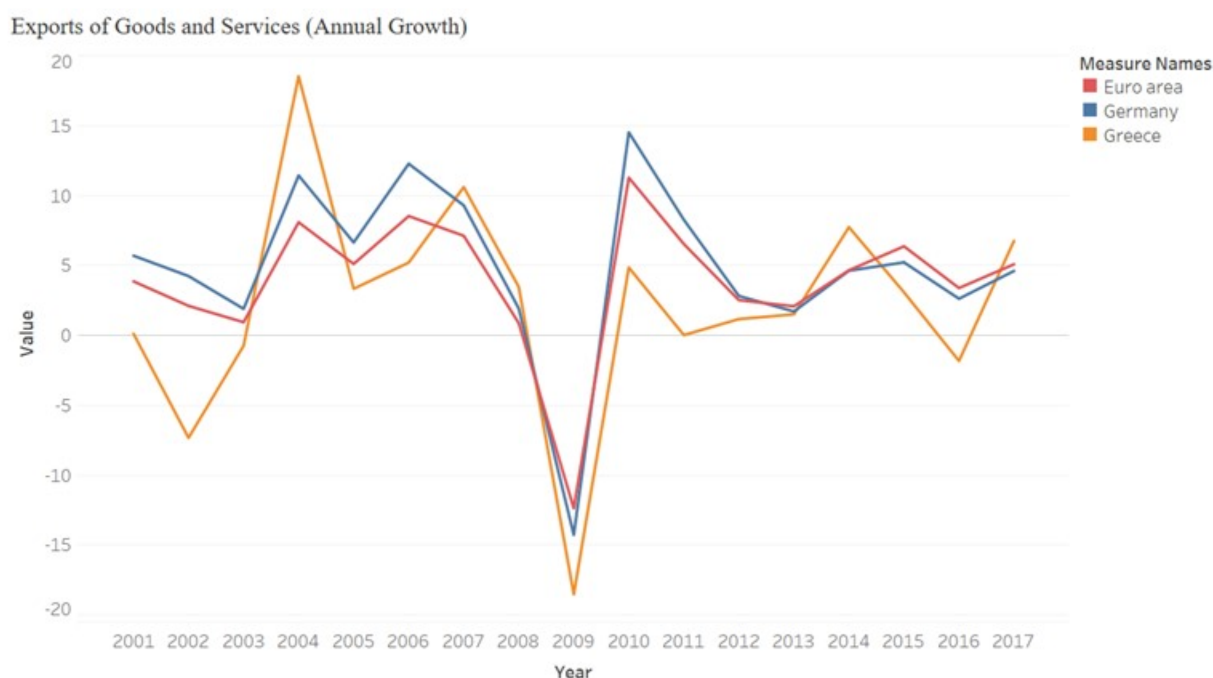
The suicide of Dimitris Christoulas in April 2012, was a symptom of the electorate revolt against the conservative measures that Greek leadership implemented. Rising unemployment, mass foreclosures, and higher personal debt stimulated riots and clashes with the police. The collapse of public health, derived from cuts in health spending that ranged

from €10.6 billion in 2009 to €7 billion in 2012, impacted a society that was ramped by the only HIV upsurge in Europe in decades; a malaria outbreak in the southern Greek regions of Lakonia and East Attica; a massive increase in homelessness; and rise in suicide rates (STUCKLER; BASU; 2013, p. 90-91). Nonetheless, Greek representatives of the Ministry of Health were dismissive of such questions, accusing the statistics of taking into account North Africans or Eastern Europeans that travelled to Greece with HIV. The Greek Ministry also disregarded the surge of 17 per cent in overall suicide rates as “premature overinterpretation” (STUCKLER; BASU; 2013, p. 88).

Negotiations between the Greek government and the troika continued as the IMF refused to continue in the negotiations unless Greece agreed to reduce public debt to 120 per cent of GDP by 2020. The discussions reached an agreement on November 27, when European leaders accepted to lower interest rates, maturity extension, interest payment deferrals, the passing on to Greece of profits made by the ECB on its Greek bonds portfolio, and a buyback operation by Greece to acquire Greek bonds at a discount, resulting in a disbursement of €49 billions on December 13. Nevertheless, the IMF remained dissatisfied with the operation, as it questioned in a World Economic Outlook report if Greek debt continued to be sustainable due to underestimations of fiscal multipliers that measure the effects of fiscal consolidation on the growth of budgetary programs by national governments (IMF, 2013).

Institutionalised by the Fiscal Compact Treaty, constitutionalization of supply-side economics intermingled with the mainstream Greek political parties disposition to continue with the reforms created the ‘embedded orthodox regime’ in Greece (FIORETOS, 2013, p. 315). In order to restructure the Greek economy with the Brussels-Frankfurt consensus, Greek elites created effective coordination instruments to held different societal segments accountable to European common fiscal and budgetary goals. The Greek economic adjustment had important implications in the Greek economy, as lower growth plummeted the capacity to recover from the clash, as figure 6 shows:

Figure 6 – Exports of goods and services (annual % growth)[7]



Source: Author's elaboration, based on data from the World Bank, 2018.

The 2010-2012 protests in Greece revealed a fracture in the euro architecture that was ignored by Greek mainstream parties. Although corruption and clientelism should be curbed, the scale of austerity brought new groups to protest alongside social movements. The result of the drastic program of fiscal orthodoxy that forecasted the reduction of the budget deficit was the rise in unemployment and income declines (HALL, 2012, p. 363). The continuity of the programme and the rise of a technocratic government in Greece unravelled the demand for democratic legitimacy in the troika proposals, an aspect that the EU ignored while the euro boomed (SHARPF, 1999). The successful agreements with the Troika notwithstanding, ND and PASOK, ignored the electorate, allowing the success of fringe parties such as SYRIZA that emerged from the 2011-2012 protests as the main political opposition to austerity.

2.4 SYRIZA and the limits of legitimacy within the Eurozone Crisis

[7] For detailed data, see Appendix A – table 3

The Greek legislative elections of 2015 happened on January 25. In political terms, the elections represented a strong backlash against New Democracy and PASOK. The polls ousted ND from power and ended PASOK's hegemony on the left. SYRIZA, a far-left populist party, won in a landslide, obtaining 36.3 per cent of the electorate, accumulating 149 parliamentary seats in the 300-seat parliament. PASOK ended up with 4.7 per cent of Greek votes, far away from the 43.9 per cent that received in the 2009 legislative elections. Notwithstanding New Democracy promising a stricter stance against austerity in the campaign, Samaras' conservative commitments contaminated the party.

Alexis Tsipras, a charismatic 40-year-old that ascended from the youth wing of the Greek Communist Party (KKE) to major of Athens in 2006, became the new prime minister (BBC, 2015). Tsipras decided to form a coalition with ANEL, a radical anti-bailout right-wing party, to promote the idea that the EU's economic governance would change (BLUSTEIN, 2016, p. 391). Rising from the fringes of the political spectrum, SYRIZA gained supporters through identification in anti-austerity protests, growing from a small party with only 3 per cent of support in 2010 to 39 per cent in 2015 (KARYOTIS; RÜDIG, 2016, p. 9).

Promising wages and pension increases, tax repeals, renegotiation of the primary surpluses imposed, and debt relief, SYRIZA adjusted its discourse to appeal to the Greek electorate. Adopting a favourable stance to the European Union and the euro while criticised mainstream parties that followed unnecessary economic demands, SYRIZA attracted the electorate that was against orthodoxy but afraid of other extremist parties, such as Golden Dawn. Furthermore, SYRIZA's symbols and slogans during the campaign targeted specifically the democratic deficit in Greece, thus exploring the position of an outsider representing the people hit by austerity (STAVRAKAKIS; KATSAMBECKIS; 2014, p. 130). It is important to cite that Tsipras skillfully adapted his discourse internally and externally, taking an aggressive stance in the EU level, as he accused the bloc of harshening austerity under the banner of "neoliberalism".

The lack of democratic alternatives transformed the far-left party into a viable option. Tsipras attacked the troika, the elites, and the main parties in order to channel the feeling of powerlessness of Greek citizens towards EU policies and against mainstream national parties, such as ND and PASOK. However, support for 'Golden Dawn' increased, showing that the lack of democratic alternatives had also effective against the whole Greek political system.

The decision to cobble together a coalition with ANEL, a far-right party, stirred controversy, but SYRIZA was not able to settle an alliance with the Greek communist party (KKE), and it refused to engage with 'Golden Dawn' (ASLANIDIS; KALTWASSER, 2016, p. 5).

SYRIZA's victory and the witting discourse against the troika exposed a problem within the eurozone that European politicians detached from themselves. Denouncing what Vivien Schmidt (2015, p. 93) denominates "governing by the rules and ruling by the numbers", or the rigid system of packs, pacts and compacts, the Greek left party used the economic anxiety to its advantage. The Greek result envisioned to be a punishment against the unresponsiveness of the Greek parties and the troika, or in the words of Mudde and Kaltwasser (2017, p. 116), a menacing illiberal democratic response to undemocratic liberalism. Notwithstanding Greek discontent with austerity measures, mainstream parties persisted with orthodox discipline.

Even though SYRIZA assumed itself as a turning point to European politics for renovation, it was hailed by outsiders and extremists parties through the eurozone, such as the Spanish Podemos and the French Front National. Moreover, it still had to comply with the MoU made by previous Greek administrations to stall the crisis. Tsipras caused an uproar among Northern European countries when showed intentions to renegotiate the agreements. In their view, the supposed Greek renovation was nonetheless an excuse to default its debts.

German media accused Tsipras proposals to alleviate austerity in Greece as a warning to the eurozone. As *Der Spiegel* (2012) indicated, the Greek prime minister was selected as one of "Europe's Ten Most Dangerous Politicians" due to his 'extremist' rhetoric against any form of continuing the reforms programme settled in Greece. Moreover, European media exhibited SYRIZA as a dangerous populist party, anti-EU and anti-NATO, close to ultra-leftism terrorism and hostile to political stability and democratic values (STAVRAKAKIS; KATSAMBECKIS, 2014, p. 134).

European politicians charged SYRIZA of being extreme-left populists, therefore diametrically similar to 'Golden Dawn' because both were a sceptic of EU policies. However, the representation of the "Greek people" diverges between 'Golden Dawn' and SYRIZA, as both parties have specific representations of the people. 'Golden Dawn' aims to use violence as a purpose to transcend social cleavages internally and cleanse the nation ethnically, thus preserving the "true Greeks" (VASILOPOULOU; HALIKIOPOULOU, 2015, p. 8). That

position is not only an exclusionary view of Greek society but a chauvinistic and fascist position (STAVRAKAKIS; KATSAMBECKIS, 2014, p. 136). Contrarily, SYRIZA was a populist left party due to Tsipras' successful discourse separating the "pure people" as the greeks that felt vulnerable to austerity against the "elites" represented by the troika and mainstream political parties (MUDDE, 2017). Moreover, SYRIZA was able to portray its position against conservative measures as a dispute between "conservatives forces that favoured austerity and neoliberalism" and those against it, framing Greece as popular resistance against European technocrats (ASLANIDIS; KALTWASSER, 2016, p. 5).

Tsipras appointed Yanis Varoufakis, an academic from the University of Texas specialised in game theory, to be his finance minister. Negotiations with Greece caused apprehension, as Varoufakis was resolute to dismiss the troika and engage negotiations directly with creditors (HOPE; WAGSTYL, 2015). The situation caused outrage among European leaders that in turn became adamantly resistant to negotiating with SYRIZA and rejected proposals made by Varoufakis to restructure Greek debt, which reached 179 per cent of its GDP in 2014. Wolfgang Schäuble accused Greece of blackmailing the ones that bailed Greece twice before and Jeroen Dijsselbloem, chairman of the Eurogroup, warned that the Greek economic problems would not disappear overnight. Therefore, the polarisation between SYRIZA and international lenders grew.

Greece had received two bailouts and soon would need a third one. With few resources to negotiate with the EU, SYRIZA tried to diversity negotiators to obtain a higher bargain with the troika. Thereby, Athens looked for the US, China, and Russia. China manifested interest for the Port of Piraeus but was unwilling to assist. Negotiations with Russia failed due to fears that tension with Germany achieved its apex in the Ukrainian crisis, so Putin was disinterested in causing further conflict in European territory. Lastly, Tsipras looked for the US. Although sympathetic to SYRIZA's cause, Obama advised Tsipras to stand down to Berlin and comply with the rules (TSEBELIS, 2016, p. 29; ZAHARIADIS, 2016, p. 13).

Different from the previous Greek administrations, SYRIZA though that under a democratic vote they were able to guarantee a better margin of the bargain to negotiate its debts with the troika. Nonetheless, as Zahariadis (2016, p. 1-2) discusses, the result of bargaining depends on strategies that take into account the perception of success or failure in previous bargainings and the structural features that shape them. After a soft-strategy due to

financial constraints in 2010 and a second hard-strategy defined by electoral ambitions in 2011, SYRIZA decided to adopt a hard-bargaining position evoking its stance against austerity and bailouts. However, Tsipras ignored the fact that Europeans isolated Greece economically, so any threat of crisis contagion by a hard-strategy would imply in costs solely for Greece.

Tsipras and Varoufakis argued with creditors over the fact that their democratic legitimacy rested in ending austerity and reducing the debt burden. They tried to convince Schäuble and Dijsselbloem that technocratic options were not viable, but were reluctant to accept that both also had a democratic mandate for their austerity policies within their own countries (MUDDE, 2017, p. 33). Attempting to reverse the decision in higher European stances, Greek leaders had to obtain collective decision-making from Eurozone leaders, which ultimately worked against the Greek government. Germany did not want to pay, Southern European countries would not accept Greece to avoid the Memorandum of Understanding while they were obliged to comply, and Eastern European countries saw no reason to bail out a country that had a higher per capita income than them (TSEBELIS, 2016, p. 30).

As a safety measure, since the last bailout in 2012, the troika managed to isolate the Greek debt from other European countries and keep it among European institutions and the IMF. Therefore, the Greek banking sector liquidity depended directly on financing by the ECB. Working against the possibility of drying out of capital, the Greek Ministry of Finance secretly authorised a plan for a parallel monetary system in case of a sudden exit from the eurozone (VAROUFAKIS, 2017, p. 650).

SYRIZA refrained from its electoral promises in February, stalling talks about pensions and wages in exchange of a four months extension from its debts with creditors. Consequently, Greece had to pay loans to the IMF in early June. However, the hard-bargaining position adopted by SYRIZA backfired, as the EU also kept a hard-bargaining position to Varoufakis and Tsipras. Greece could obtain capital through privatisations, but that measure would severely damage one of SYRIZA's central positions against austerity, so it was dismissed. In March 2015, Greece ran out of cash, thereby creating a run against time to pay its loans to the IMF and to keep its balance sheet. The situation worsened to the point that the Greek government took control over cash of public services to pay pensions (ZAHARIADIS, 2016, p. 12).

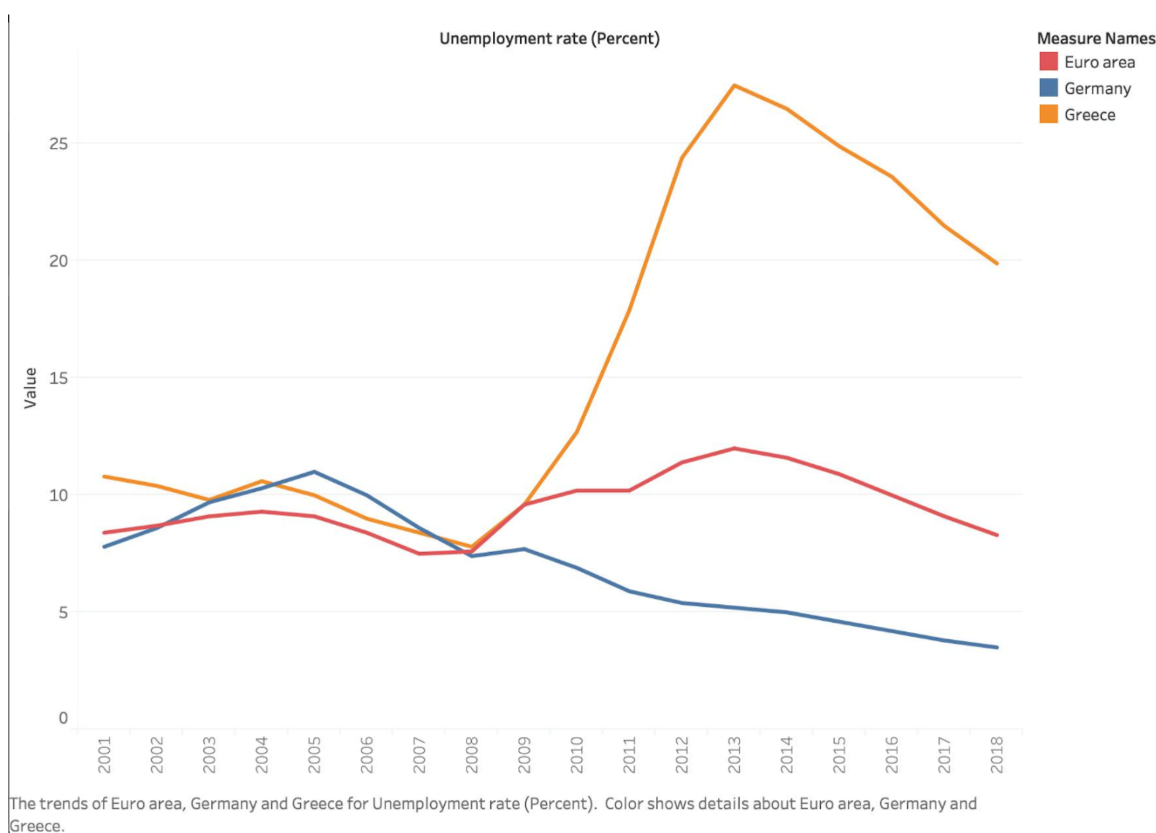
The alternative that rested for the Greek government was to threaten default, as SYRIZA supposed that Germany and the EU would capitulate because both had too much to lose, as consequences of “Grexit” to the eurozone were unpredictable. Nonetheless, the ECB under Draghi was better equipped to parry a potential Greek crisis. With contagion contained because of the haircut operations and the bond purchasing program that he started in 2012, the European banking sector would not suffer from a Greek default.

SYRIZA and the troika continued negotiations without significant results until June 2015. During that month, Greece delayed a series of payments. The Greek government had no money to pay pensions anymore (BLUSTEIN, 2015, p. 428). The lack of payments to the IMF or the ECB raised questions over Greece’s permanence in the euro, a possibility avoided by Tsipras at all costs (Blustein, 2015, pp. 434).

Cornered by the strong left-wing opposition within his party, Tsipras felt impeded to comply with the Memorandum of Understanding made by the troika and Germany. Even though EU negotiators softened, as France and Italy backed off from forcing Greece to sign the agreement and the IMF’s scepticism with debt sustainability grew over time, Tsipras wanted an unswerving commitment to debt forgiveness and restructuring. In previous bailout agreements, Germany hinted that forgiveness was an issue to be discussed in the future, but Merkel refused to formally settle anything without a Greek commitment to the Memorandum of Understanding.

Greece’s unemployment rate was 25.7 per cent in the first quarter of 2015. Even worse, youth unemployment peaked at 50.5 per cent (OECD 2015). As the graph shows, unemployment peaked in 2013 and decreased mildly since then.

Figure 7 – Unemployment, total (% of total labor force)[8]



Source: Author's elaboration, based on data from the IMF Database, 2018.

Emigration reached the peak number of 400,000 Greeks since the beginning of the crisis to avoid unemployment. Trying to preserve his legitimacy, without money and refusing to make the IMF payment, Tsipras decided to call a snap referendum on the acceptance of a bailout accord on June 27 (SMITH 2015).

2.5 The Greek referendum between Democratic Legitimacy and Economic Governance

European politicians disapproved the referendum, declaring that negotiations could not proceed without a prior commitment from the Greek administration. Media coverage in Greece and Germany tried to explore every lousy behaviour committed by those countries. The deadlock between Greece and Northern Europeans escalated, reinforcing stereotypes of "lazy Greeks" through the eurozone. German media condemned Greece for being a poor country benevolent to wealthy people, portraying German taxpayers as the ones bailing out wealthy Greeks with generous pensions and low retirement age (RONZHEIMER, 2011). That

[8] For detailed data, see Appendix A – table 4

image strengthened populist movements, as they accused their respective country of being subservient to the interests of others (STERNBERG; GARTZOU-KATSOUYANNI; NICOLAÏDIS; 2018, p. 35).

Mutual recrimination aggravated due to the feeling of ‘othering’ that afflicted both countries. Tsipras directly confronted the idea, claiming that the poor suffered most in the Greek crisis. Although Greece altered numbers to remain in the Euro, Greeks refused to be seen as the profligate people of the European Union. In their view, the high unemployment rate and low per capita income showed that Greeks were more miserable than the standards portrayed by the media and the irresponsibility of political elites caused the crisis.

The Greek media also attacked Germany, insisting that the rigorous treatment on debt payment was hypocritical, as Germany never paid back the forced loans that Greece had been forced to give in 1944. Additionally, German rigour with deficits on the SGP did not sustain itself. It did not escape to Greece’s notice that Germany was constantly ‘adjusting the rules’ to its benefit, lobbying in favour of higher debt ceilings when necessary to avoid punishment by breaking the SGP (STERNBERG; GARTZOU-KATSOUYANNI; NICOLAÏDIS; 2018, p. 34).

European governments kept requiring SYRIZA to comply with the rules as a sign of trust that Greece wanted to recover from other European nations due to the case of falsified data, but Tsipras bellicose stance against austerity compromised any agreement. The prime minister decided to assemble a referendum created a stalemate between Greece and Germany. Tsipras argued that the referendum served to give a final say on the matter to the Greek electorate, but he used the height of his popularity to campaign for the “No” vote against the agreements, invoking concepts such as the dignity and prosperity of the Greek people to oppose the creditors’ demands.

New Democracy and Antonis Samaras campaigned for a “Yes” vote, attaching the campaign for “positive” austerity to Greece’s permanence in the euro. Creditors declared their wish that the Greeks voted to remain in the euro, therefore reiterating the “Yes” vote, as the continuity of the reforms were a requirement to stay in the euro. One day after Tsipras announcement of the referendum, the ECB stalled the liquid emergency support for Greek banks, thus forcing those institutions to limit cash withdrawals to 60 euros per day and install capital controls.

Refusing to accept that a referendum entailed an exit from the euro, Tsipras expressed that he only wanted to hear a people's vote about what to do before negotiating a final deal with the troika, although he considered the terms established by the Memorandum of Understanding as a 'blackmail' (CONNOLY, 2015).

The referendum happened on July 5 without serious discussions or proper evaluation of the facts and consequences that each choice would entail. SYRIZA's use of the referendum against austerity was doomed from the start because the country would soon require a third bailout and run out of money. There were even talks between Schäuble and Varoufakis of humanitarian aid in case Greece was thrown out from the euro (VAROUFAKIS, 2017, p. 582). Contrary to the political calculus made by Tsipras, a 'No' vote did not mean a change of position from the troika, Germany or the UE.

Under a simple question that asked: "Do you agree with the documents of the European Union?", The Greeks went to vote. Later, the polls revealed that the "No" won with 61 per cent of votes, showing the existence of a democratic preference over the end of austerity. On the other hand, creditors needed an assurance from Greece that it would pay its debts to the IMF in order to receive a third bailout. Therefore, Greece faced a conundrum. If the country failed to reach a deal in the new round of conversations, there were real risks that it would be jettisoned from the euro, which was not acceptable to the Greek electorate, meaning a loss to Tsipras (TSEBELIS, 2016, p. 31).

Yanis Varoufakis stepped down one day after the referendum. Euclid Tsakalotos, a moderate economist, became the new finance minister and took part in the talks with the EU. Backed by SYRIZA, Tsipras tried to negotiate again with the troika and Germany using the referendum as a free demonstration that he had legitimacy in his claims against the agreements. After a distressing period of discussions, Alexis Tsipras agreed on a new plan of austerity that was harsher than the ones offered previously in the referendum. The possibility of being jettisoned from the euro was stronger than the referendum's result.

The European response outmatched the strategy pursued by Tsipras to force a bargain. Greece refused to comply with the demands imposed by the troika, but instead of attracting allies within the eurozone, Tsipras and Varoufakis alienated them. According to Zahariadis (2016, p. 30), a sequence of political miscalculations worsened Greece situation instead of improving it. When Greece perceived that European leaders would not back off, Tsipras

visited Putin in the middle of the Ukrainian crisis to talk about financial assistance, threatening the EU through geopolitical action. Regardless, it did not work out and isolated Tsipras further from other European leaders that were sympathetic to Greece's cause. The move resulted in a loss of credibility and put Greece's loyalty to Europe in question, as SYRIZA ignored other Europeans countries preferences and decided to act preemptively.

Distancing itself from potential allies, Greece accidentally committed a gross error. SYRIZA failed to understand the institutional profile of the EU. Decisions made by European institutions are hard to achieve and even more difficult to shift because they require unanimous decision-making. Therefore, quarrelling with politicians about a narrative of Greek submission to the troika and Germany proved to be a disadvantage as Tsipras ignored that assistance to Greece inevitably needed the approval of hawkish European members. Furthermore, the chances of success decreased considerably because the unanimity rules involved veto players such as the European Commission and the ECB (TSEBELIS, 2016, p. 38).

The argument portrayed by Tsipras in the final round of negotiations also had a problem. SYRIZA did not have many options available, as they needed the bailout. Its sole commitment was to represent the people against European demands which were not fair to the Greeks, but Greece was the sole member state that wanted to argue with the troika and remains in the euro.

Varoufakis (2017) explores the question in his memoir, pointing out that Germany was deciding on behalf of other countries in the agreement discussions. However, as Dijsselbloem (2018) registers in his biography of the events, at the moment that Greece affirmed that it desired to remain in the euro, Tsipras and Varoufakis had no choice but to accept the terms established by the troika. The German electorate alongside other Northern European countries would never accept debt forgiveness from the sole country that wanted to avoid it while enjoying euro membership. Even though Varoufakis (2017, p. 650) was disposed to deploy Plan "X", the parallel currency plan, as a guarantee to remain in the euro, Tsipras withdrew because he knew that it would slay his image with the Greek electorate. The hard-bargaining position dismounted in the talks, when all 18 financial ministers rejected the Greek bids for a new agreement and demanded terms that were harsher than the previous ones offered, showing the EU preference towards strict regulation.

The refusal to comply with any demand made by the troika since February 2015 worsened the situation. SYRIZA and ANEL agreed with a new Memorandum of Understanding, permitting a new set of cuts on social spending and reforms to reduce public debt. Debt restructuring was out of the terms, briefly stated to be discussed in the future if SYRIZA complied with the terms (BLUSTEIN, 2015, p. 441). In exchange, Greece would receive €80 billion from its creditors.

Under accusations of a punitive financial "Coup" settled with the European Union, Tsipras returned to Greece to approve the bailout in parliament. Domestically, he faced stern opposition from his party, as SYRIZA's far-left faction rebelled and voiced a strong disagreement against the Memorandum of Understanding's terms. The majority of the Central Committee also preferred a "Grexit" over the MoU, so he brought the question at the Greek parliament, where SYRIZA was split. Receiving support from other Europeans, including Germans and the Finnish, the Greek electorate denounced the agreement as a coup.

Even though half of SYRIZA's Central Committee was in parliament, they were a minority. Conscious that SYRIZA's radical ideology was a barrier to compromise and would accuse him of capitulation, Tsipras embraced help from the opposition while removed mutineers from his party that were in power. Initially, with a minority government of 130 seats from 300, the Greek prime minister aggregated support of pro-European parties such as ND, PASOK, and POTAMI. The new coalition served to approve the MoU proposals and sign the third bailout on August 18, obtaining access to European funds, therefore guaranteeing Greece's permanence in the euro.

3 THE ORDER-KEEPER

3.1. Harmony of Dissonance or the Divergence of European Capitalism(s)

After the referendum's result, Greece's commitment to the Memorandum of Understanding represented a crash of beliefs in Europe. As Harry Milonas (2015) describes, eurosceptics such as United Kingdom Independence Party's Nigel Farage and Jobbik's Gábor Vona accused the European Union of condemning Greece and other Southern countries into a European "prison of nations". Even though Alexis Tsipras was critical of the euro, he was far from a eurosceptic as the Greek prime minister envisioned less austerity for Greece and democratic EU institutions. The euro's primary purpose was to ensure prosperity and union in the continent but was continually cratering a schism between Northern and Southern European countries.

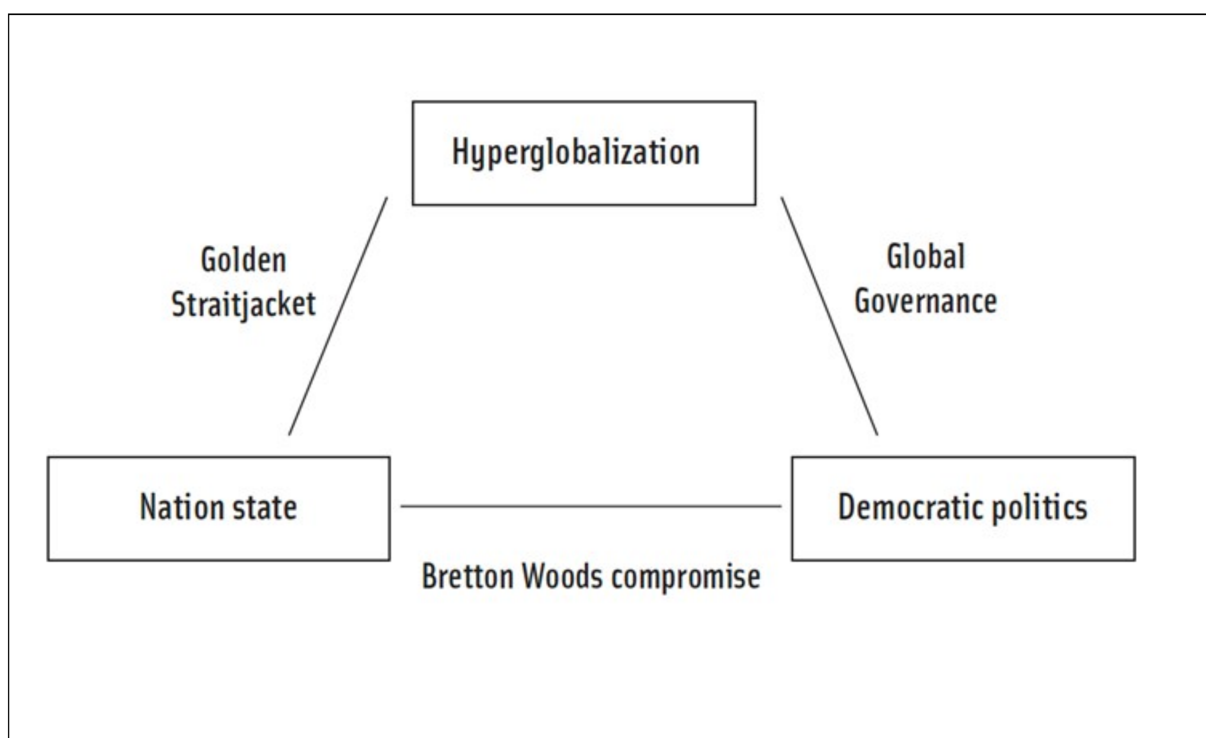
The "agreekment" settled on July 13 yielded tensions in the eurozone, but its consequences are far from that. Greece possessed the freedom to choose its government as long it did not change its economic policies, a sign of embeddedness into "undemocratic liberalism" (MOUNK 2018). The fiscal rigour agreed between Greece, Germany, and the troika broke the principle of "ever closer union" that promised peace, prosperity, and democratic governance within the eurozone. As Matthijs and Jones (2015, p. 7) stated, "democracy without solidarity is dysfunctional because its participants no longer view their institutions as representative or even open to reform". Even though Greece had to comply with austerity, the harshness of European leaders' agreement fortified the arguments of eurosceptics and critics.

Dani Rodrik (2011, p. 200) creatively developed the conflict among markets and democracy arguing that it is impossible to "have hyperglobalization, democracy, and national self-determination all at once. We can have at most two out of the three". So, to keep 'hyperglobalization' and democracy, it is necessary to abandon the nation-state; otherwise, the blend of democracy and the nation-state constrains the possibility of financial globalization. Economic integration can be compared with 'hyperglobalization' if:

> "transactions costs have been eliminated and national borders do not interfere with the exchange of goods, services, or capital. […] Domestic regulations and tax policies would be then either brought into alignment with international standards, or structured so that they pose the least amount of hindrance to international economic integration" (RODRIK, 2011, p. 200).

During the gold standard period, the inflow of capital was immune to external constraints and governments could separate social demands from economic issues. Rodrik (2011, p. 202) states that contemporary politics are far from having economic rules "enforced by chartered trading companies or imperial powers […], but the demands of 'hyperglobalization' require a similar crowding out of domestic politics.". Figure 8 shows that to contain the 'Golden Straitjacket' of 'hyperglobalization' outdoing democracy, a political compromise between nations (like the Bretton Woods system) or a political union (democratic politics) are crucial.

Figure 8 – The Political Trilemma of the World Economy



Source: RODRIK (2011)

However, the Bretton Woods system experience ended with a drive for economic competition to allure investments through "sound finance", low inflation, flexible labour markets, and supply-side economic reforms that envisioned to set stringent monetary rules in order to gain "investors confidence". The breakdown of the economic paradigm that reigned until the 1970s shifted towards the supervision of monetary stability, raising the duty of central banks as responsible for inflation-targets and monetary policy. As Blyth and Matthijs (2017, p. 210) stress, the contrast between the institution's configuration before the End of

Bretton Woods and during the Great Moderation sets different regimes (and choices in the Trilemma):

Figure 9 – The macroeconomic regimes of the 1970s and today compared.

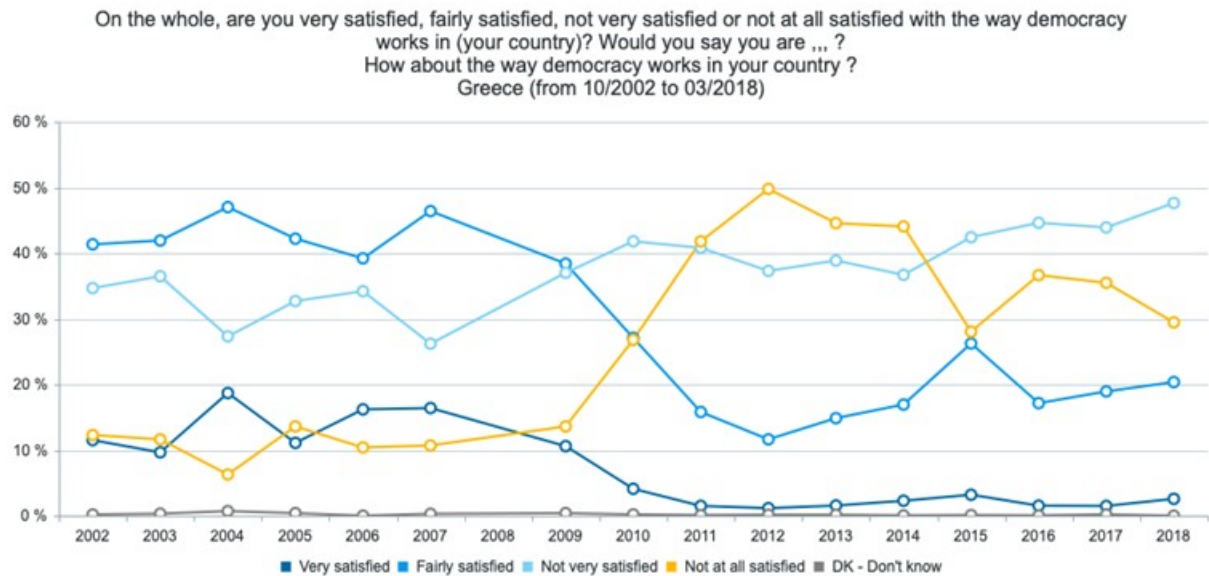
Macro-Regime I: Institutional configuration	Macro-Regime II: Institutional configuration
Policy target:	**Policy target:**
Full employment (or low unemployment)	*Price stability* (or low inflation)
Policy outcomes:	**Policy outcomes:**
Positive inflation	Secular disinflation
Labor's share of GDP at historic highs	Capital's share of GDP at historic highs
Corporate profits low or stagnant	Wages low or stagnant
Inequality low	Inequality high
Markets mostly national	Markets globalized
Trade unions strong	Trade unions weak
Finance weak and immobile	Finance strong and highly mobile
Central banks weak and politicized	Central banks strong and independent
Legislatures strong	Legislatures weak

Source: BLYTH; MATTHIJS (2017)

The transition from Macro-Regime I to II resonates with a new configuration of the Trilemma of the World Economy. Concomitantly to this process, the European integration advanced in economic and institutional matters. The integration process guaranteed that "National governments would not disappear, but their powers would be severely circumscribed by supranational rulemaking and enforcing bodies empowered (and constrained) by democratic legitimacy." (RODRIK, 2011, p. 203). The European Union would fit in the Trilemma somewhere between the “Golden Straitjacket” or a compromise similar to Bretton Woods (a multilateral agreement on monetary, tariffs and trade issues). However, Matthias Matthijs (2017, p. 277) argues that “Europe’s single market and single currency were major exercises in dis-embedding markets from their nationally ‘embedded’ policies, protections and traditions”. Therefore, the single currency pressured ‘globalisation’ or intense liberalisation. Without devaluing the currency due to the ECB’s autonomy, Greece had to compete with European goods and services through cuts in investment and social spending in order to raise competitiveness. As European leaders fortified the SGP’s surveillance during the crisis, Greece had no option but to carry on strict structural economic

reforms. The choice for austerity in Greece plummeted satisfaction with Greek democracy after Greece accepted the MoU terms, as Figure 10 reveal:

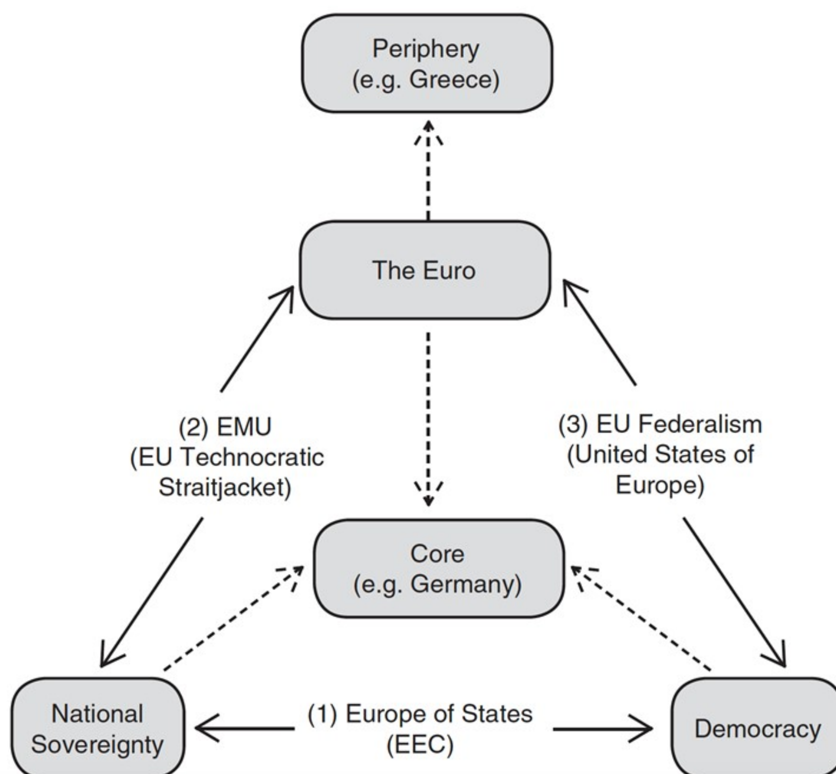
Figure 10 – Satisfaction with Greek Democracy



Source: EUROBAROMETER (2019)

The lack of alternative for structural reforms increased scepticism from member states that accepted the European bailouts and the troika. Consequently, Greece remained with only one option of the Trilemma, as it abstained from the nation-state in order to accept European institutions and had to pursue strict orthodox policies without domestic support.

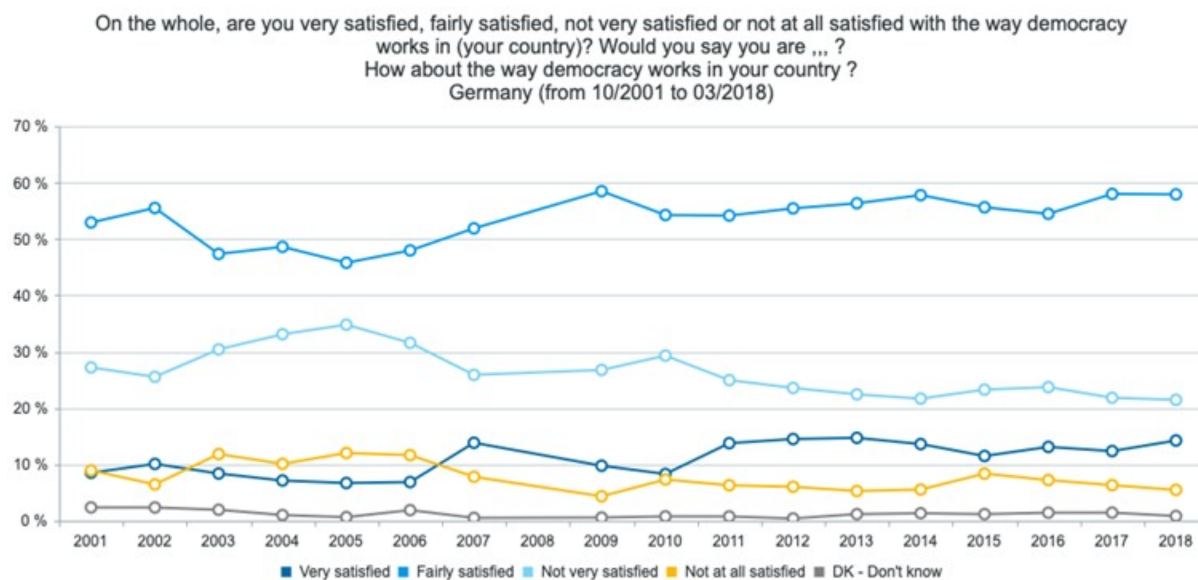
Figure 11 – Rodrik's Trilemma Applied to the Eurozone: Core vs. Periphery



Source: MATTHIJS (2017); Based on RODRIK (2011)

As European member states agreed to hand over their monetary policies in order to accept the euro, they abandoned the 'Europe of States' (EEC) model to adopt a step closer towards a United States of Europe. However, Germany voted a fiscal union and France refuses to cede further sovereignty, so the European Union stays somewhere between these two branches. Matthijs (2017, p. 279) underlines that European creditors have "shaped the rules that govern the euro based on their domestic preferences and framed with their national economic interest in mind […] kept[ing] signifiers room to manoeuvre in their economics when it came to making fiscal market choices.". Therefore, Germany could have all the options of the Trilemma while Greece had to comply with 'hyperglobalization'.

Figure 12 – Satisfaction with German democracy



Source: EUROBAROMETER (2019)

Wolfgang Streeck (2014) argued that Europe became a "consolidation state" as a response to the fiscal crisis. Consisting of a "supranational system of institutions insulated from electoral pressure", the consolidation state can "neutralise domestic policies by locking nation-states into supranational agreements and regulatory regimes that limit their sovereignty" (STREECK, 2014, p. 116). Therefore, European governance is capable of controlling democracy while unleashing market forces.

The rise of the "consolidation state" was an evidence of Polanyi's (1944) premise that although capitalism was a social construction developed by society, capitalism was capable of supplanting social relations through politics and create new forms of association when incorporated with market forces. The EMU thus represents a return to an international gold standard as diverse European countries renounced their international political economy in favor of the ECB (ELSÄSSER; STREECK, 2015; MATTHIJS, 2015).

Convergent with Susan Strange's (1988) definition of "Structural Power", the 'consolidation state' dominates its members through financial commitments similar to the gold standard obligations that kept currencies pegged to the gold. Consequently, the variance of European growth models within the euro is similar to interregional domestic conflicts that existed (and persist) between Northern and Southern Italy or West and East Germany. However, differently from the US, the euro is not a fiscal union, so the EU cannot bailout countries without financial guarantees that ensure austerity. Adjustment happens through

austerity or default. Therefore, European member states have to adjust their economies in order to harmonise different Varieties of Capitalism.

Similar to the impossibility of expansionary politics the gold standard period without leaving it, Matthijs (2014, p. 104) highlights that the ECB lacks lender-of-last-resort obligations or a common debt instrument function, so "European elites disembedded the component of the Bretton Woods compromise that gave national democratic political control over economic policy". Thereby, economic orthodoxy became politicised as the main burden of the adjustment during the eurozone crisis fell on debtor countries, and there was nothing that Southern European voters could do to avoid it. The euro "possessed all the disadvantages of the interwar gold standard, without enjoying any of the advantages" (MATTHIJS, 2015, p. 478). The main drawback of the single currency was the impossibility of devaluation. As the euro did not qualify as an optimum currency area, it needed a fiscal union to resolve the macroeconomic imbalance caused by a "balance of payment" shared by a myriad of different economies (MUNDELL, 1961).

The adoption of the euro in Europe intertwined Northern coordinate economies with the Mediterranean state economies. However, both types presented different characteristics, as the Northern model focused on export-led policies and the Mediterranean functioned through demand and high inflation.[9] The structural divergence of European economies was exposed since the adoption of the EMU, as Southern European countries grew with demand-side economic policies while Northern economies entered in recession (COPELOVITCH; FRIEDEN; WALTER, 2016, p. 8).

In the late 1990s, the German economy was stagnant. Because of the reunification, the end of the Cold War, and Eastern Europe adoption of capitalism, German industries had an ample supply of places to invest and cheap German-speaking qualified workers from Eastern Europe. The intensive European labour market interweaved with the costs of German reunification, thus permitting German firms to negotiate the high costs of union wages (DUSTMANN et al., 2014, p. 132). The coordination of the German market economy hence

---

[9] Initial studies by Hall and Soskice (2001, p. 20-21) determine that "among the large OECD nations, six can be classified as liberal market economies (The USA, Britain, Australia, Canada, New Zealand, Ireland) and another ten as coordinated market economies (Germany, Japan, Switzerland, the Netherlands, Belgium, Sweden, Norway, Denmark, Finland, and Austria) leaving six in more ambiguous positions (France, Italy, Spain, Portugal, Greece, and Turkey). […] They may constitute another type of capitalism, sometimes described as 'Mediterranean'.". Later, Molina and Rhodes (2007) defined Greece, Italy, and Spain as 'mixed market economies'. The discussion still continues, with Eastern European an own definition and France somewhere between a coordinated market economy and a mediterranean market economy.

aligned the interests of trade unions and employer associations, reducing unit labour costs and increasing productivity relative to real wages. The unique characteristics of coordinate market economies allowed that strategic interactions with supportive institutions could ensure bargaining across the economy to limit inflationary effects (HALL; SOSKICE, 2001, p. 25). Structural reforms such as wage restraint enhanced German productivity along other Northern European countries that shared similar capacities of market coordination, such as Austria and the Netherlands. As productivity in Coordinate market economies increased, Greece halted its productivity due to the euro artificial interest rates.

Divergent varieties of capitalism within the eurozone developed asymmetries that persisted in the long-run. Southern European countries expanded credit and wages. As the interest rates continued stabilised due to the common currency, inflation was not causing unemployment. Without controlling monetary policy, Southern European countries could not raise productivity through inflation and accordingly interest rates. Thereby, the asymmetry between both groups created a massive flow of capital from Northern Europeans to Southern Europeans.

The banking system of Germany, France, the Netherlands, and Belgium lent massively to Southern European countries due to its preference to finance unsustainable financial bubbles in the periphery. As previously discussed, the lack of supranational banking regulation impeded that correction of the structural imbalance that stalled productivity in Southern countries while Northern banks expanded financial activities overseas. As a result, banks could overextend their lending (HALL, 2012, p. 362). As Southern countries used credit liquidity to expand its economy while Northern ones exported products to the South, both growth models fed each other.

Before the common currency, Mediterranean European economies models grew through high inflation, thus improving competition. The introduction of the euro meant a shift in European growth models. The euro’s first decade signified not only excessive borrowing from Southern countries but also imprudent lending from Northern European banks that avoided national supervisory regulation. Northern countries exported products globally due to an artificially devalued currency caused by Southern European countries, whence boosting competitiveness in the global markets.

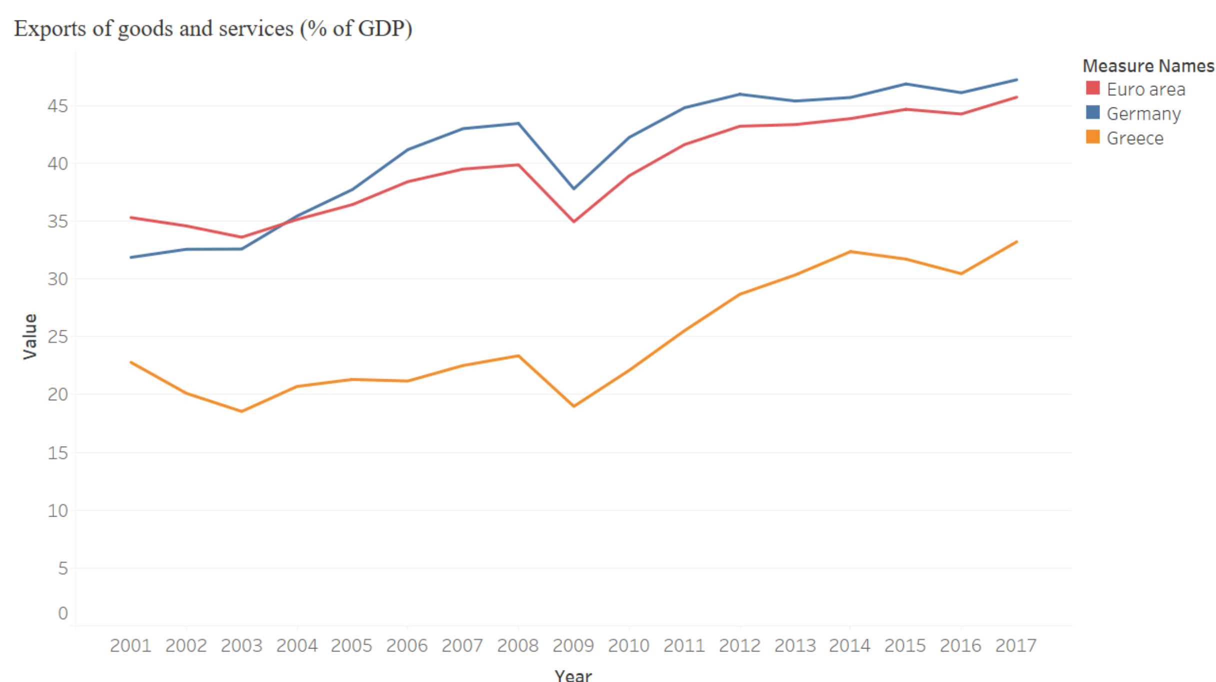
The myriad of European models of growth meant the existence of different varieties of capitalism within the Eurozone. Under the Maastricht criteria and the SGP, European leaders expected that the EMU would converge those growth models through a minimalist institutional structure that all member states could agree (HALL, 2014, p. 1225). Sharing a single market, rigid fiscal rules, and an independent central bank, European leaders expected the harmonisation of the European economies, transforming the eurozone into an efficient export-oriented bloc. The system worked for the good times, but the North Atlantic Financial crisis exposed the structural imbalances sustained by different varieties of capitalism that shared the eurozone, showing that the common currency architecture was unprepared for global financial instabilities. However, the euro was not responsible for the crisis, but the political constraints of European leaders that left the common currency frail to significant economic crashes. Supervisory instruments, such as European banking supervision or the procedural sanctions from the SGP, were refused or weakened.

After gaining the responsibility to supervise reforms carried by countries that accepted financial aid, the troika proposed conditionalities to demand-oriented economies that altered their political, social, and economic models. The structural reforms adopted by Southern European countries aimed to change those countries' growth model. They would enable the transformation of demand-based economies into an export-led growth model, resembling Northern European countries. Without the possibility of devaluating their currency or default, Southern European countries accepted the troika proposals to improve cost-competitiveness through austerity. Consequently, a rule-based economic growth model pervaded demand-led economies, determining one solution to different problems that affected the eurozone countries in crisis (JOHNSTON; REGAN, 2017, p. 11).

Like when Southern European leaders desired to adopt the MCU in order to improve fiscal discipline, Southern European leaders permitted the exposition of large Southern European sectors to international competition and downward inflation envisioning to converge Southern economies with Northerner ones. However, the successive cuts in spending and investment created another problem. The troika demanded European member states that signed the MoU to open their economies to develop the export sector, but that created long-term distributional consequences. As Southern European countries opened their economies concomitantly, they competed with each other. Consequently, prospects of growth

plummeted. The intensity of the structural reforms forced Greece to increase exports, even though values are significantly lower than German products and services, as Figure 13 displays:

Figure 13 – Export of goods and services (% of GDP)[10]



The trends of Euro area, Germany and Greece for Year. Color shows details about Euro area, Germany and Greece.

Source: Author's elaboration, World Bank national accounts data, 2018.

As Southern European countries adopted structural reforms that satisfied the German view of stable money, sound finances, and efficient local-factor markets, the ECB remained attached to its principle of assuring price stability and refused to act as lender-of-last-resort. The diversity of European growth models moulded into a model similar to the German (JONES, 2013; BLYTH 2013; RYDER 2015; SCHARPF, 2016). To secure the stability of the "Brussels-Frankfurt consensus", rules that maintained economic governance were reinforced. The rigidity of the forced structural convergence entailed the polarisation of the eurozone, conflicting "Northerner Saints" against "Southern Sinners" in the democratic sphere (MATTHIJS; MCNAMARA, 2015).

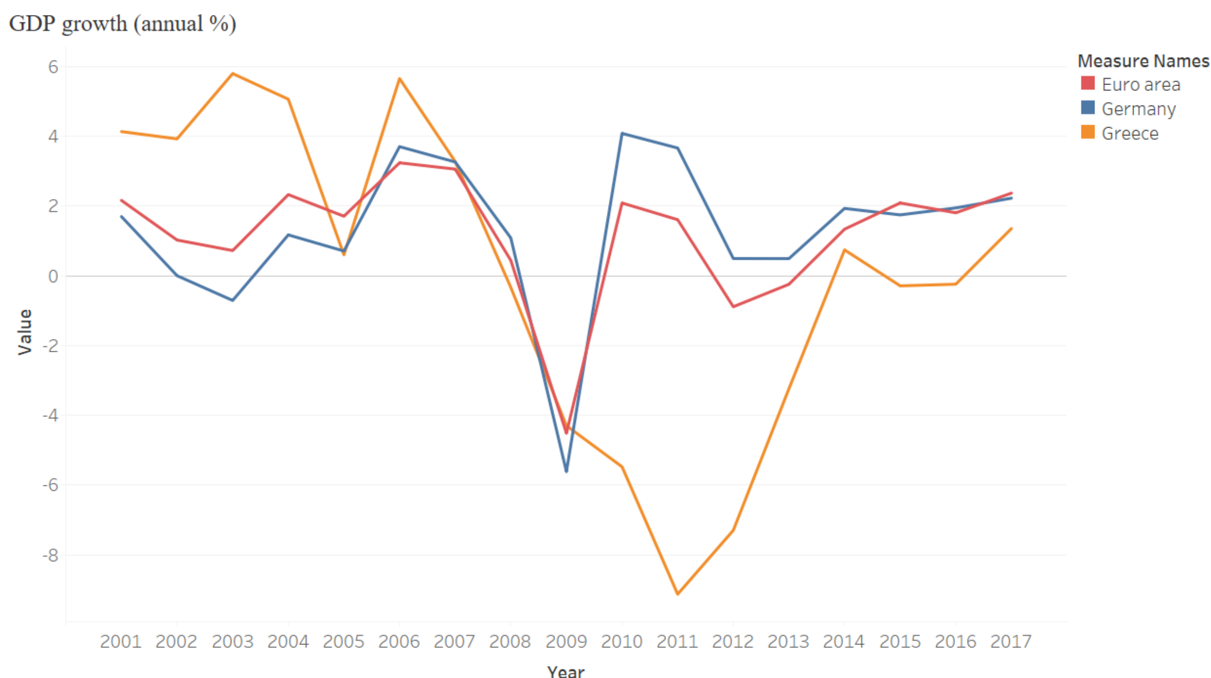
However, the agreement to bail out Southern European economies fractured the electorate trust in European institutions and Southern European mainstream politicians. The Mediterranean electorate felt that their countries had to pay for the entire economic

[10] For detailed data, see Appendix A – table 5.

adjustment while European institutions bailed out Northerner European banks (HALL, 2014, p. 1231; MATTHIJS, 2017). Hall (2013, p. 435) elucidates that the EU capacity to "distribute gains and losses across the European electorates without the institutional mechanisms that would make it accountable for doing so" denoted a European decision to punish Southern European countries in the electorate's view, thus increasing disputes between the core and the periphery of the eurozone. As tensions escalated, eurosceptic parties and critics continually raised discussions about the whole purpose of the EU due to its irresponsive reaction to the crisis, hijacking trust from the electorate and even obtaining relative success in the 2014 European elections.

The investment and spending cuts assumed by Mediterranean market economies also signified an impasse to the European Union. As austerity retained Southern Europeans access to import goods, demand plummeted, thus neutralising the altered euro exchange rates that benefit German growth model (SHARPF, 2017, p. 22). Therefore, the export-led model needs Southern European expansion to compete globally. Both models act as a complement to each other. However, as Johnston and Regan (2017, p. 7) pointed out, "the EU has privileged export-oriented growth models". Comparing GDP growth between Greece and German, the trends diverge spectacularly.

Figure 14 – GDP Growth (Annual %)[11]



The trends of Euro area, Germany and Greece for Year. Color shows details about Euro area, Germany and Greece.

Source: Author's elaboration, World Bank national accounts data, 2018.

The creation of a single European variety of capitalism that reflected Northern European preferences would thus reduce the efficiency of the German growth model. As coordinate market economies would face higher European competition in the international markets and sell less to Southern European markets, European economic surplus would diminish. Therefore, the vast German surpluses rest on mixed European varieties of capitalism in the eurozone. Similar to demand-led economies that benefited from the euro's artificial interest rates, Northern export-oriented countries thrived in Europe due to an artificial devaluated single currency. So, the development of the euro economic area through demand-led models of growth permitted enhanced exports competition from Northern European countries in global markets. The binary view of efficient and laggard models in the Eurozone ignores that fact that European countries depended on each other more than their willingness to reform the eurozone. Thus, Greece demand-led economy intertwines with Germany's high surpluses.

The expectation of the European Union that all European countries would converge into a single growth model that would bring prosperity to the whole continent is an illusion. Peter Hall and David Soskice (2001, p. 13) advance that Varieties of Capitalism relies on "the

---

[11] For detailed data, see Appendix A – table 6.

importance of informal rules and understandings to securing the equilibria in the many strategic interactions of the political economy". Moreover, Peter Hall (2014, p. 1229) asserts that convergence is unachievable, as demand-led countries lack the institutional structures to converge their economies with Northern European growth models.

Forcing structural convergence through harmonisation of different European VoC means destabilisation to Southern European countries and escalated political conflicts to determine the share of the economic adjustment cost. By considering that Mediterranean market economies are a market anomaly because of the lack of economic reforms after adopting the euro, so is Germany and other European export-oriented countries. The North Atlantic Financial froze repo capital inflows, causing multiple credit crunches in Southern Europe. However, Germany and other European leaders that bailed out those countries decided to correct the eurozone macroeconomic imbalances instead of financially stabilising Greece and other Southern European countries. Without the ECB to soft the crash, these countries had to make an adjustment that was electorally undefendable, therefore transforming an economic crisis into a political disaster.

The German growth model cannot be provided without Southern European countries keeping the euro devaluated. If Mediterranean market economies must find a ‘sustainable’ model of growth, so does Germany. For that reason, the asymmetries within the bloc should be addressed by independent supranational institutions, capable of developing politics to improve the common currency’s architecture. Thus, the euro should function as an engine that serves no one’s interests.

During the first years of the EMU, Germany and France had already cooperated pragmatically to improve supranational economic governance that suited their interests. In 2003, both countries broke the obligations delimited by the SGP because of an economic recession. Without complying with the rule of 3 per cent GDP deficit, Germany and France reformed the rigid deficit procedure, strengthening the European Council -where those countries have stronger influence-to rule out the sanctions derived from the EDP (MATTHIJS, 2015, p. 7). Germany’s behaviour during the SGP breach contradicts its role in the eurozone crisis, enforcing the GIIPS to comply with the SGP strengthened rules. However, Germany did not shift suddenly from a maverick in 2005 to a rule-enforcer during the eurozone crisis. Reluctant to assume economic sanctions from the European Commission during a sturdy

economic recession, Germany and France appealed to institutional reforms to weaken the European Commission and nullify the SGP penalties in 2005. Schröder and Chirac responded pragmatically to sanctions that seemed to worsen the economic situation of their countries, which could strengthen a nascent eurosceptic complaint, at the time still restrained to parties in opposition that targeted the EU opportunistically. Notwithstanding German commitment to the rules, Schröder and Chirac revoked "EU bodies and small member states that were the strongest advocates of rule-based rather than discretionary economic governance at the EU level." (JABKO, 2015, p. 74). Nevertheless, Germany accidentally created incentives to European countries breach the SGP and still not bear the sanctions.

After that, Berlin's decision to fortify the SGP restrictions during the eurozone crisis was a mechanism to ensure the stability of the euro after the frailty of the SGP after the 2005 reform. Rather than bending the rules to its convenience, Germany protected itself supporting further institutional change and appeasing the domestic opposition from the CDU. In German policy-makers' view, the pragmatic solution to fix ineffective rules was to reinforce them, so Germany remained a stern defender of the SGP and the ECB focus on price stability, not interfering with the bank's autonomy.

Compared with the structural dynamics of the eurozone crisis, the breach of the SGP was a simple issue. As the German growth model made the country's manufacturing sector competitive due to low inflation and wage restraint in the medium-term, artificial interest rates continued influencing the decline of productivity in Mixed Market Economies. Although Northern European countries and the ECB shared responsibility for the crisis, Northerner voters' hostility to bailouts and the ECB's independence from European economies impeded effective countermeasures to reform the eurozone adequately.

The structural asymmetries that concerned creditors did not result in the crisis, whereas the solutions adopted by the troika focused on those imbalances. Sharpf (2016, p. 19) reiterates the argument affirming that European economies within the Eurozone were vulnerable to financial disturbances before the crisis. European leaders pragmatic approach to diminish problems domestically and avoid contagion in the EU was to standardise anomalies generated by the performance of Europe's monetary union through orthodoxy (JONES, 2013, p. 146). Under the idea of "moral hazard" that pervaded the economic debate, fiscal austerity hindered medium-term growth of Mediterranean market economies.

To ensure that Mediterranean countries would comply with the troika, the EU supported technocratic governments such as Papademos in Greece. In order to achieve the terms of the MoU, European leaders of the core enshrined the role of experts in the eurozone crisis as the best outcome possible to improve the economic situation in MME.

However, Southern voters perceived technocrats as impositions made by Northerner Europeans and the troika. As specified by Braun and Hüpner (2017, p. 17), technocrats pursue their own goals under the image of “benevolent problem solvers”. Furthermore, the idea that it is imperative to bypass excessive deficits and debts as a moral question is treacherous since this very thought is political (JONES, 2013, p. 163). The capture of the state by a rule-based regime creates a system in which elected parties no say in economic decisions, protecting rigid financial and legal rules immune to popular acceptance (MÜLLER, 2012). As Greeks perceived the EU’s “complexity of the co-decision procedure” functioning distant from national politics, the image of technocrats 'is not associated' with neutral actors but as European bureaucrats indifferent to political accountability (HALL, 2013, p. 434).

The Greek stance toward the troika cratered the prevailing view in the Euro’s core purpose, which was to substitute the European financial dependence on the German exchange rate for a common currency nonaligned with the Bundesbank's interests. Before the euro, monetary turbulences in European countries depended ultimately on the Bundesbank's reaction and Germany. Italy and France relied on Germany to circumvent leaving the EMS, but Italy eventually forsook the system, and France received German support to maintain the EMS. Europeans acknowledged that the Deutsche Mark was prominent in Europe. Thereby, a European central bank was an optimum outcome as it could redistribute gains and losses without prioritising German concerns.

In order to ensure that the European central bank was immune to political pressure, European leaders supported the creation of a rules-based regime that would fundamentally ensure the stability of the euro. Nevertheless, "rules had been reinforced on paper [to reform the SGP in 2005]", the EMU did not move towards fiscal union and Germans forbidden the possibility of Eurobonds, paralysing the European institutional framework (JABKO, 2015, p. 75). Consequently, Germany and the ECB assumed the critical roles in the eurozone crisis as other European institutions lacked governing resources of capacity to supervise and coordinate macroeconomic competencies.

The structural asymmetries within the eurozone continued widening the gap between opposite European growth models, thereby pressurising the ECB to stall the eurozone crisis. Distanced from both models, the ECB stayed neutral, but Trichet's decision to raise taxes in 2011 indirectly benefited Northerner European countries imports while punished Mediterranean economies to the point that menaced the stability of the eurozone's periphery through TARGET2 transactions. While massives amounts of euros flowed from risky European economies towards, Germany proved to be the safest place because the country hosted the most significant amount of that capital in the eurozone during that period. As the ECB decided temporarily to emphasise its independence rather than protect fragile member states, Germany shifted its stance in Europe towards the position of a "reluctant hegemon" to ensure the Euro's stability (BULMER; PATERSON, 2017 p. 213).

After a brief period of permissive Keynesianism in 2008-2009, Berlin highlighted the importance of collective discipline and economic reforms in Europe. According to Woll and Schmidt (2013, p. 133), "the fact that most of the Eurozone governments were conservative between 2010 and 2012, and that the Northern Europeans backed Germany, meant that [leaders influenced by] these ideas have enshrined the criteria set". The state, responsible for acting as an authority and advocating domestic questions in the international realm, is compelled by European institutions whose visions are compatible with Germany's stance to austerity. Entrenched in a national coalition that constrained further Keynesianism in Europe, Germany refrained from its initial position and urged that European countries should solve its internal problems.

The German stance on the eurozone crisis gradually changed to ensure that member states remain in the eurozone and preserve the euro. Although the European Central Bank refused mutual financing of sovereign debt, Trichet purchased debt bonds temporarily to protect the Euro when the EFSF was not ready. The proposal of financial aid to member states received a swift rebuke from German hawkish economists and politicians, who invoked the GCC to condemn the EU, hence constrain European action. As the court amplified the parliament's power after each decision, Merkel parsimoniously meddled in European financial affairs while maintaining stable its national coalition with the Liberal party (BULMER; PATERSON, 2017, p. 217).

As the German chancellor stepped into the crisis, the consequences of inaction have emerged. The effect of ideas in the Eurozone crisis had pernicious effects in populist movements, catalysing the rise of their popularity. As clarified by Kriesi (2017, p. 16), economic dissatisfaction in Southern Europe increased support for democratic principles that not necessarily embraced liberal democracy. Moreover, as noted by Erik Jones (2013, p. 149), the idea of fiscal responsibility was socially embedded in different national contexts. Therefore, the appeal for populists such as SYRIZA stems from how the EU currently works, so democracy deficit caused increasing demands for social democracy (KRIESI, 2017, p. 20). The political consequences of austerity, such as the Greek referendum, exposed populist democracy as an answer to undemocratic liberalism (MUDDE; KALTWASSER, 2017, p. 117). Meanwhile, in Northern Europe, disagreement with financial solutions to Southern Europe caused a political uprising against mainstream parties, thus raising support for far-right parties that showed discontentment against the EU's complacency to Mediterranean economies.

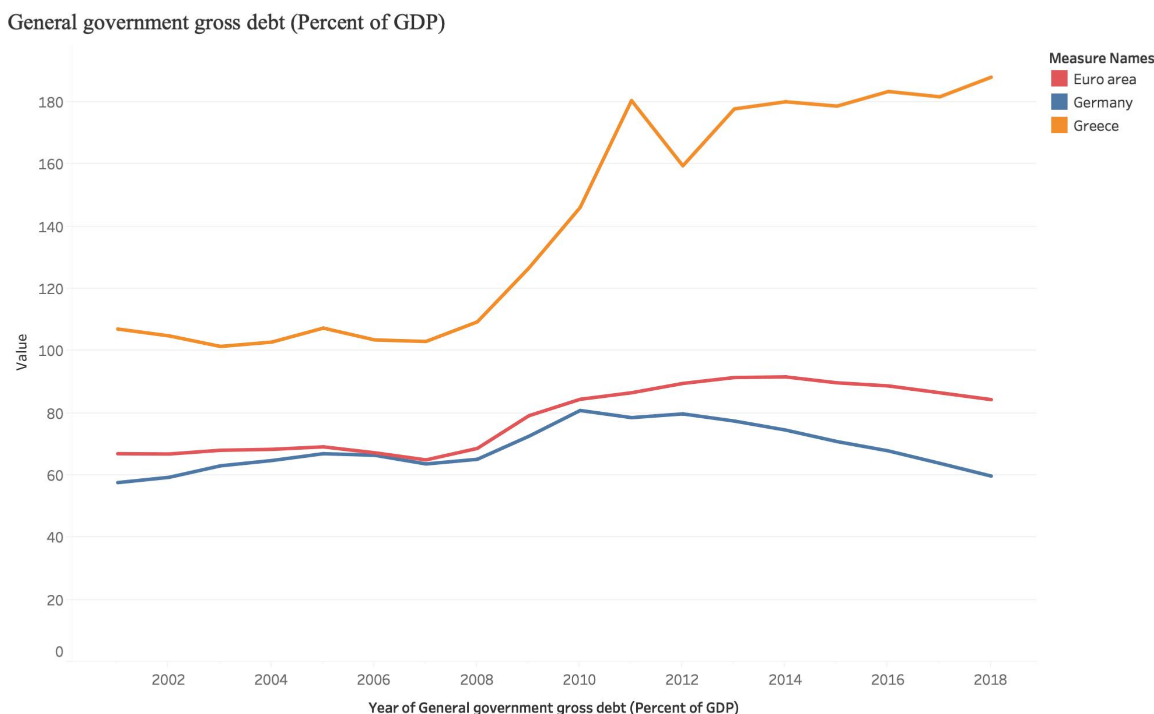
Peter Hall (2017, p. 19) clarified that the EU faced a dilemma between legitimacy with popular aspirations or governments that adopt technocratic economic policies. However, as asserted by Jan Werner-Müller (2016, p. 65), technocracy and populism "mirror each other" because both are apolitical and "legitimises the belief that there is no real room for disagreement". Any option of policymaking would feed populist movements in Northern or Southern Europe, depending on who would receive the negatives or positives outcomes within the EU. The transformations of economic ideas into populist forces are thus anomalies strengthened by economic morality and polarisation between individual member states within the Eurozone (MATTHIJS; MCNAMARA, 2015).

Merkel's advancement in the eurozone crisis underwent intense resistance inside her own country. Alongside the troika, Germany supported the Fiscal Pact in 2011, framing out the crisis solely as a problem of Southern European profligacy and low productivity. The economic policies proposed resembled an ordoliberal view, reinforcing national budget rules and disciplining members that violated the limited tax of debt and deficit with EDP sanctions stemmed from the SGP (MATTHIJS, 2015, p. 8). Notwithstanding the rising of extremist and anti-system parties in the European political mainstream, economic ideas that were accepted

and entrenched into the national sphere before the crisis morphed into movements that threatened the project of European Monetary Integration.

Therefore, the economic orthodoxy advocated by Germany to adjust the eurozone heavily resonate with ordoliberal concepts. In that case, Germans and Greeks represent the extreme of divergent models. Greece was the opposite of Germany in terms of stable money, sound finances, and efficient local-factor markets. German Ordoliberalism values moral hazard, asserting that crisis is easily avoidable because they happen due to financial profligacy. Ordoliberalism stress on economic rules caused different reactions among European countries that either accepted (Portugal) or rebelled (Greece). However, the preconceptions of virtue and vice within the crisis reestablish a mercantilist view that praised coordinate market economies due to its consecutive surpluses. Ignoring its dependency on demand-led economies, Northern European countries' insistence on austerity as a solution to the crisis increased the ratio of debt-to-GDP in Southern Europe. Consequently, worsening the crisis in the short-term and transforming the problem into a real high-sovereign debt crisis, as figure 15 displays.

Figure 15 – General government gross debt (Percent of GDP)[12]



The trends of Euro area, Germany and Greece for General government gross debt (Percent of GDP) Year. Color shows details about Euro area, Germany and Greece. Details are shown for Euro area, Germany and Greece.

Source: Author's elaboration, based on data from the IMF Database, 2018

3.2 The uneven nature of German liberalism: The Freiburg School, Ur-ordoliberalism, the Geneva School, Alt-ordoliberalism or what?

The division between the European core and its periphery within the eurozone renewed the image of different blocs within the EU. European leaders created the euro as a political catalyser to further political unity, but it created distributive conflicts. The clash of "Southern Sinners" and "Northern Saints" was a powerful signal of the disputes happening inside the Eurozone (MATTHIJS; MCNAMARA, 2015, p. 230). Divergent ideas that existed within the bloc escalated through the crisis and intermingled with stereotypes emphasised by the media, which perpetrated the image of "lazy Greeks" contrasted with "hard-working Germans" (STERNBERG; GARTZOU-KATSOUYANNI; NICOLAÏDIS, 2018, p. 25). Germany's position in the crisis mirrored the interests of Northern European countries, while the reactions of the countries severely affected by the crisis – represented by Greece, Spain,

[12] For detailed data, see Appendix A – table 7

Portugal, Italy and Ireland, or the GIIPS – were attributed to the profligacy of Southern Europe.[13]

After the GIIPS signed the MoU to halt the economic instability in Europe, the eurozone passed through a paradoxical situation. While the GIIPS had to approve an austerity program, creditor countries had to convince their electorate that the EU would not become a transfer union. If debtor countries refrained from austerity, populist parties in creditor countries would gain strength. On the other hand, severe pressure for orthodoxy could fortify left-wing movements in debtor countries. The deadlock kept both blocs dissatisfied, as each side demanded further concessions from the other.

The polarisation between creditors and debtors was constructed based on moral hazard. Germany's insistence on austerity derives from its vision concerning the roots of the crisis, caused by European states' profligacy. European countries should be responsible for their own domestic political and economic problems, assuring that individual action would impede financial contagion in the eurozone. Invoking the cultural archetype of the Swabian hausfrau (Swabian housewife) in 2008, Merkel emphasised the frugality of Southern Bavarians as a model to be followed by banks and countries to deal with money (THE ECONOMIST, 2014).

German preference towards austerity was inspired by Northern European countries' wariness that sovereign bonds purchases by the ECB or debt restructure would stimulate countries to keep spending and maintaining high levels of debt. Moreover, quantitative easing could generate inflation within the eurozone and affect export-led economies, so creditors continued demanding conservative economic measures. As the eurozone crisis unfolded in 2012 and menaced the stability of the euro, Germany abandoned its conservative position towards Europe and embraced the role of a "reluctant hegemon" in the eurozone. Likewise, Merkel's policy shift informally supported the enhancement of the ECB's functions, which obtained supervisory powers to coordinate the banking union and start a program of sovereign debt purchase of MME countries.

Analysts yet discuss the reasons for that induced Merkel to change its stance towards Europe. While some argue that she was unwillingly to disrupt Kohl's legacy of a united

[13] France is geographically a Southern European Country. However, the French model of capitalism mingles unique features of CME and MME. Furthermore, France sided with Germany during the Eurozone crisis. As Vivien Schmidt (2015, p. 107) puts, the "relationship between Germany and France went from one of bilateral leadership to a bilateral directoire between 2009-2012 [...] dominated by Germany."

Europe (MODY, 2018; TOOZE 2018), others claim that she was dominating European states in a neoliberal cage (STREECK, 2013). This dissertation follows Mark Blyth (2013) explanation that ideas represented an essential aspect of the eurozone crisis, as Germany prescribed an orthodox “one-size-fits-all” model that caused a schism between different growth models in the eurozone. Furthermore, it will argue that domestic and external constraints played a role in European crisis-management, impeding improper decisions and securing the stability of the euro, but was not enough to suppress far-right and far-left movements.

As the eurozone crisis worsened, the impasse between export-led countries and MME undermined the chance of a satisfying consent for both. Without settling an intergovernmental agreement, Merkel decided to support Mario Draghi's policies in order to guarantee the stability of the euro. Likewise, Merkel was determined to shatter a political consensus that kept its national coalition at the fray.

Ideas from the Freiburg School still influence German decision making. German economics overlaps the centre-left and the centre-right. According to Wolfgang Münchau (2014), "the only party with some Keynesian leanings are the former communists". Besides, Farrell and Quiggin (2018, p. 275) elucidated that “economists play an unusually prominent and independent role in German policy debates - public statements by the Council of Economic Experts receive extensive coverage”. Ordoliberalism success in the postwar period remained attached so strongly to German economic framework that Münchau (2014) concludes by affirming that "Today, the government is ordoliberal. The opposition is ordoliberal. The university teaches ordoliberal economics. In the meantime, macroeconomics in Germany and elsewhere are tantamount to parallel universes". Even though left-oriented parties such as the SPD were inclined to contribute with fiscal stimulus to Greece, they were irreducible to maintain strict rules for austerity. Dullien and Guérot (2012, p. 2) underline that orthodox economics gained ground in Germany due to the lack of influential Keynesian economists. As ministries and the Bundesbank hires chiefly from German universities, heterogeneity diminishes, thus retaining “a consensus around basic principles that is predominant among the German economic elite” (DULLIEN, GHÉROT, 2012, p. 3).

One of the five members of the Council of Economic Experts, Peter Bofinger, even exclaimed that "No matter the topic, it is four to one against me [...] I am the last Keynesian

—and I feel like the last Mohican." (BOFINGER apud THE ECONOMIST, 2015). Bofinger calls attention to the fact that the Council considers increasing deficits and debt a mistaken option, oppose the ECB quantitative easing and ensure that austerity is the solution to the eurozone crisis. German economic policymakers were a sceptic of the Keynesianism consensus that emerged in 2008-2010, insisting on individual risk sharing and dismissing European initiatives. After resigning from their positions at the Bundesbank and the ECB board, Axel Weber and Jürgen Stark declared their scepticism of heterodox policies in Europe and joined the mainstream view of ordoliberal economists that alleviating countries in crisis would spur moral hazard (SINN, 2014). The domestic political hesitation notwithstanding, American and European commitment to end the crisis persuaded Merkel to liberate an EU-wide stimulus package in 2008 (NEWMAN, 2010; FARRELL; QUIGGIN, 2018, p. 276).

The German economic community interpreted the crisis as a consequence of flawed economic rules (BLYTH, 2013, p. 57). Therefore, ordoliberal ideas pervaded German preference toward fiscal conservatism, emphasising moral hazard. Reiterating that each European country should sort itself out of the crisis, German economists kept their anti-inflation consensus to oppose heterodox fiscal policy (FARRELL; QUIGGIN, 2018, p. 275). Through the political spectrum, not only the fiscal conservative FDP (Liberal Democratic party) but also the grand coalition formed by the conservative CDU (Christian Democratic Union) and the centre-left SPD (Social Democratic Party) were committed to anti-inflationary policies.

Few economists yet manifest themselves as ordoliberals (BRUNNERMEIER; JAMES; LANDAU, 2016, p. 63). However, ordoliberal ideas resonate in contemporary German politics. Since the German miracle (*wirtschaftswunder*), fiscal conservative newspapers such as the *Frankfurter Allgemeine Zeitung* (FAZ) and the *Süddeutscher Zeitung* kept an ordoliberal leaning in editorials. Moreover, Bundesbank presidents habitually refer to ordoliberal authors or books to highlight *Ordnungspolitik* in European crisis-management (BUNDESBANK, 2005; BUNDESBANK, 2013).

Ordoliberalism central premise is to safeguard price stability. Even though ordoliberals did not regard European governance as a significant issue in their writings, their ideas are present in the eurozone crisis because of their compromise with policy questions that highlight moral hazard. It was created as an engine to hasten a political objective – namely,

development and fair competition. The similarities to other schools of liberalism notwithstanding, ordoliberalism strongly emphasises regulation of cartels and monopolies. It also differs from Anglo-Saxon liberalism as it permits that "governments should regulate markets in such a way that market outcome approximates the theoretical outcome in a perfectly competitive market" (DULLIEN; GUÉROT, 2012, p. 3).

In order to ensure a regulated market that works similarly as a theoretical competitive model, ordoliberalism stresses the importance of a rule-based set of policies. Therefore, Merkel's rigour with rules indicated compromise with ordoliberal principles. During the eurozone crisis, German leaders like Jens Weidmann, the Bundesbank president, and Wolfgang Schäuble, the finance minister, invoked ordoliberalism as a rule of norms capable of fastening an abstract ideal of the European economy. Nevertheless, ordoliberalism pledges in law to pursue current account surpluses without considering other countries deficits. Thereby, when considering the eurozone heterogeneity, an economic idea compatible with the German context is inconsistent with the myriad of European varieties of capitalism that coexist in the EU.

Developed by German scholars from the University of Freiburg during the second half of the 1930s, Ordoliberalism was as a response to the deficiencies of the Nazi German economy. Hjalmar Schacht, the finance minister of Nazi Germany, induced growth through expansionary economic policies that were strangling the German economy in the long-term (TOOZE, 2006). When Germany commenced World War II, scholars from Freiburg decided to circumvent the risk of censorship by planning an economic idea that would ensure economic stability in the postwar period.

Led by Walter Eucken and Franz Böhm, German scholars in Freiburg discussed economic ideas envisioning to eventually shape the future of the German economy after the war. Based at Freiburg University, they released a series of articles in a magazine called ORDO (derivate from the Latin "Order") to diffuse their ideas. Soon, the Freiburg School designed a set of ideas to refute the planned economic activity of Nazi Germany. Moreover, they were wary of the extreme economic rigidity imposed by the Weimar Republic to appease markets.

German economists were distant from Anglo-Saxon liberalism because of the German hyperinflation of 1923, caused by World War I' indemnities interwoven with an undervalued

Deutschmark. Also, the German government adopted by decree harsh austerity measures after capital flow from the United States halted because of the Great Depression. The instability of the German economy in the interwar period thus served as a cautionary tale against the gold standard and unfettered markets.

Attentive to the defects of the absolute control of the state during Schacht's term as finance minister and the instability of the Weimar Republic during the Great Depression, the Freiburg School focused on price stability as the leading indicator of the economy. The genocidal disaster provoked by Schacht's planned economy became an antithesis of the Freiburg School's thought, but criticism to the former finance minister did not exclude the state's role in the economy. In their view, the Nazi economy corrupted the state's role in the economy. Thereby, German inclination towards liberalism stressed that governments should improve markets in the economy, interfering only when market failures appeared in order to secure market equilibrium.

The series of essays published in the "ORDO" magazine aimed to conciliate the actions of markets and state harmoniously through strict antitrust standards. As the magazine gained an audience, it drew scholars and policymakers to the Freiburg school. Contrasting with liberal economists concerning the state's role in markets, members sympathetic to the Freiburg thought became known as "ordoliberals" due to the magazine.

Members of the Freiburg school wanted to coordinate the relations between law and economics to adjust the role of the state in the economy. Walter Eucken advocated six constitutive principles that ruled ordoliberalism, denoted as the functioning of the price system, the primacy of currency policy, open markets, private property, freedom of contract, liability, and the constancy of economic policy (EUCKEN, 1952). In their view, the rule of norms was capable of adapting the state to supervise the existence of market anomalies to ensure perfect competition. Ordoliberals strived for the ordering of the institutional framework (*Ordnungspolitik*), improving the state's supervisory role to systematise an ideal social order of capitalism that allowed a harmonious relationship between the state and the economy (PTAK, 2009, p. 101).

The Freiburg school developed ordoliberal ideas to safeguard price stability and mend market failures, but fundamental anxieties continued influencing the school. Eucken analysed the state as too apart from society to function with legitimacy, so he envisioned the economic

order as a theoretical underpinning to maintain the German state laced with society. Eucken understood that social forces, interest groups, and mass movements were in constant stress to control the state, intending to influence it towards their political projects. Consequently, Eucken (1932, p. 316) affirms that the state must free itself from the power of the masses and the economy to circumvent individual interests, securing the freedom of the markets. Instead of arguing in economic terms, Eucken preferred to analyse the economy using tools from "world history, international politics, the state, and society" (BIEBRICHER; VOGELMANN, 2017, p. 42). Those views on liberty relate with Friedrich von Hayek's, who "wanted to limit democracy in order to end government intervention in the economy." (IRVING, 2017, p. 7).

Walter Eucken (1932, p. 306) feared the intensity of democratic participation in government because it could alter the liberal state into a redistributive, social-democratic state. As Eucken worried about the historical and political context, he imagined that democratic pressures would increase, surging further redistribution. For that reason, the Freiburg economist thought that the "end of the European political order" and the breach of the "international equilibrium on the democratisation of the world" undeniably rifted the global economic order. Eucken considered the emergence of democracy as a fissure in economics, shackling economics with democracy. Nevertheless, other ordoliberals such as Wilhelm Röpke, Alexander Rüstow, and Alfred Müller-Armack wrote intensely about the issue, shaping the nascent ordoliberal thinking (PTAK, 2009, p. 109).

Unbeknownst to one another, they reflected on the transformation of liberal ideas in the German culture as a reaction to economic structures that entrenched Germany between the Anglo-Saxon gold standard and the Nazism's planned economy (JAMES, 2017, p. 27). The turbulence of post-war Germany gave further prominence to ordoliberal ideas among elites in economics, politics, and academia (PTAK, 2009, p. 120). The Freiburg school entered the economic mainstream as members from universities engaged with the public debate during post-war planning. Moreover, politicians like Franz Böhm and Ludwig Erhard gave prominence to the idea.

As ordoliberalism gained adepts within the German government after World War II, the miscellany of Freiburg school's epistemic reflections engendered specificities in the ordoliberal though. Therefore, ordoliberalism interweaved theoretical science, dogma, and practical economic policymaking. Furthermore, Eucken's theoretical work was not the sole

basis for the development of ordoliberal thought; other theorists who emphasised their primary objective as the establishment of a socially embedded and rule-centered order convened an inclination towards a cultural turn that emphasised the role of the state. As argued by Brigitte Young (2017, p. 32), many independent intellectuals who developed their branches of ordoliberalism not necessarily developed strong ties with Freiburg.

There was no such thing as a single ordoliberal school. Ideas from Freiburg School's members changed significantly after the Second World War. The ordoliberal classical view portrayed by Eucken is thus a facet of a conjunct of different 'ordoliberalisms'. Thus, theorists such as Alexander Rüstow, Alfred Müller-Armack, Wolfgang Röpcke, and Franz Böhm deepened different inclinations of the Freiburg School. That group represents a contrast between the classical view of *Ordnungspolitik* with the cultural turn that reflected the social and cultural transformations of German society.

Franz Böhm was one of the founders of the CDU. Even though Erhard became the finance minister that liberalised the German economy, Böhm worked as an expert on the Scientific Advisory Council of the Ministry of Economics. Thereby, he elaborated the restrictions on monopolies and cartels throughout the elaboration of the 'Restriction of Competition Act' (*Gesetz gegen Wettbewerbsbeschränkungen*) in 1957 (BIEBRICHER; VOGELMANN, 2017, p. 109). According to the CDU politician's view, monopolies were a manifestation of concentrated economic power that twisted the price system, threatening the stability of the currency in its normative and practical designs (BÖHM, 1947, p. 498). Like Erhard, Böhm became known as an economic policymaker that praised a rules-based system that ensured fair competition and the stability of prices.

Young (2017) stated that ordoliberalism's purposes differ according to different members that socialised with the Freiburg School without belonging to it. Likewise, their contexts influenced their methods, practices, and research. Alfred Müller-Armack, Wilhelm Röpke, and Alexander Rüstow imbued economic liberalism from a sociological view that outlined German moral standards.

Alfred Müller-Armack joined the Nazi Party in 1933, believing that the planned economy was capable of sustaining the German economy better than the Weimar Republic did. Interested in the history of capitalism, he juxtaposed it with Marxism, and later with religious sociology, to develop the theory that voluntarism would suppress the crisis of

capitalism (PTAK, 2009, p. 116). During his time as a professor of economics at the University of Münster, Müller-Armack researched the "Third Reich iteration of European integration to seek economic solutions for the Nazi Empire in Eastern Europe" (SLOBODIAN, 2018, p. 189). Nevertheless, Müller-Armack's connection with Erhard during the war pushed him from the position of professor at the University of Köln to leader of the policy department in Erhard's Economics Ministry in 1952. His active role in the German administration and his ability to conciliate with others conceived the term 'social market economy' (SLOBODIAN, 2018, p. 190). During that time, Müller-Armack abandoned his strong fascination for Italian fascism, becoming a faithful supporter of (Protestant) Christianity alongside his "search for a philosophical foundation and additional legitimacy in social theory for the economic orientation of ordoliberalism" (PTAK, 2009, p. 116). The influence of Christian moral standards leaned ordoliberalism towards the belief of moral hazard, as Christian values enabled individuals to resist the temptation of planning. Thus, Alfred Müller-Armack weaved ordoliberal thought with the Christian inclination of economic morality.

Oppositely to Müller-Armack, Alexander Rüstow was in exile during the Nazi Germany period. Living in Istanbul, Rüstow returned to Germany, becoming a professor of social sciences at Heidelberg. Before Nazi Germany, Rüstow worked as a researcher at an industry devoted to pushing against cartels and antitrust measures called VDMA (*Verein deutscher Maschinenbauanstalten*). During his time at VDMA, Rüstow had contact with "political circles close to Van Papen and others who formed one of the last democratically elected governments in Weimar Germany" (BIEBRICHER; VOGELMANN, 2017, p. 138). Rüstow contact with lobbying infused him with suspicion about the role of unfettered markets in the German economy. As a matter of fact, he defended a robust state that surpassed political parties and the economy (RÜSTOW, 1963, p. 258). Rüstow's severe criticism of liberalism deviates from his complex ambivalence towards the state. He supported welfare assistance to inject workers in the labour market through enhanced qualification or education, emphasizing solidarity between workers and industries, similar to wage negotiation of CME. Moreover, Rüstow's faith in an organic society contrasts with his wariness with urban life, as he put it as an adverse social effect that separated humans from connection with the rural land, raising accusations from Ludwig von Mises that he "romanticised rural life." (SLOBODIAN, 2018,

p. 85). Converging with Müller-Armack and Wilhelm Röpke, he had a genuine interest in religion, interpreting the 'crisis of capitalism' that appalled ordoliberals as "an encompassing cultural crisis that engulfs modern man not only as an economic actor [...] but as a being whose holistically understood organic situation is deficient." (BIEBRICHER; VOGELMANN, 2017, p. 141).

Rüstow concerns over the conditions of workers combined economic, societal, and cultural issues. He designed the idea of organic policies (*Vitalpolitik*) to improve the living standards of workers in order to restore attachment to the German community (RÜSTOW, 1951, p. 457). Rüstow focused on welfare inclusion in order to raise satisfaction, improving economics as conflict diminishes. Therefore, he "championed the idea of Vitalpolitik as a state instrument to create ethical conditions of self-reliance in society, thus countering the ethics of state dependency that he associated with socialism" (IRVING, 2017, p.8). His view of an organic society incorporated a nostalgic idea of German nostalgia, labour relations, and economics. Nevertheless, his deep contempt for Anglo-Saxon liberalism engendered his support for Carl Schmitt's theory of a semi-authoritarian state (*Obrigkeitstaat*) as a solution to the risks of democracy (KELLY, 2016, p. 236). Rüstow was extremely critic of liberalism and pluralist democracy due to his view that a "weak state was the result of welfare state interventionism legitimated by parliamentarian democracy", therefore "at the mercy of the interest groups of the plural society" (PTAK, 2009, p. 116).

Rüstow and Wilhelm Röpke envisioned to "translate the metaphysic of Ordo into a concrete political program [...] complementing the normative framework of the ordoliberal economy with an analysis of the transition from the present to the ideal future" (PTAK, 2009, p. 105). Moreover, Müller-Armack’s attention to the Christian tradition converges with Wilhelm Röpke's conservative critique of culture. Rüstow, Müller-Armack, and Röpke shaped ordoliberalism into a sociological perspective that became "an undercurrent of ordoliberalism, namely, sociological liberalism, which is distinct from the Freiburg School narrowly speaking with its focus on political economy and law", labelled as the cultural turn of ordoliberalism (BIEBRICHER; VOGELMANN, 2017, p. 139). They mainly underlined the "importance of sociopolitical integration, which was intended to mitigate the centrifugal forces of a market-oriented organisation of society, by offering all and sundry alternatives to the proposals of

social liberals and socialists" (PTAK, 2009, p. 107). They were fundamentally "against Marxism [...], but also against the Keynesian economic theory" (PTAK, 2009, p. 112).

Röpke was a German economist who fled Germany because of his opposition to Hitler's government in 1933. After a period as professor of economics at the University of Istanbul, Röpke settled in Geneva. The economist was consonant with Eucken that "economic nationalism was [...] a rational attempt by the diverse groups within a nation to use their political influence to secure the maximum economic advantages from the state." (SLOBODIAN, 2018, p. 115). Likewise, Röpke's mistrust of democracy highlighted the support for authoritarian forms of government to "counteract the degeneration of economic policy produced by mass democracy". (SLOBODIAN, 2018, p. 116). He condoned the fact that a 'democratic dictatorship' was necessary to evade the perils of the masses, calling for a plebiscitary model similar to the one defended by Carl Schmitt (RÖPKE, 1942, p. 256). Röpke defended that markets could reduce humans to an 'unnatural being', so states should draw a firm economic framework that controlled markets. His perception of the crisis of modern capitalist society approached him with sociological stances of economics, embuing his thoughts in 'religious-conservatism' (RÖPKE, 1948, p. 226). Nevertheless, Röpke vigorously defended an independent central bank that protected price stability and resisted short-term political influences (RÖPKE, 1960, p. 196).

Röpke's regard to institutions led his beliefs towards ordoliberalism. He advanced to members of the Walter Lippman Colloquium that liberals should learn with conservatism to concern over other elements besides economics because they influenced all other instances (SLOBODIAN, 2018, p. 84). While ordoliberals though on the specific German context, Röpke proposed a strong state situated in a global federation that would ensure the world economic order (SLOBODIAN, 2018, p. 115). Röpke was close to Eucken and other ordoliberals in his support the separation of the state from the economy. That influence pervaded the German economist when he elaborated legal concepts that emphasised the political sphere (imperium) containing economic nationalism (dominium). Therefore, "A strong state--resistant to the pressures of democratic influence--would be necessary to safeguard the economic constitution of the world" (SLOBODIAN, 2018, p. 117-118). Röpke tried to entice figures of Mont Pèlerin such as Hayek and Mises to Geneva, demonstrating a project about the economic benefits of a world federation that restrained governments from

economics, as "governing a territory did not mean owning the property within it" (SLOBODIAN, 2018, p. 138). However, liberals from the Mont Pèlerin society followed the innovative ideas of the United States, leaving Röpke with his disciples in the so-called "Geneva School". They advocated that international organisations should restrain nations from reining global capitalism, allowing economic autonomy to leave free markets regulating the free flow of capital and investment over borders" (SLOBODIAN, 2018, p. 154).

Meanwhile, CDU politicians were the first to adapt ordoliberal ideas to their political programs. The Christian values that inspired the party resonated with the sociological heritage that was inherent to the Freiburg school thought. Likewise, CDU politicians contributed to the evolution of the theoretical economic liberalism into a social market economy by executing ordoliberal ideas in public policy.

The efforts made by the Freiburg school to think of solutions to German economic challenges enthralled Ludwig Erhard, the director of the German bi-zonal administration in 1948. Erhard obtained his PhD in microeconomics during Nazi Germany and was one of the Mont Pèlerin Society's founders, engaging in prolific debates with its members (BURGIN, 2012, p. 134). Erhard had a genuine interest in liberal ideas, but he was a politician, inclined to negotiate more than ordoliberal scholars. His economic orientation leaning towards liberalism evolved from constant contact with famous economists such as Hayek and Röpke.

When Konrad Adenauer from the CDU became German Chancellor in 1949, he invited Ludwig Erhard to assume the ministry of economic affairs. Close to the group, Erhard hired Müller-Armack to work in the policy department of the Economic ministry while kept Röpke as a close adviser to him and Adenauer (PTAK, 2009, p. 121). As a minister, Erhard had the chance to "adopt a series of nearly irreversible framework decisions that shaped and constrained all subsequent political and economic options." (SCHARPF, 2018, p. 8). The minister of economic affairs planned to politically maneuverer Germany in the direction of a 'social market economy'. With Adenauer's blessing, the CDU government worked to liberate markets without supporting domestic industries. Recurring to continuous financial aid from the Marshall Plan, Adenauer and Erhard safeguarded stability to the working class to soften the impact of unfettered markets in the German economy.

The minister of economic affairs removed post-war rationing, price regulations, eliminated the tax on imports and liberalised capital exchanges along with currency

convertibility (SCHARPF, 2018, p. 8). To guarantee price stability, the Bundesbank raised minimum capital requirements to keep the Deutsche Mark undervalued, but capital flow continued pushing wages higher as the German economy moved toward full employment (SCHARPF, 2018, p. 9). The result of those policies became known as the "German miracle" (*Wirtschaftswunder*) of the 1950s, alluring the attention of Western governments. American and British observers described the innovative role of the state in creating the necessary framework for a market economy (JONES, 2012, p. 291).

The "German miracle" permitted Erhard to succeed Adenauer as German chancellor. The autonomy of the Bundesbank to protect price stability combined with Erhard policies to eliminate wages and price controls permitted the innovation of the state's role in the economy, as the German minister of economic affairs liberalised the economy ahead of other European economies (SCHARPF, 2018, p. 10). Opening markets without protection to domestic industries and showing a secure attachment to fiscal-rules, the adoption of ordoliberalism was possible due to a social pact between the political elites and the people.

The "German version" of liberalism" was so successful that transformed the meaning of ordoliberalism into a specific case of economic formula instead of a theoretical concept. The 'social market economy' influenced think tanks, universities, and economic newspapers, forging a consensus of state economic coordination as an utmost requisite for an adequate growth model. According to Farrell and Quiggin (2017, p. 272), the German federal government "set the agenda on international macroeconomic coordination". However:

> "Germany's economics "knowledge regime" involves a variety of federal and private actors, but the crucial intermediary body is the Council of Economic Experts (*Sachsverständigenrat*), a highly influential body of well-respected economists, which provides economists with formal input into German policy debates. Unlike the Council of Economic Advisors, the German Council is not formally a part of government, is non-partisan, and has considerable independent political clout." (FARRELL; QUIGGIN, 2017, p. 272)

Because of its "knowledge regime" that valorised consensus among economists and policymakers, ordoliberal ideas that emphasised the 'social market economy' pervaded German economic policymaking since efforts to state reconstruction after WWII. The execution of the Freiburg school's thought intertwined economic orthodoxy with "advantages for the working class that secured the market economy" different "from left-wing calls for egalitarian redistribution" under stringent rules that coordinated the market economy (BUGIN, 2012, p. 292). Erhard's economic reforms, therefore, hijacked left-wing and

Keynesian demands before the end of the Bretton Woods regime, consolidating ordoliberalism as the economic mainstream among German policymakers.

The German commitment to trade liberalisation aggravated the balance-of-payments situation, pressuring further reforms in the labour market. Changing conditions for economic growth pressured CDU leaders to adjust the German economy while safeguarding protection for workers without resorting to redistribution. The economic impact of Erhard's reforms plummeted employment in the primary sector, forcing workers to search for opportunities in the public and private sectors, which increased at a slow rate (SCHARPF, 2018, p. 10). The expansion of German industries drawn unoccupied Germans to their ranks. However, structural changes carried by incessant trade liberalisation impelled industries to raise productivity, lowering wages with workers as a manner to remain economically competitive.

Ordoliberalism represented a branch of the economic thought that interwoven the social transformations of Germany with a conciliatory vision of liberalism in order to maintain stability during the troubled times of the reconstruction. Policymakers hence reduced the ordoliberal ideas as an economic strategy to reduce social distress within German society. Ralf Ptak (2009, p. 125) points out that ordoliberalism was used by German policymakers to underpin the market economy as a permanent dynamic order, suppressing societal conflicts through the preservation of moral community values while secured economic growth because of rule-based competition.

However, Ptak (2009, p. 126) concludes that the Freiburg school' ideas failed to accomplish its normative ideals. Ordoliberals were a product of Nazi Germany's historical context. Those thinkers conceived their ideas as a solution to ceaseless "crisis of capitalism", planning a harmonic order amid an unstable period. Contemptuous of laissez-faire capitalism that brought the Great Depression and the catastrophic consequences of Schlacht's planned economy, ordoliberals envisaged 'moral' markets and a stratified society that could not mature without unsparing authoritarian elements. The dogmatic and normative attributes of ordoliberalism were thus unsuitable with a plural society. The assumptions of ordoliberals such as Röpcke and Müller-Armack that a set of ideas could permanently resolve social, political, and economic affairs missed societal transformations. Nonetheless, their influence did not halt.

'Social market economy' was adopted by German political parties in order to obtain votes from the CDU, standardising its principles through the political spectrum. Furthermore, different schools of economic thought such as the Austrians used the particularities of 'German liberalism' to sophisticate their arguments about the state's role in the economy. As ordoliberals like Walter Eucken and Ludwig Erhard constituted with other liberal economists an epistemic community that interacted through the Mont Pèlerin Society, they took part of discussions about liberalism's variation in Europe and the United States. As analysed by Brigitte Young (2017, p 36), the evolution of ordoliberalism in Germany strongly contrasted with the Anglo-Saxon branch of liberalism due to its German negative inclination towards unfettered neoliberalism.

The "programmatic" beliefs of German parties continued providing "guidelines for practical activity and the formulation of solutions to everyday problems" (BERMAN, 1998, p. 21). Konrad Adenauer and Ludwig Erhard thus became one of the "ideational entrepreneurs who actively modify agents' beliefs about what their interests are" (BLYTH, 2003, p. 698).

After the German elections of 1969, the CDU remained the largest party in the Bundestag but was obliged to form a new coalition due to FDP's decision to abandon Erhard's government. The SPD's ascension in the elections of 1969 settled the formation of a grand coalition with the CDU. Using the Marxist legacy of the party to pressure for further social traces in economic policy, the Social Democratic Party continued shaping ordoliberalism towards a 'social market' growth model. Nevertheless, the decline of Bretton Woods pressured wage policies against the Bundesbank stability stance, but the German central bank was resolute to constrain monetary policy in order to defend price stability (SCHARPF, 2018, p. 12-13). As the institutional paradigm shifted, ordoliberal appeals for price stability and the independence of the central bank gained ground. The ordoliberal rule-based order that monitored economic policy was adamant to subdue democratic control, bequeathing to the German government the role of social supervision due to the instabilities of the global economic order.

Economic policymaking assumed a profound technocratic profile in Germany. Economists received a significant and independent role in German policy debates, beguiling considerable media attraction. According to Farrell and Quiggin (2017, p. 275), the Council of Economic Experts became "vehemently anti-Keynesian" from the early 1970s on. That shift

indicated a more significant trend within the German economics profession, as the Council mirrored the position of German academic economists.

The autonomy of the Bundesbank interlaced with German orthodoxy had a paramount impact in contemporary European politics. German economists were sceptical of a progressive monetary union because of French ambitions to use the future European currency as a policy instrument.

Erhard mistrusted France's interest. The German finance minister strongly opposed the European common market, fearing that "a European customs union would hinder a worldwide liberalisation of trade" (MAES, 2004, p. 26). However, Adenauer bypassed the finance minister stance, making an approximation with the French his priority. While Röpke was intensely against integration that could restrain free markets in Germany, Müller-Armack changed his negative leaning gradually changing.

Ordoliberals were not interested in European integration. Only Wilhelm Röpke defended a global view of trade. However, he was against French influence in German economic policymaking, pervading French Dirigisme through Europe. Müller-Armack, working in Erhard's cabinet, bound together economic elements that ensured restriction of competition and prioritised the "four freedoms": goods, capital, services, and labour. (SLOBODIAN, 2018, p. 190). Müller-Armack participation in pushing the accord above the Coal and Steel Community, focusing on liberalisation and antitrust policy, kept him as a member of the Committee on the Common Market that eventually designed the Spaak report. As Slobodian (2018, p. 202) notes, "the very Austrians and Germans who had proposed federal and supranational solutions through the 1930s and 1940s opposed European integration."

Nevertheless, conscious that global economic forces compelled minimum monetary consensus among European member states, the Germans embraced EMU (MORAVCSIK, 1998). The fateful decision did not hinder German economists and politicians to push for an orthodox consensus that favoured anti-inflationary policies (MCNAMARA, 1998). Using the Bundesbank as a model for the ECB, Germany embedded its economic policy in the European Union. The “Brussels-Frankfurt consensus” was therefore structured to restrain states irresponsible fiscal policy and guarantee price stability.

The insulation of European monetary policy in order to secure sound finance and price stability had cost to the German economy. Nicolas Jabko (2010, p. 324) highlights that globalisation combined with the ubiquitous perception that German unification could engage into "major imbalance of power at the heart of Europe" induced Europeans to push for the EMU. Europeans knew that their economies depended intrinsically on the Bundesbank, so the best option was to negotiate flexible exceptions of the Maastricht criteria. On the other hand, German involvement in regional integration (*Einbidungspolitik*) shouldered multilateral policies that weakened the economy.

German reunification was the opposite of Germany's stance of caution and incrementalism to the EMU. Abraham Newman (2010, p. 152) affirms that the disorderly and radical process to reunify the country shifted German foreign economic policy towards regional cooperation. The costs of reunification and modernisation of the East German economy resulted in a deep recession that appealed the country at the beginning of the 2000s. The consequences of German reunification contrasted the European multilateralism with its wary isolationist conservatism. In the face of economic uncertainty, Germans emphasised regional identity to expose dissatisfaction against further economic integration.

The high numbers of unemployment and economic deficits during the end-90s diminished German political will "to support a solidaristic policy path" (NEWMAN, 2015, p. 120). Consequently, German leaders interpreted the eurozone crisis as the direct result of ineffective rules. In their view, Germany had no reason to be directly involved in other countries' politics or to manage European problems.

3.3 Germany between Rules and Dis(order) or the influence of Ordoliberalism

The lack of formal European institutions specialised in crisis management forced Mediterranean, Baltic and Eastern countries to seek financial aid to core members of the eurozone. However, discussions about fiscal stimulus soon became arguments between European states in which some counted for more than others (DREZNER, 2014). The eurozone crisis exposed the difference in economic power between the core and the periphery of Europe. Moreover, the polarisation of the crisis aggravated due to the asymmetrical economic power between Germany and France. Notwithstanding Sarkozy's efforts to unleash

economic stimulus under "European solidarity", Merkel was the European leader managing the crisis. The reunion of the German chancellor and Sarkozy at Deauville on 18th October 2010 revealed their divergent views. Even though both leaders reached a modest agreement against the crisis in Europe, divergent worldviews of France and Germany impeded an effective coordinate policy (BRUNNERMEIER; JAMES; LANDAU, 2016).

Functioning as the core of European integration, the development of the Franco-German relationship ceased. Sarkozy jilted bargaining policies to side with Merkel, hoping to convince her to change Germany's support for austerity and adopt alternative measures (VAIL, 2015, p. 148). However, the political fragility of Sarkozy and Merkel's national coalition with the FDP impeded further commitments. As the crisis continued, the German commitment with Europe focused on enforcing the stability of the euro.

The hawkish economic FDP obstructed talks about financial burden-sharing, disregarding European solidarity as an excuse to incentive Mediterranean profligacy. Liberals in the Bundestag rejected proposals of Eurobonds or debt-restructuring, emphasising moral responsibility as the leading cause of the crisis. Sebastian Düllien and Ulrike Guérot (2012) uttered the influence of moral hazard and currency stability as primary drivers of ordoliberalism, asserting the FDP's entirely fiscal conservatism based on the Freiburg School principles.

Germany's persistence in austerity measures to European countries highlighted the importance that ordoliberal ideas possess among German political elites. Wolfgang Schäuble, Merkel's finance minister from the CDU, reiterated continually that his origins from Freiburg strongly influenced his economic vision. Moreover, Schäuble cited frequently Walter Eucken's arguments defending constitutional principles for a working economic order (BUNDESFINANZMINISTERIUM, 2012). Likewise, Jens Weidmann, the Bundesbank president, emphatically called for ordoliberal concepts to endorse liabilities and financial rules (BUNDESBANK, 2012; BUNDESBANK 2015).

Merkel's stance towards austerity is ambiguous in comparison to other main German leaders involved in the eurozone crisis. Receiving severe pressure from the United States and China, the German chancellor stressed the importance of fiscal stimulus to avoid a global depression in financial markets. Nonetheless, Merkel emphasised moral hazard and the importance of rigid financial rules to fix the eurozone, declaring that "rules must be adhered

to, adherence must be monitored, non-adherence must have consequences" (DIE BUNDESREGIERUNG, 2011). Supporting European countries in trouble to hew to structural reforms, the chancellor ignored European particularities and backed up the creation of rigorous financial rules to ensure that containment of the financial crisis. As the table shows, constitutional principals became the framework for European economic governance:

Table 2 - EU Fiscal Crisis Measures[14]

Measure	Entry into Force
The Stability and Growth Pact	January 1999
The "Six-Pack" (5 regulations + 1 directive)	December 2011
The "Fiscal Compact" or Treaty on Stability, Coordination and Governance (TSCG)	January 2013 (for the 16 EU members with early ratification); April 2014 (all, except UK and Czech Republic)
The "Two-Pack"	May 2013

Source: EUROPEAN COMMISSION, 2019

France's pragmatic approach with Germany did not hamper German hegemonic position within the eurozone (ERLANGER, 2011). As a result, Sarkozy's intention to use French support as a manoeuvre to change German's European policy failed to advance. Responsible for a weak French economic performance and seen as subservient to Merkel's decisions, Sarkozy saw his popularity's deterioration dangerously close to the 2012 French elections. Suspicious of Strauss-Kahn's electoral ambitions in France, Sarkozy vehemently opposed the IMF involvement in the eurozone. However, his reluctance was ruled out by Merkel, who declared that Germany would not be involved in the crisis unless the IMF took part in the program.

Unable to distance himself from Merkel, Sarkozy's period as president ended without giving him the opportunity to approve reforms that emphasised "European solidarity". Germany's commitment to austerity in Mediterranean Europe continued questioned during the 2012 French elections. Throughout the campaign, the socialist François Hollande and Front National's Marine Le Pen obtained votes attacking Germany. While Hollande promised a changed role of Europe in European countries affected by the crisis, Le Pen used eurosceptic rhetoric that rejected France's responsibility in the EU. Emphasising the end of austerity and the principle of European solidarity, Hollande became the French president. Merkel and Schäuble, who did not support the new French president during the campaign, expressed that the Fiscal Compact was non-negotiable (TRAYNOR; CONNOLY, 2012).

[14] To see a more detailed summary of measures taken by the EU institutions and EU countries to better coordinate their economic policies, see Annex B

Avoiding a clash with Merkel, Hollande chose a cautious approach in his European foreign policy to the crisis. The French president promised to stabilise France's ratio of debt to GDP by the end of 2015 in order to soften orthodoxy at the European level. However, he recognised later that financial stabilisation in the short-time was impossible. The French president infused a domestic version of austerity while defended an alternative view of development that stimulates economic growth, showing that France could disagree with Germany only if allowed with conservative measures at home (VAIL, 2015, p. 155).

Hollande's disagreement with Merkel over European issues, defending a less harsh economic policy, was endorsed by Portugal, Spain, and Italy. Defending the use of Eurobonds, policy coordination among European states and involvement of the European Investment Banks to stimulate development, Hollande pretended to disrupt the "Brussels-Frankfurt consensus". Nonetheless, he was unable to alleviate the structural reforms that Mediterranean Europe countries implemented in their economies. Sarkozy and Hollande's endeavours to contain ordoliberalism in Europe was thus unrealistic. The top-down domestic economic reforms in France weakened the presidency, leaving it incapacitated to manage the crisis at the European-level (VAIL, 2015, p. 140).

However, Hollande and other Southern European leaders continued emphasising solidaristic arguments to promote economic equality. Northerner leaders continued defending a regime of strict economic rules that led to a technocratic government in Greece without considering electoral consequences. Even though austerity was carried on by governments; voters did not accept it; hence they regarded mainstream parties as illegitimate. Consequently, Southern European countries started to suffer democratic backlashes because of austerity (MATTHIJS, 2016). The disillusionment with Greek political elites that supported Papademos' government caused the rise of fringe parties such as the far-right Golden Dawn and left-populist SYRIZA. As Jan-Werner Müller (2016, p. 65) elucidated, technocrats and populists, therefore, pave the way for the other, because each legitimises the belief that there is no room for disagreement. [...] Each holds that there is only one correct policy and only one authentic popular will respectively. When Alexis Tsipras convened European leaders and the troika to discuss the Greek referendum's result, disagreements between Northerner and Southern European countries bloomed. Emmanuel Macron, France's economy minister, related that "Greece was provoking a veritable European civil war, a war of religion, with the

Nordics, the East Europeans, Germany and the Netherlands in one camp, and France, Italy, Spain and the rest in the other" (MACRON apud TOOZE, 2018, p. 568). Southern European leaders regarded Greece as a symbolic case of undemocratic governance that was disintegrating the EU. Merkel was unwilling to assume the domestic political cost of letting Greece go, so the chancellor sidelined Macron and other European leaders sympathetic to Greece in the final phase of the negotiations with Tsipras.

Merkel refused to cede to Greek demands. Facing the prospect of a German parliament tired of further bailouts, the chancellor wanted Greece to assume all of its financial commitments. Dissensus between Merkel and Tsipras increased when the chancellor demanded Greece to earn €50 billion in assets to privatise and to surrender it to a trust fund in Luxembourg.

The privatisation fund was the most controversial subject (BLUSTEIN, 2016, p. 439). However, Merkel and Tsipras did not want to relinquish their stance. Tsipras refused the fund for a question of 'sovereignty', disposed to accept the fund if it stayed in Greece instead of Luxembourg, which was granted by Merkel. Moreover, the Greek prime minister bided half the fund for investment in Greece, which was intensely rebuffed by Merkel, remarking that Greece should divert only €10 billion of the fund.

Merkel, Tsipras, Tusk, Holland, and Tsakalotos faced the prospected of a no-deal as the negotiations could not conclude. European leaders texted Tusk proposing to raise the €10 billion offer to €12.5 billion. Against Hollande's pleas to accept the fund's raise, the German chancellor rejected the proposal. Visibly frustrated, Tsipras and the Merkel wanted to suspend the talks. At that point Tusk intervened, appealing to Merkel's sense of her legacy. Tusk affirmed that both parties could cease to continue the negotiations, but if that happened, he would declare to everyone that they let the EU disintegrate over a 'negligible' amount of money. The political repercussion's prospect of "breaking Europe" altered Merkel's posture. The ultimate goal was to preserve the unity of the EU. That was far more important than settling Greek debt. In the end, Merkel and Tsipras decided to share the difference. The Greek economy, in shambles, would receive the third bailout, but recovery was still far from view.

The feasibility of breaking the European Union and destabilising the Euro induced Germany to protect the common currency. However, the severity of the fiscal-rules framework of economic governance created a schism among Southern European countries.

The Greek election of 2015 signalled that structural reforms were not admissible. The fact that there was no other option to Greece aside from leaving the euro notwithstanding, the draconian requirements proposed by Northerner leaders were questioned even by members of the troika.

The flawed structured of the euro menaced the Brussels-Frankfurt consensus. Aiming to establish a strict regime of fiscal rules and competition in order to ensure sound public finance, Germany and other Northern European countries moralised technocracy. As a result, creditors approved the deposition of democratic-elected leaders in Greece and Italy, thus imposing technocratic governments that would comply with the reforms of the MoU (CULPEPPER, 2014). Even though the command of Italy under Mario Monti and Papademos in Greece did not mean an authoritarian-model of liberalism, economic policymaking had to be resonant with the MoU.

The euro's reckoning signified, in Historical Institutionalism terms, a 'critical juncture'. In the words of Amy Verdun (2015, p. 222), "a critical juncture is a period in which there is a transition and there are various alternative options from which to choose. The institutional structure chosen affects the future for a considerable time to come". The eurozone crisis represented the rupture of European elites' belief that the common currency was immune to the financial crisis. However, Germany's decision to involve the IMF in the crisis, form the Troika and coordinate the negotiations with the GIIPS to set the terms of the MoU triggered off the evolution of the crisis instead of controlling it. By that means, the decisions of European leaders that led to the events of the Greek spring in July 2015 are such a moment. Nevertheless, Merkel was careful enough to control disarray that could result in the break-up of the euro even if it meant raising opposition at home.

The fiscal rules that Germany backed, later enshrined at the European constitution, at the beginning of the eurozone crisis rebuffed the asymmetrical differences within the bloc. Under the dogma of moral hazard, economic conditionalities showed strong convergences with ordoliberal policies. According to Thomas Biebricher (2019, p. 199), the economic governance of structures of the EU and the EMU […] increasingly performed the functions that ordoliberals and Eucken, in particular, had envisioned for the state […] an impartial enforcer of the, ideally, quasi-automatic rules of the competition game.". Interpreting ordoliberalism as a set of ideas that praises rules and norms, Germany used an ordoliberal

framework for developing a renewed European fiscal governance. However, Trichet abandoned his initial stance of allowing the ECB to adopt expansionary policies, interweaving governments and national banks. As the president of the European central bank subdued leader's efforts to stabilise the euro area in 2011, the eurozone entered in another crisis. Consequently, Merkel risked the cohesion of her national coalition to assume leadership in European economic statecraft.

The German shift in European politics was a reaction against the instability of the euro in 2012. Peter Hall (2012, p. 367) argued that German economists dovetailed ordoliberal ideas with the institutional structures that underpinned Northern Europe's growth. The ordoliberal rule of protecting the stability of the currency swayed Germany to harden fiscal rules and coordinate discipline among European state to uphold the eurozone (MÜLLER, 2012; JOHNSTON; REGAN, 2017). Therefore, ordoliberalism became intrinsically weaved with technocratic Europe, which inevitably enticed left-wing populist uprisings.

European leaders compared the emergence of movements critics of austerity with the fringes of Euroscepticism. Even though demands for less austerity received brutal rebuttals from the troika, the image of profligacy in Southern Europe pervaded the EU. Consequently, far-right populists in Northern Europe obtained support due to rejection against the EU's immobilism to Southern Europe permanence in the bloc. Trying to weaken such parties, European leaders compelled the continuation of economic reforms in Southern Europe. Nevertheless, the ramification of the rigidity in economic reforms were democratic backlashes such as the Greek referendum of July 2015. Thus, the EU inevitably engendered instability among its member states.

The successive crisis in the eurozone required changes that protected its unity, as it catalysed the limits of European efforts to maintain the single currency. Expecting the transformation of the eurozone into an export powerhouse, Germany emphasised an ordoliberal framework of rules that dovetails economic governance and cost-based competitiveness (JOHNSTON; REGAN, 2017, p. 11). However, the assumptions that German coordinate market economy is averse to risk increased the support for a "one-size-fits-all" model of European fiscal governance. Doubling down on pragmatism to reshape the EU and preserve the Brussels-Frankfurt consensus, Germany pushed Southern European countries into a "one-size-fits-none" model (SCHMIDT, 2015).

The transition from the eurozone crisis to the forced structural convergence of European capitalisms triggered a critical juncture to reform the flaws of the EMU. Nevertheless, the European deadlock strengthened the position of the Franco-German relationship within the EU, but France's decreasing economic influence bolstered Germany's position to restructure the eurozone. The asymmetric crescent relationship between France and Germany allowed the latter to undertake a hegemonic position within the bloc. Nonetheless, impasses about the future of integration hampered European progress towards a solution to the crisis. The situational riskiness created by Germany and the supranational institutions will keep requiring a new architecture of rules. As Fritz Sharpf (2018, p. 74) notes, the divergence of European varieties of capitalism will either promote the further transformation of the Eurozone into a transfer union or will destabilise it.

Merkel reiterated the necessity of fiscal rules and structural reforms in Southern European countries in order to fix the eurozone. The German chancellor ruled out shared financial responsibility with profligate countries, leaving the troika as supervisor of economic programs. However, the German "coercive diplomacy" caused hesitation among European institutions and the IMF (BULMER; PATERSON, 2017, p. 213). As national answers to the eurozone proved ineffective, Germany shifted its policy to endorse fiscal conservatism and a framework of economic rules in order to stabilise the euro.

The German commitment to moral hazard and rules in order to avoid contagion in the eurozone strongly reverberate ordoliberal ideas. As ordoliberalism highlights the juridical ordering of an austere economic framework, it was the perfect outcome to protect the eurozone from profligacy and electoral uprisings. The fact that one of its founders advanced moral hazard as an ultimate issue notwithstanding, Walter Eucken stressed the stability of prices as the primary purpose of ordoliberalism. For that reason, Merkel embodied the resistance against any possibility of financial contagion in the eurozone.

However, German politicians had different or even contrasting, priorities in the role of Germany in the EU. As Young (2017) argues, there is not only one form of ordoliberalism. Influenced by the myriad of economists that adapted different typologies into the Freiburg School, ordoliberal ideas varied from religious sociology to economic policymaking. Likewise, Merkel's determined effort to protect the EMU from destabilising is consonant with Eucken's ordoliberalism. Moreover, Merkel differed from other German policymakers due to

her pragmatism to maintain the euro, operating in common ground with Mario Draghi, Trichet's successor as the president of the ECB.

Merkel's strategy to support the ECB president was useful to domain criticism in her own country without risking her hegemonic position. Differing from prominent ordoliberals, the German chancellor pursued a European policy guided by domestic constraints and commitment to a European rule-based economic governance. Furthermore, Merkel stimulated the ECB to continue the programs of debt purchase previously carried by Trichet and assented to Draghi's formulation of a banking union in 2012. Thereby, the conciliation of German orthodoxy with the ECB's expansionary policies remained coherent. Even though the Bundesbank president, conservative politicians, and German economists opposed Draghi's measures, they respected the independence of the ECB.

The ECB's strengthened powers and turnaround of policies were crucial to ending the economic crisis in the eurozone. As Germany was not prepared to handle the financial obligations that a hegemonic system entails, Merkel skillfully used the ECB's autonomy to constrain internal barriers against heterodox monetary politics. German politicians supported the relinquishment of monetary policy to an independent supranational institution and not allow national politics to interfere with its duty. Nonetheless, Germany's consent was necessary to back up the new version of the Eurobonds program and the creation of a banking union. Furiously criticised by Jens Weidmann, the Bundesbank president, Merkel and Draghi worked together to shift the ECB' economic policies towards monetary stability. Thus, the lack of institutional hegemony within the EU permitted Germany to enforce European economic governance, acting as the guardian of the euro's stability.

In contrast with Wolfgang Schäuble and other hawkish policymakers, Merkel was determined to avoid the likelihood of a "Grexit" in order to safeguard the Euro. Likewise, her attitude towards Greece never swayed in favour of its expulsion from the eurozone, but her insistence on European countries complying with the rules transformed austerity in an "irritant German idea" (YOUNG, 2017). Therefore, Merkel's pragmatist was critical to ensure that Germany and supranational institutions managed the eurozone crisis. Conscious that an extreme ordoliberal stance could spark a political crisis capable of breaking the euro, the German chancellor arbitrated creditors and debtors to reach a covenant that kept the eurozone stable.

However, the initial reluctance to adopt systemic solutions pave the way for the acute phase, polarising the eurozone and creating electoral consequences later on. Although Merkel and Schäuble continued extolling economic conservatism, German economists and politicians criticised them for not being hawkish enough with other European countries. The logic of the EMU did not follow strict ordoliberal ideas, but the consequences of the eurozone crises converge with it. Ordoliberalism envisions the creation of a rules-based order that efficiently coordinate society. The fiscal-rules governance induced the opposition of Southern European electorate, increasing popular demand for social democracy instead of liberal democracy (KRIESI, 2017, p. 20). Otherwise, Northern Europeans mistrusted crisis-management as manoeuvres to create a transfer union and accelerate the integration process, burden-sharing Northern funds with Souther profligate countries. Balancing the equilibrium within the eurozone, the ECB operated the necessary expansionary measures while emphasised orthodoxy within the troika to enable the end of the eurozone economic crisis. However, the consequences of the Eurozone crisis are political, not economic.

3.4 “Whatever it Takes” or the ECB unravelled

The European Central Bank changed its policies when its president, Jean-Claude Trichet, left the seat in October 2011. On November 1, the Italian Mario Draghi became the new ECB president. Draghi was determined to protect the Euro, using the bank’s independent position to change its politics and initiate a program of sovereign bonds purchase. Trichet had already released the Securities Market Programme (SMP) in May 2010 to preserve “financial stability and allow efficient implementation of monetary policy in all parts of the euro area” (BRUNNERMEIER; JAMES; LANDAU, 2016, p. 345). Even though the SMP was not strictly a quantitative easing programme to the euro area, it caused public dissent from German economic policymakers in the ECB board and in the Bundesbank.

In December 2011, the ECB announced an enhanced credit support mechanism to support bank lending and liquidity in the eurozone. The extended LTRO (long-term refinancing operation) licensed banks to finance collateral in extended maturity of 36 months instead of the three months permitted initially (EUROPEAN CENTRAL BANK, 2011). However, the paralysation of European governments bond markets and the perception of risk

in the periphery of the eurozone raised caution of European banks, as there was no sign of safe guarantees from the ECB.

European member states accepted the EFSF/ESM and the “fiscal compact” to compensate the lack of ECB measures' progress, afterwards demanding a robust banking supervisory mechanism to ensure stability in the euro area (JABKO, 2015, p. 81-82). As risk aversion from Greece was deteriorating the European bond markets in 2012, Draghi employed a strategy of activism to raise trust in the economic conditions of the eurozone. Nevertheless, capital continued flying from risky countries to Germany and other Northern economies. Gambling on his insights into the psychology of markets that he matured during his time at Goldman Sachs, Draghi decided to act (RANDOW; SPECIALE, 2018).

On July 26, the Global Investment Conference, designed to promote England as a business centre, happened at Lancaster House, a luxurious mansion close to Buckingham Palace and St. Jame’s Palace in London. During the morning panel, Mario Draghi discussed with Mervyn King, the Governor of the Bank of England, about the challenges to the global economy. At one moment, seldom looking to his notes, Draghi folded his hands and announced: “There is a message I want to tell you, within our mandate, the ECB is ready to do whatever it takes to preserve the euro.”, prompting a quick pause, then continuing to leave no doubt: “Believe me, it will be enough.” (EUROPEAN CENTRAL BANK, 2012).

After the speech, Draghi called Jens Weidmann and Wolfgang Schäuble to ask for help and a public defence of the ECB (BRUNNERMEIER; JAMES; LANDAU, 2016, p. 354). The German finance minister, whose harshness towards financial responsibility caused several arguments with Draghi, assented to the ECB president’s appeal, contrary to his advisors, who counselled Schäuble to not comment on the ECB’s decisions (RANDOW; SPECIALE, 2018). Weidmann posture was a severe reaction. Furthermore, Merkel agreed to issue a joint statement with François Hollande defending the integrity of the eurozone (BRUNNERMEIER; JAMES; LANDAU, 2016, p. 354).

The ECB announced in September that it was starting a program of Outright Monetary Transactions (OMT), aiming at safeguarding an appropriate monetary policy transmission and the singleness of the monetary policy under strict conditionalities (EUROPEAN CENTRAL BANK, 2012). The OMT signified that the European Central Bank could “purchase unprecedented quantities of peripheral countries’ treasury bolds in case of an emergency”,

therefore strengthening the monetary emission mechanism "by making private sector credit more affordable in peripheral countries" (JABKO, 2015, p. 82). Consequently, the GIIPS' borrowing costs would lower as risk decreased.

Draghi understood that the euro was a political project and was determined to assure the inviolability of the euro. However, the consensus of his speech was short-lived. Jens Weidmann expressed his discontentment against Draghi comparing him to the Devil of Goethe's "Faust" when Mephistopheles persuades the heavily indebted Holy Roman Emperor to print paper money (STEEN, 2012). Likewise, tensions between Weidmann and Draghi increased when the Bundesbank president was "the only member of the 22-strong governing council of the ECB to have voted against a plan put forward by Mario Draghi, […] to cut unsustainable borrowing costs for countries such as Spain and Italy" (STEEN, 2012).

Weidmann assured that the ECB president violated his jurisdiction when he announced the OMT, arguing that it funded national budgets of crisis-ridden countries (REIERMANN; SAUGA; SEITH, 2012). German taxpayers mobilised against the OMT, demanding the German Constitutional Court (GCC) in Karlsruhe to condemn the ECB operation and inquire about the limits of the fiscal stimulus. However, the GCC consulted the European Court of Justice (ECJ) due to the political and economic aspect of the question. The ECJ response gave "clear ruling that the ECB had not exceeded its powers" concerning monetary policy and "the OMT program did not contravene the prohibition on monetary financing" (BRUNNERMEIER; JAMES; LANDAU, 2016, p. 358).

To improve banking supervision, Draghi pushed for significant reform in European fiscal governance. Using the breach left by Jacques Delors and Tommaso Padoa-Schippa in the Delors Report, Draghi and European leaders agreed to make governance arrangements to permit single European supervision. Germany was particularly against reforms due to the political timing, as German elections would happen in September 2013. German position against banking reunion resembled the discussions of the Delors Report in 1990. Hans Tietmeyer, a former disciple of Müller-Armack, was sceptic that the Bundesbank should engage with other central banks in a banking union, as he feared that it would imply "an implicit commitment to rescue banks should be there bad developments that it had overlooked" (BRUNNERMEIER; JAMES; LANDAU, 2016, p. 369). Invoking his ordoliberal sympathies, Tietmeyer rejected any form of shared moral hazard and emphasised

regulation as a manner to uphold financial stability. Nevertheless, the ECB eventually gained the responsibility for "all supervisory tasks related to the financial stability of all eurozone banks", representing a considerable victory for Draghi (EUROPEAN COMMISSION, 2012).

The European compromise towards the banking union established the creation of the Single Supervisory Mechanism (SSM), the Single Resolution Mechanism (SRM), and joint deposit insurance as its pillars (EUROPEAN CENTRAL BANK, 2019). The SSM, created in December 2012, would supervise banks considered systemically significant, set capital requirements, observe banking licenses, and ensure compliance with EU prudential rules (EUROPEAN CENTRAL BANK, 2019). The SRM would ensure the orderly restructuring of a bank likely to fail, guaranteeing that the bank failure would not harm the economy or cause financial instability (EUROPEAN COMMISSION, 2019). Moreover, the SRM manages the single resolution fund, but Schäuble vetoed arguing that deposit insurance should not be under control of European institutions.

German opposition to any form of the fiscal union did not change since negotiations of the Delors Report. Nonetheless, the question of European solidarity poses a challenge to politicians of creditor countries, as the transformation of the euro into an OCA depends on further economic integration. The ECB decision to act against the crisis consolidated sovereign debt purchases and the process of the banking union. Northern Europeans were initially against both because of the electorate hostility to burden-sharing. Moreover, German resistance to deposit insurance continued stark even after the separation of national and European caused the North Atlantic Financial Crisis.

However, Waltraud Shelkle (2017, p. 11) examines the problem of the EMU as the lack of coordination among member states without any authority to enforce cooperation, which raises imbalances. The setting of a risk-sharing mechanism within the eurozone could appease conflicts between member states and establish winners and losers of different moments of the world economy, reducing the advantages of export-led economies in the EU. Therefore, solidarity as a degree of instrumental rationality upon politicians allows as "the practice of maintaining the common resource and managing it for long-term use, […] requiring collective action with each member having a stake in it" (SHELKLE, 2017, p. 19).

Draghi's decision to ensure the stability of the euro gained Merkel's support. The ECB president position, divergent from Trichet, to protect the euro was necessary to secure the

single currency existence, calming markets and leading the economic crisis to an end. Although German opposition remained fierce against any expansionary measure, Mario Draghi's objective was consonant with whole ordoliberal ideas. However, the German opposition distanced Merkel from Draghi's European common fiscal policy because of the German elections of 2013. Otherwise, Schäuble refused the joint insurance mechanism, and Weidmann tried to sabotage Draghi's OMT operation. Despite German reluctance to further fiscal integration, "all member states remain reluctant to envision the dramatic transfer of significant powers to the EU level." (JABKO, 2015, p. 85).

The ECB measures to aid Southern European countries and avoid breaking the euro did not mean that Draghi alleviated economic orthodoxy. Strict conditionalities continued as a prerequisite to every agreement of fiscal stimulus. Notwithstanding the electorate's will against austerity in Southern Europe, the rise of anti-EU parties in the core of the eurozone represented a menace to the EMU. Therefore, SYRIZA and AfD (*Alternativ für Deutschland*) are different movements that obtained support from the same chain of events.

Draghi's declaration to protect the euro can be interpreted as an ordoliberal stance. However, ordoliberal ideas emphasised moral hazard, which individualised the crisis and forced the GIIPS to comply with an austerity program unacceptable even to the IMF (LIM; MOUTSELOS; MCKENNA, 2018, p. 13). The ordoliberal vision that preserved the euro against strict hawkish stances inevitable created the AfD, as both represented views compatible with the German "irritating idea" (YOUNG, 2017, p. 30). Likewise, the authoritarian elements of ordoliberalism are in the economic scepticism that created the *Wahlalternativ* and the AfD.

3.5 The rise of the *Altparteien* or the political consequences of the Brussels-Frankfurt consensus

Populism has been present in European elections since after the Second World War. According to Jan Werner-Müller (2016, p. 92), the European solution to the German and Italian totalitarianism in the 1930s and 1940s was the fragmentation of the political power. Thereby, the establishment of the European political system constrained populist parties,

which gained some degree of representation but not enough to represent the extreme margin of the electorate in parliaments.

However, the eurozone crisis transformed populist movements in Europe. The German press furiously attacked the Greeks and supported the idea of profligacy as the cause of Greece's problems. The emphasis on moral hazard created a strictly economic view shared by conservative Germans that the euro should be extinct. The technocratic profile of Angela Merkel's crisis-management particularly bothered German economists.

The negotiations to establish the banking union and the BCE measures to guarantee the stability of the euro provoked a counter-insurgency in Germany. Accusing Merkel and European institutions of breaching the Maastricht clause of "no bailout", a movement of economists, university professors, and economic journalists founded a political group called *Wahlalternativ* 2013 in September 2012 (REHER, 2017, p 40). Attentive to the German elections in September 2013, the creation of the *Wahlalternativ* was a direct inquiry to the German political establishment refusal to discuss the German approach to the eurozone crisis.

Demanding the dissolution of the euro, Bern Lucke, an economist, and two former CDU members created the *Wahlalternativ* 2013. The movement presented itself as a strictly economic conservative, expressing no position to social or cultural issues. Likewise, *Wahlalternativ* 2013 did not share any radical view against the EU or German's presence in the bloc, focusing only on economics. In its conception, the *Wahlaternativ* 2013 was, according to its leaders, neither to the left nor the right, aiming solely to attract voters frustrated with the political elites.

David Bebnowski and Lisa Förster (2014, p. 1) affirm that "among the 64 initial supporters, there were 18 economics professors.". *Wahlaternativ* 2013 supporters used economics to sustain a "straight, solely rational and seemingly ideological-free line against the other parties." (BEBNOWSKI; FÖRSTER, 2014, p. 11). The movement used their supposedly economic rationality as a central argument against the euro, alluring voters from other parties that did not feel represented by Germany's stance in Europe. In April 2013, *Wahlaternativ* 2013 became a new party, the Alternative for Germany (*Alternativ für Deutschland*, or AfD), to dispute the legislative elections in September.

Reher (2017, p. 43) points out that AfD supporters initially attached more relevance to European integration than other issues. The influence of economists in the party legitimized a

rational conservative justification to German retrenchment from European questions. Germany should not be involved in the crisis of European member states nor 'dictate' economic measures of a specific group within the eurozone.

The strong inclination of moral hazard in the party envisaged a geopolitical position. As long the EU continued to support Germany as an "Export-world-champion" (*Exportweltmeister*), the bloc was not a hindrance to AfD (BEBNOWSKI; FÖRSTER, 2014, p. 13). The conservative party condemned indebtedness, emphasizing cultural remarks to justify German frugality and its moral superiority to the MME. Ordoliberal ideas strongly influenced initial AfD ideas. However, different from Merkel's pragmatism or Weidmann and Schäuble's stances, economic conservatives reproduced the strong distrust of protectionist influences from Southern European countries in German markets. The economists of AfD condemned burden-sharing and praised Germany's competitive advantage in Europe. Furthermore, like ordoliberals, AfD outlined that the relationship between economics and politics should fortify a constitutional framework to dismantle market anomalies (ALTERNATIV FÜR DEUTSCHLAND, 2015).

The economic conservatism of AfD distinguished it from the German mainstream parties. Nevertheless, the conservative party's stance against the euro attracted radical voters, pushing the AfD further to the Eurosceptic right. Consequently, the AfD shifted gradually, abandoning its initial stance on simple economic questions to radical views against immigrants and refugees. Afterward, members of the far-right gained strength within the movement, capturing the party and transforming into a populist far-right party. As manifestations against immigrants, popularized by the Patriotic Europeans Against the Islamisation of the Occident (*Patriotische Europäer gegen die Islamisierung des Abendlandes*, or PEGIDA), thrived in Germany, the AfD embraced radical positions to become a natural pole for them (HOCKENOS, 2015).

Bern Lucke, the founder of *Wahlaternativ* 2013, eventually dropped out of the party due to irreconcilable positions with the far-right faction of AfD. Likewise, Hans-Olaf Henkel, a former director of the Federation of German Industries and member of the FDP, also abandoned the party (HOCKENOS, 2014). Even though founding members distanced themselves from the party, the economic position AfD continued in favor of free markets and advocating fair competition. Far-right leaders from AfD such as Alice Weidel and Alexander

Gauland continued pushing for orthodoxy in Germany and refusing the ECB expansionist policies, differing from other European populist parties that dispute blue-collar votes (BRÖNING, 2017).

The notable performance of the AfD in the elections of 2013 highlighted growing dissatisfaction of the main parties. The far-right party gained only 4.7 percent of votes, below the minimum of 5 percent to enter the Bundestag. Even though AfD continued gaining support, the myth of Germany as immune to far-right politics influenced German politicians' beliefs. Moreover, analysts claimed Germany as the last defender of the International Liberal Order after the American elections of 2016 (BENNER, 2016a; BENNER, 2016b; FRÖHLICH, 2016).

AfD gained momentum through polemics and against immigrants, capitalizing on Merkel's policy of '*Willkommenskultur*' that embraced thousands of refugees in 2015. Furthermore, members of the AfD tried to breach the German consensus of the Holocaust in January 2017. Björn Höcke, leader of the far-right faction within AfD, demanded a "180-degree about-face in the politics of memory", causing controversy even within the AfD (EVANS, 2018). Analysts continued firm that the centre, specifically in Germany, would hold because of the party's radical assumptions, out of touch with contemporary German politics (BRÖNING, 2016).

Hopes endured until the German elections of 2017, when the AfD obtained 12.6 percent of the votes, becoming the first far-right party to enter the Bundestag (BENNER, 2017). As Jan Werner-Müller (2016, p. 92) asserted, the parliamentary model efficiently impeded fringe parties to enter parliament due to the minimum quota. In 1965, the far-right National Democratic Party (*Nationaldemokratische Partei Deutschlands*, or NPD) concurred in the elections but obtained only 1.8 percent of votes.

The AfD's rise in the Bundestag marked the poor performance of the CDU and SPD, whose share combined made up 53 percent of votes, their lowest ever percentage. Prominent parties promised to not engage with the AfD, but German conservatism entered in a crisis due to a hollowing of ideas, torn between centrism and the preservation of traditional values (DIEZ, 2018).

The shift of AfD displays the transformation of economic ideas in Europe. The far-right party is a unique populist phenomenon with particular German characteristics. A

populist party concerning the euro could only thrive in Germany (BEBNOWSKI; FÖRSTER, 2014, p. 13). Nevertheless, as ordoliberal thinking in Germany gave form to the AfD, it also was used as a compromise with the stability of the euro.

The evolution of protests against austerity created challenges to the EU that circumvented the economic crisis. Greece elected SYRIZA, a far-left party that demanded renegotiations with the bloc without any bargaining power. Moreover, SYRIZA's mistaken strategy polarised the crisis, hindering Greek debt restructure (LIM; MOUTSELOS; MCKENNA, 2018, p. 14). Merkel and Draghi efforts to safeguard the euro enticed the rise of AfD, a movement that later morphed into a far-right populist party. In Germany, AfD obtained support from discontentment against the crisis-management of the German political mainstream. The far-right party increasingly weaponized conservatives against immigrants, accusing politicians as technocratic and deaf to German values. Therefore, an economic crisis paved the way for a democratic crisis that pervades European politics.

Eurosceptic parties weaponized the ordoliberal institutional framework to denounce the EU's democratic deficit as governing by numbers through enshrined economic laws. Waltraud Shelkle (2017, p. 145) highlighted that Germany tried to legitimise European institutions in the economic crisis, but could not influence it without other member states. Notwithstanding Merkel and Draghi's pragmatism, criticism against the European economic governance is valid.

SYRIZA and AfD are opposite cases that express dissatisfaction with the manner national politics interweaves with the EU. Strengthened European institutions are critical to establishing the reforms to fix the eurozone, but political and distributive conflicts prevent voters from giving more powers to the EU. Even though the European institutional framework resonates with ordoliberal ideas, it is still constrained by national politics. Consequently, the political deadlock intertwined with the adoption of systemic measures against the crisis caused long-term deflation and economic stagnation (MATTHIJS, 2015, p. 13).

The solution of the economic crisis in the eurozone pressured European leaders to support technocratic governments and enforce reforms in unwillingly Southern European economies. Therefore, ordoliberalism resonates with technocracy in its emphasis on a unique possible solution, dismissing electoral accountability. Like populism, ordoliberalism is notoriously apolitical, attaching their actions to coherence above all. Idealizing the figure of

the benevolent technocrat that governs without opposition, ordoliberalism spurns pluralism. However, conflict is a form of transforming the EU positively.

Erik Jones (2018) analyzed that pressure against the EU's current form initiated discussions about theories of disintegration. Decisive consequences of economic policymaking continue under a technocratic rule in the eurozone. Therefore, the political consequences of the clash between ordoliberalism and democracy continue destabilizing the EU. As long as the harmonization of European varieties of capitalism is not achieved, German leadership should convene the bloc towards a political union instead of supporting palliative measures to national problems. Initiatives like the banking union may pave the way for the formation of a transfer system based on "European solidarity". However, Solidarity would not mean carefree transfers, but a long-term rational commitment on accountability to national parliaments and domestic public opinion (SHELKLE, 2017, p. 12).

CONCLUSION

This dissertation was an endeavor to, summing up to an already strenuous collective effort, understand the eurozone crisis. Likewise, this research grew from the initial intention of understanding how ordoliberalism influenced German policymaking within the eurozone to comprehend how it shaped polarization in European monetary governance. Therefore, this work sets a contribution to the literature that stress how ideas influence varieties of capitalism, particularly in Germany, thus changing the nature of macroeconomic policymaking in the eurozone.

The core argument of the research is an adequate explanation to understand how the crisis unravelled European monetary governance into fierce divisions among member states. Consequently, creditor countries supported technocratic governments in countries that were unable to comply with the MoU, engendering popular discontentment and the rise of left movements that polarised austerity. However, that formula can obtain a moreover reach. As ordoliberalism is not a static idea, it evolved into different, if divergent, policymaking. European agreements to curb the crisis in Southern Europe intensified accusations by far-right parties in Northern Europe that taxpayers bailed out profligacy states like Greece. European crisis-management thus exacerbated divergences and the rise of fringe parties in Southern and Northern Europe. In the German case, economists and university academics criticised Germany's role in the Eurozone as paymaster of the eurozone, rejecting bailouts and praising that every member state should take responsibility for their finances. The creation of an anti-system party whose purpose was solely against the euro and its subsequent astonishing electoral victories represent the force of economic ideas in Germany. Eventually, the AfD became the populist far-right party in Germany to enter the Bundestag in 2017.

The hypothesis underlined that polarisation between actors escalated due to the roles of principled beliefs in crisis-management policies and solely halted after the enforcement of institutional rules. The research delineated in Chapter 01 the process of European integration and the adoption of the EMU, highlighting the divergences between Germany and France. The gradual decline of Keynesian economics in Europe intensified after the end of the Bretton Woods system, converging France and Germany economic policymaking. As France seemed willing to abdicate its intention to use the monetary union as an instrument of economic

hegemony ('le Gouvernment économique'), Germany shifted its priority of political union instead of monetary union that lingered since Adenauer's government. Nevertheless, Germany strongly reiterated its preference for an independent central bank that could ensure price stability and was vehemently against a banking union, as they feared German funds transferred to other European countries, therefore transforming national banking supervision in a priority. The incomplete nature of the euro derived from German mistrust from worries that other European countries, especially France, would abuse the potential single currency to force Germany to pay for other debts. It was not a misperception from the Germans, as France indeed aimed for a monetary union to revert the decline of the franc in comparison with the Deutsche Mark. However, Kohl's electoral ambitions influenced his decision to pursue an EMU with France. Distant from the Bundesbank president, who was against the common currency due to the difficulty of converging variety of European economies, Kohl focused solely on integration. It did not matter. Political decisions created the euro, not economic.

As a measure to ensure that member states were adequate to the common currency, Germany demanded a series of economic requirements. Nevertheless, the German opposition stimulated the electorate to require stricter budgetary rules for the euro to avoid Germany bailing out other countries, which Kohl attended. Therefore, the creation of the SGP was the beginning of a series of rules that member states enshrined into European law to secure the stability of the euro. Due to external constraints that caused a recession in Germany and other European countries, Germany and France were the first European member states to breach the pact and face sanctions. Consequently, Germany and France pressed for lifting sanctions in other European institutions, which the European Council, above the European Commission and prone to political influence from member states, condoned. To avoid failing again in the economic surveillance, Germany and other member states weakened the SPG and its sanction procedure, diminishing incentives for other member states to comply with the convergence criteria.

Meanwhile, the American financial sector was viciously expanding, with few viewing it as unsustainable, under the growing complexity of mortgage securities, collaterals, and repo markets. Due to the fierce German opposition of sharing banking duties, supranational institutions were not responsible for European banking supervision, becoming a duty to member states' regulation. However, the Single European Act permitted cross-over operations,

allowing the enlargement of European banks in the core of the eurozone into 'national champions' that shifted its operations to riskier countries in the periphery of the eurozone, such as Greece or Spain. Abundant liquidity in the US enticed the attention of those mega-banks in Europe, linking the American with the European market. As European regulation was only on the national level, there was no supranational institution overseeing the massive growth of those banks, frequently originated from Northern Europe; instead, member states stimulated their banks to expand to protect themselves from other banks or to operate in other parts of Europe or overseas. Deregulation was the rule, so when the Basel Committee tried to regulate international finance, the American and European financial institutions pressured for changes to permit banks to improve competitiveness, which Basel complied. When Basel II was going to entry in force in the United States, it was already late. The American government had to rescue small investment banks, GSEs, and Citigroup. Thereby, when the American financial market froze, Europe ultimately entered in crisis as well.

The research deepens in the case study of Greece in Chapter 02. The impact of the financial crisis in the European Union was critical. Eastern Europe, seeing no other option as the ECB was not obliged to act as a lender of last resort, pledged support to the IMF. Due to the fact that American regulated banks were better capitalized than European banks, they could support the crisis and absorb failed institutions, while European mega-bank needed urgent capital. As Northern European banks interwoven with mega-banks, the financial paralysis in the American financial markets inflicted a huge blow in those banks, thus Southern European economies. Northern Europe committed to a stimulus package that in brief bailed out its banks. However, most of the bad loans were retained on European banks balance sheets to guarantee leeway, so when credit froze they realised that borrowers could not pay (BAYOUMI, 2017, p. 104).

Without any means to recover within the eurozone because the euro impeded the devaluation of their currencies, Greece, Italy, Portugal, Spain and Cyprus looked for help to other eurozone countries. While the FED funneled money to contain illiquidity in the American markets, Southern Europe was paralyzed and depended on an independent ECB other member states that reiterated the Maastricht rule of ‘no bailout’. Greece was the first case to demand help from the IMF, but needed the approval of other Europeans in the IMF board. France planned to help Greece and other Southern European countries in the name of

'European solidarity', but Merkel vetoed. Ensuring the rules, Merkel favoured that profligate countries should repay for their debts and denied any form of burden-sharing (DIE SPIEGEL, 2012). Germany was only disposed to act if the IMF was involved. Because Greek productiveness and exports stalled since Greece entered the euro, Germany and other financial institutions, the IMF included, negotiated a series of structural economic reforms in exchange for bailing out the country. Without option, Greek signed the Memorandum of Understanding.

Greece, like Italy, never had conditions to join the eurozone, entering the group due to political reasons and believing that EU discipline would improve Greek institutions. However, the SGP breach by France and Germany and its following weakness impeded it of monitoring Greek finance and sanction it accordingly. Under reforms fatigue after joining the euro, the Greek economy grew by the artificial low-interest rates of the common currency. As Greece used to rely heavily on debt and inflation to develop before entering the EMU, it devalued the drachma in order to improve competitiveness in times of macroeconomic instability. However, under the euro, there is no such possibility, as monetary issues are the responsibility of the ECB. Therefore, the Greek growth model, based on debt, could complement the Northern export-led model in stable periods, even if creating macroeconomic imbalances within the eurozone.

However, the instability caused by Greece's 'making up' its economic performance exposed the asymmetries that the EMU caused in both models. Under the supervision of the IMF, the ECB, and the European Commission, Greece implemented structural reforms that altered its model of growth. The severe adjustment not only worsened the financial crisis but engendered a social and health crisis in Greece. The Greek left party PASOK dismantled previous clientelistic relations and deficiencies in the public sector that kept the party's hegemony in politics until the crisis. Nevertheless, economic reforms and the loss of the party's base plummeted PASOK's popularity. Even though Greece adhered to a stern structural reform in its economy to improve competitiveness and correct its macroeconomic imbalances in the eurozone, the economy did not react, so it was clear that Greece would eventually ask for a second bailout.

Meanwhile, the ECB decision to raise the interest rates caused a massive inflow from Southern European countries to Northern countries, worsening the crisis. Attacked by all other

Greek parties for unfairly implementing austerity in Greece, Papandreou, the prime minister, planned a referendum on austerity to contradict the opposition and gain popular support for showing that there is only one way to stay in the euro. Before setting further technical details, European leaders rebuffed Papandreou proposal, arguing that he would throw Greece in an immense crisis for politicising the question. As a result, Papademos resigned, and with the support of the Greek opposition and eurozone leaders, the former governor of Bank of Greece, Lucas Papademos, rose to power.

Papademos continued the reform without popular support, thus increasing the radicalisation of the left. As support for PASOK was still low due to Papademos' chancellorship, left radical movements attained reach in the mainstream. Likewise, the intensification of the crisis caused the rise of fringe parties in Greece from the right, as a neo-nazi movement gained prominence. The structural reforms in Greece pulled the populist left party SYRIZA to the leadership of resistance against orthodoxy left. As a result, SYRIZA obtained a baffling victory in the Greek elections of 2015. The populist left party was not against the European Union or the euro, but in favour of radical popular democracy (LACLAU, 2013, p. 19). In fact, Tsipras was pro-integration and gained influence in the field later.

Nevertheless, SYRIZA skillfully denounced austerity as a technocratic manoeuvre from European technocrats such as Papademos and specialists from European institutions that composed the troika. It is striking that economic divergences about the economic reforms distressed the troika as well, due to the IMF preference for debt restructure of the European economies, which Germany refused. Under pressure from domestic opposition in Germany, Merkel insisted that indebted member states should be responsible for their financial mismanagements, so sharing European debt to creditors was not open to discussion. As the IMF was a minor partner in the troika with the ECB and the European Commission, the fund expressed its criticism toward investment cuts and economic reforms principally through reports (BLUSTEIN, 2016).

Shaping its image internally as a leader against 'Eurocrats' (European bureaucrats) and externally as the defender of a devasted nation against the perils of liberalism, Tsipras defied the MoU rules, arguing that the terms of the agreement had no legitimacy in Greece. Tsipras did not want to detach himself from the European Union or the eurozone due to the fact that

the Greeks strongly supported it, but his unwillingness to reach an initial compromise impeded a compliant approach. Greece needed a new bailout, so Tsipras sought help from the Americans, the Chinese, and the Russians. Notwithstanding his insistence to adopt a hard bargaining position, he ended up obliged to negotiate with European creditors, alienating possible sympathisers in the process. Without options, he invoked a referendum to gain an upper-hand in the negotiations, but the Europeans did not cede, so Tsipras agreed to a MoU that was harsher than the ones offered before to him to obtain the third bailout.

Chapter 03 delineates the shift of German position in European politics since the beginning of the crisis in the eurozone. Trichet's use of his position as president of the ECB to raise interest rates in 2011 induced a crisis of capital flight in riskier European countries, menacing the euro. As a result, Germany entered in negotiations to ensure that no country would fail its commitments, thus safeguarding the common currency. However, Merkel suffered sternly domestic opposition. German economists, and conservative newspaper condemned the chancellor's stance as an incentive to states continue borrowing over their capacity as they knew that Germany would eventually bail them out. Nevertheless, to avoid further contagion in the eurozone, Merkel advanced the enshrinement of a series of strengthened fiscal rules that determined the institutionalisation of supply-side oriented policies. European member states that signed the MoU had to commit to the six-pack, two-pack and the Fiscal Compact. However, the lack of monetary control coaxed European countries to solely cut investment and social spending instead of devaluing the currency. During the crisis, the ECB kept a conservative stance with creditor and debtor countries, establishing a monetary policy that was conciliatory, but insufficient to change the European crisis. Trichet belatedly helped Germany and other European institutions to burden-sharing risky bonds after European states approved a stability mechanism in Luxembourg, but showed the ECB’s autonomy afterwards.

In 2011, Trichet became unwillingly to cooperate, as he emphasised that the European central bank sole purpose was price stability and not to act as a lender-of-last-resort to indebted European countries. Thus, the crisis aggravated in the GIIPS, requiring higher German participation in the eurozone because the economic responses to the crisis were insufficient. The fact that Merkel helped to ‘bailout’ the GIIPS, even though the ESM did not judiciously break the norm of 'no bailout' according to the German Constitutional Court,

fueled fierce opposition in Germany. Ordoliberal economists were stern about the autonomy of the European central bank and the moral hazard that stoked the debate about bailing out debtor countries, thus organising a movement against the euro to reject the euro, the AfD.

The dissertation found a critical intervening variable: the influence of economic ideas in macroeconomic policymaking in Europe not only on debtor countries but the changing nature of ordoliberalism in creditor countries and, specifically, the German electorate. Chapter 01 showed how ordoliberal thinking in Germany kept pressuring German policymakers to commit to the stability of the currency and the liberalisation of free markets, engendering continued disputes with France about the role of the Economic and Monetary Union. It showed the German insistence for rules that designed the framework of the ECB, the Maastricht Convergence Criteria, and the SGP. Likewise, it vetoed the transformation of the EMU into a fiscal union, as Germans preferred European supervision at the national level to enforce moral hazard. The global contraction in 2002 plummeted the German economy, throwing the country on the verge of recession. Thus, the European Commission condemned Germany for falling into the SGP's debt rule. Schröder, the German chancellor, breached the SPG and pressured the European Council to overrule the Commission, thereafter reforming the Pact to reduce supervisory powers. Therefore, the lack of fiscal union and the subsequent weakening of supervisory activities within the EU surged the macroeconomic imbalances that devastated Southern European economies in the North Atlantic Financial Crisis. Similar to Schröder, Merkel acted pragmatically to maintain in the euro, even though drawing intense opposition from economists within Germany.

Merkel decision to strengthen rules-based fiscal governance to guarantee the stability of the euro resonates with ordoliberal principles. Even though Erhard was against European economic integration for seeing French economic policies as a nuisance to liberalisation, he was overruled by Adenauer's foreign policy. In fact, ordoliberals wrote little about European integration. However, ordoliberalism continues to possess a strong influence on German policymakers. Regardless, Merkel highlighted that an ordering of the institutional framework is imperative to coordinate European economies and ensure the stability of the euro. Like Gerhard Schröder, the German chancellor pushed for ambivalent policymaking to provide the balance of the euro. Nevertheless, in contrast to Schröder, who left a weakened SGP in his term as chancellor, Merkel ensured the correction of the economic deficiencies within the

eurozone through a set of measures that relied on supply-side policies and the assistance of Mario Draghi, who calmed down markets in 2012.

When the European central bank president announced the creation of a banking union, he used his position as president of an independent institution to ensure expanded capacities of supervision within the eurozone and promise that the ECB would bail out countries in risk. Therefore, Merkel and Draghi broke ordoliberal principles in order to protect the stability of the currency, a fundamental tenet of ordoliberalism.

Notwithstanding Merkel firm refusal of ordoliberal arguments from Wolfgang Schäuble and Jens Weidmann to jettison Greece from the euro or of any form of financial risk-sharing, the chancellor had as primary objective to stabilise the eurozone as a whole. In the end, Merkel, like Schröder, Kohl, and Adenauer, made a political decision based on national politics and her 'legacy' to keep the eurozone united and upheld. It was primarily about political gains in a combination of domestic and European variables that permitted the enforcement of rules in Europe. That meant ensuring norms to populist parties like SYRIZA and supporting a technocratic government in Greece. However, as Brigitte Young (2017) declares, ordoliberalism is not a static idea. The endurance of extreme rigid economic ideas in Germany strengthened a unmerciful domestic backlash against Merkel for bailing out the GIIPS. The AfD began as a movement critical of Merkel's economic policies and later became the first far-right party to enter the Bundestag.

Meanwhile, Greek economic indicators made little progress afterwards. The IMF’s Independent Evaluation Office reported that diminishing the public sector spending, privatisations, and labour market reforms in place of product market reforms impeded internal devaluation and delayed gains in productivity (IMF, 2016). Nonetheless, Greece’s GDP shrank in 2015, almost null in 2016, and grew around 1.3 per cent in 2017 after years of deep recession (OECD 2019). After the conflict between SYRIZA and European institutions, the Eurozone as a whole seemed to attain a stronger and more sustained rebound with diminished political risk (IMF, 2017). However, the political costs of the adjustment are still a variable. European leaders face a dilemma, as Southern Europe and Northern Europe continue polarised. Moreover, the deep structural flaws in the architecture of the Euro persists despite palliative developments.

The process of supply-side reforms in Mediterranean Europe created competition among countries with similar economies. Consequently, they were unable to improve export sectors because of complementary factors such as scarce bank lending, inefficient bureaucracy and the lack of investment in refining bulk commodities into branded products. One of Greece’s main export industry, olive oil, fits that description, as many exporters do not have the money to invest in productivity, so it is hard to compete with Italian and Spanish producers (STAMOULI, 2017).

Meanwhile, Germany faces the prospect of a recession and increased hostility in global markets. German infrastructure is creaking and needs critical reforms (THE ECONOMIST, 2017). The coordinate market economy, solidly based in specialisation and incrementation, seems unable to develop disruptive technologies in telecommunication (5G) and artificial intelligence to compete with China and the United States. Moreover, China became a ‘systemic competitor’ instead of a lucrative market as it moves its global value chains to other countries and increments Chinese exports with high-qualified techniques. Higher competition and an environment of slow global growth in the global markets pressure for lower wages in Germany, hence increasing inequality in the country and strengthening populist parties like the AfD. The divergent varieties of capitalism within the eurozone could boost the economy, but the stagnant European economy forces German to focus on other markets. Therefore, the hostile Global economic environment makes the German export-led model makes the country vulnerable to periods of slow global growth (WORLD BANK, 2019).

In terms of European politics, the landscape shifted. The European elections of 2019 set an innovative approach for European policymaking, as trans-European parties such as the ‘Democracy in Europe Movement 2025’ (or DiEM25) proposes a veritable 'European' campaign. Yannis Varoufakis, the first Greek finance minister in the SYRIZA government, is running as prime minister in Greece simultaneously as a deputy in Germany. His polemics notwithstanding, it is striking to observe that Varoufakis envisions to restyle the image of European supranational politics, considered as ’technocratic’, to a ‘full-fledged democracy’. DiEM25’s compelling vision of a ‘democratic Europe’ revitalises integration, mainly driven by economic factors, to the manifestation of the ideas of ‘Pan-Europeanism’ as alive and present in contemporary politics.

Alexis Tsipras and Angela Merkel became allies after the agreement of the third bailout, working together in the refugee crisis. The Greek prime minister' compromise with the MoU demands secured Greece in the euro and alongside the Commission and the ECB. However, SYRIZA's indication of a radical left member to oversee the Greek legal system and the manipulation of public media outlets to benefit the left party raised fears that SYRIZA can erode the fragile Greek democracy (HOPE, 2018).

The German chancellor underwent significant setbacks since the German elections of 2017. Merkel's failed attempt to settle a coalition with the Grüne and the FDP (or the Jamaika-Koalition) engendered political instability, paralysing talks about reforms proposed by the French president Emmanuel Macron. The German chancellor disregarded the possibility of a minority government, affirming that she preferred to abdicate and call new elections than governing without consensus. The threat of a new poll amidst decreasing support to the AfD forced the SPD to accept a novel Grand Koalition (Gro-Ko) with the CDU. The social-democrat Olaf Scholz succeeded Wolfgang Schäuble as the finance minister, but he promised to continue Schäuble's policy of the black zero (schwartze null), which is the practice of perfectly balancing the German budget. However, the Gro-Ko entered in a period of instability because of internal rebellions from the CDU members like Horst Seehofer, minister of the interior, who aimed to imitate the AfD's discourse or the SPD's turn to the left in economic policies.

The consequence of the unstable coalition was Merkel's declaration that she would step down of her role as the CDU leader. Consequently, Annegret Kramp-Karrenbauer (AKK) defeated Friedrich Merz in the internal elections of the party, becoming the fourth leader of the CDU in 45 years. AKK appears to be Merkel's natural successor as the next chancellor. Natural from Saarland, a small industrial state close to the French and Belgian border, AKK defends minimum wages to diminish the effects of deindustrialisation and further integration with Europe. It can send an encouraging signal to Europe in a time when the Franco-German relationship set out strong symbols like the Treaty of Aachen but disagree in themes like geopolitics (Nord Stream 2, relations with Saudi-Arabia), economics (further fiscal

integration, trade policy, fiscal union), and parliamentary politics.[15] Therefore, the symmetrical assimilation of German economic power in Europe remains to be seen. As the Economist (2010) reminisced about the German question, or the possibility of Germany harmoniously integrated in an European system of states, “it never dies, but mutates”.

[15] The CDU and the Hungarian FIDESZ (Magyar Polgári Szövetség, or the Hungarian Civic Alliance) are in the same leading coalition at the European Parliament, the EPP (the European's People Party). Consequently, FIDESZ leader and prime minister of Hungary, Viktor Orbán, can erode Hungarian democracy in the country by defanging the judiciary, restricting media pluralism, and undermining the foundations of liberal democracy without suffering sanctions or consequences. However, Macron's group, called ALDE (the Alliance of Liberals and Democrats for Europe), runs against EPP and FIDESZ, turning Macron and Merkel in indirect competitors in the European Parliament. Further information about FIDESZ, see Pappas (2014).

REFERENCES

AFONSO, A.; ZARTALOUDIS, S.; PAPADOPOULOS, Y. How party linkages shape austerity politics: clientelism and fiscal adjustment in Greece and Portugal during the eurozone crisis. **Journal of European Public Policy**, v. 22, n. 3, p. 315–334, 2015.

ALTERNATIV FÜR DEUTSCHLAND. Programm für Deutschland. Abril 2015. Disponível em: <https://www.afd.de> Acesso em: 15 Dez. 2017.

APPEL, Hilary; ORENSTEIN, Mitchell. **From Triumph to Crisis:** Neoliberal Economic Reform in Postcommunist Countries. New York: Cambridge University Press, 2018.

ASLANIDIS, P.; ROVIRA KALTWASSER, C. Dealing with populists in government: the SYRIZA-ANEL coalition in Greece. **Democratization**, v. 23, n. 6, p. 1077–1091, 2016.

BAERG, Nicole Rae; HALLERBERG, Mark. Explaining Instability in the Stability and Growth Pact: The Contribution of Member States Power and Euroskepticism to the Euro Crisis. **Comparative Political Studies**. Vol. 49, n. 7, 2016, p. 968-1009.

BANK FOR INTERNATIONAL SETTLEMENTS. History - Overview, 2018. Disponível em: <https://www.bis.org/about/history.htm?m=1%7C4%7C445> Acesso em 15 set. 2017

BAYOUMI, T. **Unfinished business:** the unexplored causes of the financial crisis and the lessons yet to be learned. New Haven: Yale University Press, 2017.

BEBNOWSKI, David; FÖRSTER, Lisa. Competitive Populism: The 'Alternative for Germany' and the influence of economists. **Otto Brenner Stiftung Working Paper**. Frankfurt am Main, 2014.

BENNER, Thorsten. Germany's Right Wing Challenge: How Merkel Should Respond. **Foreign Affairs**. 26 set. 2016. Disponível em: <https://www.foreignaffairs.com/articles/2016-09-26/germanys-right-wing-challenge>. Acesso em: 22 jun. 2017

______. Germany Can Protect the Liberal Order: Damage Control After Trump's Election. **Foreign Affairs.** 16 nov. 2016. Disponível em: <https://www.foreignaffairs.com/articles/germany/2016-11-16/germany-can-protect-liberal-order>. Acesso em: 22 jun. 2017.

______. Handling the Alternative for Germany: How Established Parties Can Reclaim the Public Debate. **Foreign Affairs.** 29 set. 2017. Disponível em: <https://www.foreignaffairs.com/articles/europe/2017-09-29/handling-alternative-germany>. Acesso em: 29 set. 2017.

BERMAN, Sheri. **The Social Democratic Moment**: Ideas and Politics in the Making of Interwar Europe. Massachusetts: Harvard University Press, 1998.

BIBOW, Jorg. On the origin and rise of central bank independence in West Germany. **European Journal of the History of Economic Through**, Vol. 16, n. 1, p. 155-190, 2009.

BIEBRICHER, Thomas; VOGELMANN, Frieder. **The Birth of Austerity:** German ordoliberalism and contemporary neoliberalism. London: Rowman & Littlefield international, 2017.

BIEBRICHER, Thomas. **The Political Theory of Neoliberalism**. Stanford: Stanford University Press, 2019.

BLYTH, M. **Austerity:** the history of a dangerous idea. New York: Oxford University Press, 2015.

______. Global Trumpism: Why Trump's Victory Was 30 Years in the Making and Why It Won't Stop Here. **Foreign Affairs.** 15 nov. 2016. Disponível em: <https://www.foreignaffairs.com/articles/2016-11-15/global-trumpism>. Acesso em: 22 jun. 2017.

BLYTH, Mark; MATTHIJS, Matthias. Black Swans, Lame Ducks, and the mystery of IPE's missing macroeconomy. **Review of International Political Economy**, v. 24, n. 2, p. 203–231, 2017.

BLUSTEIN, P. **Laid Low:** Inside the Crisis That Overwhelmed Europe and the IMF. Waterloo: CIGI Press, 2016.

BÖHM, Franz. Kartellauflösung und Konzernentflechtung. Spezialistenaufgabe oder Schicksalsfrage. **Süddeutsche Juristen-Zeitung**, v. 2, p. 495-505, 1947.

BRADSHER, Keith. China Losing Taste for Debt From U.S. **The New York Times.** Hong Kong. 7 jan. 2009. Disponível em: <https://www.nytimes.com/2009/01/08/business/worldbusiness/08yuan.html>. Acesso em: 15 set. 2017.

BRAUN, Mark; HÜPNER, Marina. Fiscal Fault, Financial Fix: Capital Markets Union and the Quest for Macroeconomic Stabilization in the Euro Area. **MPIfG Discussion Paper 17/21**. Cologne, 2017.

BRÖNING, Michael. The Rise of Populism in Europe: Can the Center Hold?. **Foreign Affairs.** 3 jun. 2016. Disponível em: <https://www.foreignaffairs.com/articles/europe/2016-06-03/rise-populism-europe>. Acesso em: 22 jun. 2017.

______. There Is No Alternative: Why Germany's Right-Wing Populists Are Losing Steam. **Foreign Affairs.** 10 mar. 2017. Disponível em: <https://www.foreignaffairs.com/articles/germany/2017-03-10/there-no-alternative>. Acesso em: 22 jun. 2017.

BRUNNERMEIER, M.; JAMES, H.; LANDAU, J. **The Euro and the Battle of Ideas**. Princeton ; Oxford: Princeton University Press, 2016.

BULMER, Simon; PATERSON, William. *In*: DINAN, Desmond; NUGENT, Neill; PATERSON, William (Orgs.). **The European Union in Crisis**. London: Palgrave, 2017.

BUNDESBANK. 'Finazsystemstabilität und nachhaltiges Wachstum', 29 nov. 2012. Disponível em: <https://www.bundesbank.de/de/presse/reden/herausforderungen-fuer-bankenregulierung-und--aufsicht-in-der-waehrungsunion-710700> Acesso em: 15 set. 2017.

______. 'Eurokrise und kein Ende?' Rede beim Industrieabend des Unternehmerverbands für den Kreis Gütersloh e. V. 23 set. 2015. Disponível em: <https://www.bundesbank.de/de/presse/reden/deutschland--europa-und-der-euro-710832 2015> Acesso em: 15 set. 2017.

BUNDESKANZLERIN. Kanzleramt. Jan. 2019. Disponível em <https://www.bundeskanzlerin.de/bkin-de/kanzleramt/bundeskanzler-seit-1949> Acesso em: 21 jan. 2019.

BUNDESFINANZMINISTERIUM. Dr. Wolfgang Schäuble "Auf dem Weg aus der Krise - Was haben wir gelernt? Was muss sich ändern?", 5 mai. 2012. Disponível em: <https://www.bundesfinanzministerium.de/Content/DE/Audio/Alternativtexte/2012-09-05-euroforum-alternativtext.html> Acesso em: 15 set. 2012

BUNDESREGIERUNG. Regierungserklärung vom Bundeskanzlerin. 2 dez. 2011. Disponível em: <https://www.bundesregierung.de/Content/DE/Bulletin/2010-2015/2011/12/131-1-bk-bt.html> Acesso em: 15 set. 2017.

BURGIN, Angus. **The Great Persuasion:** Reinventing Free Markets since the Depression. Cambridge: Harvard University Press, 2012.

CLIFT, Ben. The IMF and the Politics of Austerity in the Wake of the Global Financial Crisis. Oxford: Oxford University Press, 2018.

CODY, Edward. Sarkozy Advocates Systemic Change After Crisis. **Washington Post.** Toulon. 26 set. 2008. Disponível em: <http://www.washingtonpost.com/wp-dyn/content/article/2008/09/25/AR2008092504285.html>. Acesso em: 15 set. 2017.

CONSILIUM. Statement by the Eurogroup, maio de 2010. Disponível em: <https://www.consilium.europa.eu/media/25673/20100502-eurogroup_statement_greece.pdf> Acesso em: 15 set. 2017.

CONNOLY, Kate. Greek bailout: Angela Merkel accused of blackmailing Athens. **The Guardian.** Berlin, 4 jun. 2015. Disponível em: <https://www.theguardian.com/world/2015/jul/14/greek-bailout-angela-merkel-blackmail-athens-opposition>. Acesso em: 15 set. 2017.

COPELOVITCH, M.; FRIEDEN, J.; WALTER, S. The Political Economy of the Euro Crisis. **Comparative Political Studies**, v. 49, n. 7, p. 811–840, 2016.

CULPEPPER, Pepper D. The Political Economy of Unmediated Democracy: Italian Austerity under Mario Monti. **West European Politics**, v. 37, n. 6, p.1264-1281, 14 ago. 2014. Informa UK Limited. http://dx.doi.org/10.1080/01402382.2014.929334.

DEUTSCHE WELLE. French, German Leaders Call for "Moralization" of Capitalism. **Deutsche Welle.** Berlin. 08 jan. 2009. Disponível em: <https://www.dw.com/en/french-german-leaders-call-for-moralization-of-capitalism/a-3930542>. Acesso em: 15 set. 2017.

DIE SPIEGEL. Merkel Vows 'No Euro Bonds as Long as I Live'. **Die Spiegel**. Berlin. 27 jun. 2012. Disponível em: <http://www.spiegel.de/international/europe/chancellor-merkel-vows-no-euro-bonds-as-long-as-she-lives-a-841163.html>. Acesso em: 15 set. 2017.

DIEZ, Georg. The Twilight of German Conservatism: Why Angela Merkel Presides Over a Movement in Crisis. **Foreign Affairs.** 15 out. 2018. Disponível em: <https://www.foreignaffairs.com/articles/germany/2018-10-15/twilight-german-conservatism>. Acesso em: 25 out. 2018.

DIJSSELBLOEM, Jeroen. **De Eurocrisis:** Het Verhaal van Binnenuit. Amsterdam: Prometheus, 2018.

DREZNER, Daniel. **The system worked:** How the world stopped another Great Depression. Oxford: Oxford University Press, 2014.

DULLIEN, Sebastian; GUÉROT, Ulrike. ‘The long shadow of ordoliberalism: Germany’s approach to the euro crisis’. **European Council on Foreign Relations**, Policy Brief 49, 2012.

DUSTMANN, Christian et al. From Sick Man of Europe to Economic Superstar: Germany's Resurgent Economy. **Journal of Economic Perspectives**, [s.l.], v. 28, n. 1, p.167-188, fev. 2014. American Economic Association. http://dx.doi.org/10.1257/jep.28.1.167.

EICHENGREEN, Barry. **Hall of Mirrors:** The Great Depression, the Great Recession, and the Uses- and Misuses- of History. Oxford: Oxford University Press, 2014.

ERLANGER, Steven. Europe’s Odd Couple. **The New York Times.** Deauville, 13 jan. 2011. Disponível em: <https://www.nytimes.com/2011/01/16/magazine/16MerkelSarkozy-t.html?mtrref=www.google.com&gwh=4845E699F943D374A878F5D4B8FAC3BE&gwt=pay>. Acesso em: 15 set. 2017.

EUCKEN, Walter. Staatliche Strukturwandlungen und die Krisis des Kapitalismus. **Weltwirtschaftliches Archiv,** v. 36, p. 297-321, 1932.

EUR-LEX. Council Regulation (EC) No 1466/97. 7 jul. 1997. Disponível em: <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A31997R1466> Acesso em: 15 set. 2017.

EUROPEAN CENTRAL BANK. Verbatim of the remarks made by Mario Dragui, 26 julho 2012. Disponível em <https://www.ecb.europa.eu/press/key/date/2012/html/sp120726.en.html> Accesso em: 15 set. 2017.

______. Technical features of Outright Monetary Transactions. 6 set. 2012. Disponível em: <https://www.ecb.europa.eu/press/pr/date/2012/html/pr120906_1.en.html> Acesso em: 15 set. 2018.

______. Banking Union. Disponível em: <https://www.bankingsupervision.europa.eu/about/bankingunion/html/index.en.html> Acesso em: 15 jan. 2019.

______. Single Supervisory Mechanism. Disponível em: <https://www.bankingsupervision.europa.eu/about/thessm/html/index.en.html> Acesso em: 15 jan. 2019.

______. Open Market Operations. Disponível em: <https://www.ecb.europa.eu/mopo/implement/omo/html/index.en.html> Acesso em: 15 jan. 2018.

EUROPEAN COMMISSION. Report to the Council of the Commission on the realization by stages of Economic and Monetary Union in the Community “Werner Report” (definitive text). Luxembourg, 8 abr. 1970, Disponível em: <http://ec.europa.eu/economy_finance/publications/pages/publication6142_en.pdf> Acesso em: 15 set. 2017.

______. Commission proposes new ECB powers for banking supervision as part of a banking union. 12 set. 2012. Disponível em: <http://eeas.europa.eu/archives/delegations/australia/documents/press_corner/i12_953_en.pdf> Acesso em: 15 dez. 2018.

______. **The European Union explained:** Economic and Monetary Union and the Euro. Luxembourg: Publications Office of the European Union, 2014.

______. European Economic and monetary integration and the optimum currency area theory, Economic Papers 302, fev. 2008, Disponível em: <http://ec.europa.eu/economy_finance/publications/pages/publication12081_en.pdf> Acesso em: 15 set. 2017

______. Legal Basis of the Stability and Growth Pact, 2019. Disponível em: <https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/legal-basis-stability-and-growth-pact_en> Acesso em: 15 jan 2019.

______. Altero Spinelli: an unrelenting federalist, 2019. Disponível em: <https://europa.eu/european-union/sites/europaeu/files/docs/body/altiero_spinelli_en.pdf> Acesso em: 15 jan 2019.

______. Eurobarometer interactive. Disponível em: <http://ec.europa.eu/commfrontoffice/publicopinion/index.cfm/Chart/index> Acesso em: 15 dez. 2018

EUROPEAN COUNCIL. Single Resolution Mechanism. 25 out. 2018. Disponível em: <https://www.consilium.europa.eu/en/policies/banking-union/single-resolution-mechanism> Acesso em: 15 jan. 2019.

FARRELL, H.; QUIGGIN, John. Consensus, Dissensus, and Economic Ideas: Economic Crisis and the Rise and Fall of Keynesianism. **International Studies Quarterly**, v. 61, n. 2, p. 269–283, 2017.

FEATHERSTONE, Kevin. The JCMS Annual Lecture: The Greek Sovereign Debt Crisis and EMU: A Failing State in a Skewed Regime. **JCMS:** Journal of Common Market Studies, v. 49, n. 2, p. 193–217, 2011.

______. External conditionality and the debt crisis: the 'Troika' and public administration reform in Greece. **Journal of European Public Policy**, v. 22, n. 3, p. 295–314, 2015.

FEATHERSTONE, Kevin; PAPADIMITRIOU, Dimitris. Greece: A Crisis in Two-level Governance. *In*: DINAN, Desmond; NUGENT, Neill; PATERSON, William (Orgs.). **The European Union in Crisis**. London: Palgrave, 2017

FRÖHLICH, Stefan. Looking to Germany: What Berlin Can and Can't Do for the Liberal Order. **Foreign Affairs.** 29 jan. 2017. Disponível em: <https://www.foreignaffairs.com/articles/germany/2017-01-29/looking-germany>. Acesso em: 22 jun. 2017.

GABOR, Daniela. The (impossible) repo trinity: the political economy of repo markets. **Review of International Political Economy**, v. 23, n. 6, p. 967–1000, 2016.

GABOR, Daniela; BAN, Cornel. Banking on Bonds: The New Links Between States and Markets: Banking on bonds. **JCMS:** Journal of Common Market Studies, v. 54, n. 3, p. 617–635, 2016.

GAMMELIN, C.; LÖW, R. **Europas Strippenzieher:** Wer in Brüssel wirklich regiert. Berlin: Econ, 2014.

GOLDSTEIN, Judith; KEOHANE, Robert. **Ideas and Foreign Policy:** Beliefs, Institutions, and Political Change. Ithaca: Cornell University Press, 1993.

GREENSPAN, Alan. **The Age of Turbulence:** Adventures in a World. New York: Penguin books, 2008.

HALL, Peter A. Democracy in the European Union: The Problem of Political Capacity. *In*: ARMINGEON, Klaus (Org.). **Staatstätigkeiten, Parteien und Demokratie**. Wiesbaden: Springer Fachmedien Wiesbaden, 2013, p. 431–443.

______. The Economics and Politics of the Euro Crisis. **German Politics**, v. 21, n. 4, p. 355–371, 2012.

______. Varieties of Capitalism and the Euro Crisis. **West European Politics**, v. 37, n. 6, p. 1223–1243, 2014.

______. Varieties of capitalism in light of the euro crisis. **Journal of European Public Policy**, v. 25, n. 1, p. 7–30, 2018.

HALL, Peter A.; SOSKICE, David. **Varieties of Capitalism:** The Institutional Foundations of Comparative Advantage. Oxford: Oxford University Press, 2001.

HAAS, Ernst. **The Uniting of Europe:** Political, Social, and Economic Forces, 1950-1957. Indiana: University of Notre Dame Press, 1958.

HELLEINER, Eric. Understanding the 2007–2008 Global Financial Crisis: Lessons for Scholars of International Political Economy. **Annual Review of Political Science**, v. 14, n. 1, p. 67–87, 2011.

HELLENIC REPUBLIC. Διατελέσαντες Πρωθυπουργοί. Jan. 2019. Disponível em <https://primeminister.gr/primeminister/history> Acesso em 20 jan. 2019.

HEIPERTZ, Martin; VERDUN, Amy. The dog that would never bite? What we can learn from the origins of the Stability and Growth Pact. **Journal of European Public Policy**, v. 11, n. 5, p. 765–780, 2004.

HOCKENOS, Paul. Germany's Polite Populists: The Rapid Rise of Europe's Newest Right-Wing Party. **Foreign Affairs.** 31 out. 2014. Disponível em: <https://www.foreignaffairs.com/articles/germany/2014-10-31/germanys-polite-populists>. Acesso em: 25 set. 2018.

______. Pegida Marches On: How the Charlie Hebdo Attack Reinvigorated the Movement. **Foreign Affairs.** 13 jan. 2015. Disponível em: <https://www.foreignaffairs.com/articles/germany/2015-01-13/pegida-marches>. Acesso em: 22 jun. 2017.

HOPE, Kerin. Syriza choice for justice minister sparks Greek rule of law fears. **Financial Times.** Athens. 5 set. 2018. Disponível em: <https://www.ft.com/content/8f617d4c-af60-11e8-99ca-68cf89602132>. Acesso em: 10 set. 2018.

HUNTINGTON, Samuel. Democracy’s Third Wave. **Journal of Democracy**. Vol. 2, N. 2, p. 12-34, 1999.

INSTITUTE OF EMPIRICAL ECONOMIC RESEARCH AT OSNABRÜCK UNIVERSITY. Euro Crisis Monitor. Dez. 2018. Disponível em: <http://www.eurocrisismonitor.com>. Acesso em: 28 dez. 2018.

INTERNATIONAL MONETARY FUND. Greece: Ex Post Evaluation of Exceptional Access under the 2010 Stand-By Arrangement, junho 2013. Disponível em: <https://www.imf.org/external/pubs/ft/scr/2013/cr13156.pdf> Acesso em: 15 set 2017.

______. The IMF and the Crises in Greece, Ireland and Portugal: An evaluation by the Independent Evaluation Office, jul. 2016. Disponível em: <http://www.ieo-imf.org/ieo/files/completedevaluations/EAC__REPORT%20v5.PDF> Acesso em: 10 set. 2017.

______. World Economic Outlook Update, World Economic Outlook, jul. 2017. Disponível em: <http://www.imf.org/en/Publications/WEO/Issues/2017/07/07/world-economic-outlook-update-july-2017> Acesso em: 10 set. 2017.

______. Euro Area Policies: 2017 Article IV Consultation – Press Release; Staff Report; and Statement by the Executive Director for Member Countries, IMF Country Report No. 17/235, jul. 2017. Disponível em: <http://www.imf.org/en/Publications/CR/Issues/2017/07/25/Euro-Area-Policies-2017-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-45121> Acesso em: 15 set. 2017.

IRVING, Sean. Limiting democracy and framing the economy: Hayek, Schmitt and ordoliberalism. **History of European Ideas**, DOI: 10.1080/01916599.2017.1381856

JABKO, Nicolas. The hidden face of the euro. **Journal of European Public Policy**, v. 17, n. 3, p. 318–334, 2010.

______. The Elusive Economic Government and the Forgotten Fiscal Union. *In*: MATTHIJS, Matthias; BLYTH, Mark (Orgs.). **The Future of the Euro**. Oxford: Oxford University Press, 2015.

JAMES, Harold. **Making the European Monetary Union**. Massachusetts: Harvard University Press, 2014.

______. 'Karl-Otto Pöhl: The Pole Position'. *In*: DYSON, Kenneth; MAES, Ivo (Orgs.). **Architects of the Euro:** Intellectuals in the making of the European Monetary Union. Oxford: Oxford University Press, 2016.

______. 'Rule Germania' *In:* BECK, T.; KOTZ, H. (Orgs.). **Ordoliberalism:** A German oddity? London: CEPR Press, 2017.

JOHNSTON, Alison; REGAN, Aidan. Introduction: Is the European Union Capable of Integrating Diverse Models of Capitalism? **New Political Economy**, v. 23, n. 2, p. 145–159, 2018.

JONES, Daniel Stedman. **Masters of the Universe:** Hayek, Friedman, and the Birth of Neoliberal Politics. New Jersey: Princeton University Press, 2012.

JONES, Erik. The collapse of the Brussels–Frankfurt consensus and the future of the euro. *In*: SCHMIDT, Vivien A.; THATCHER, Mark (Orgs.). **Resilient Liberalism in Europe's Political Economy**. Cambridge: Cambridge University Press, 2013a.

______. Getting to Greece: Uncertainty, Misfortune, and the Origins of Political Disorder. **European Political Science**, v. 12, n. 3, p. 294–304, 2013b.

______. The Forgotten Financial Union. *In*: MATTHIJS, Matthias; BLYTH, Mark (Orgs.). **The Future of the Euro**. Oxford: Oxford University Press, 2015.

______. Towards a theory of disintegration. **Journal of European Public Policy**, v. 25, n. 3, p. 440–451, 2018.

JONES, Erik; KELEMEN, R. Daniel; MEUNIER, Sophie. Failing Forward? The Euro Crisis and the Incomplete Nature of European Integration. **Comparative Political Studies**, v. 49, n. 7, p. 1010–1034, 2016.

JONES, Erik; MATTHIJS, Matthias. Democracy without Solidarity: Political Dysfunction in Hard Times – Introduction to Special Issue. **Government and Opposition**, v. 52, n. 2, p. 185–210, 2017.

KARYOTIS, Georgios; RÜDIG, Wolfgang. The Three Waves of Anti-Austerity Protest in Greece, 2010–2015. **Political Studies Review**, v. 16, n. 2, p. 158–169, 2018.

KELLY, Duncan. 'Carl Schmitt's Political Theory of Dictatorship'. *In*: MEIERHENRICH, Jens; SIMONS, Oliver (Eds). **The Oxford Handbook of Carl Schmitt**. London: Oxford University Press, 2016.

KENEN, Peter. The Theory of Optimum Currency Areas: An Ecclectic Way. *In*: MUNDELL, R.; SWOBODA, A. (Orgs). **Monetary Problems of the International Economy**. Chicago: University of Chicago Press, 1969.

KRIESI, Hanspeter. The implications of the euro crisis for democracy. **Journal of European Public Policy**, v. 25, n. 1, p. 59–82, 2018.

KUTTNER, Robert. **Can democracy survive global capitalism?** New York: W. W. Norton & Company, 2018.

LACLAU, Ernesto. **A Razão Populista**. São Paulo: Três Estrelas, 2013.

LIM, Darren J.; MOUTSELOS, Michalis; MCKENNA, Michael. Puzzled out? The unsurprising outcomes of the Greek bailout negotiations. **Journal of European Public Policy**, p. 1–19, 2018.

LO, Andrew W. Reading About the Financial Crisis: A Twenty-One-Book Review. **Journal of Economic Literature**, v. 50, n. 1, p. 151–178, 2012.

L'OBS. Romano Prodi dénonce le Pacte de stabilité. **L'obs**, Paris, 18 Oct. 2006. Disponível em: <https://www.nouvelobs.com/economie/20021017.OBS1502/romano-prodi-denonce-le-pacte-de-stabilite.html>. Acesso em: 15 set 2017.

LYNN, Jonathan. Brazil's Lula calls for new world economic order. **Reuters.** Geneva. 15 jun. 2009. Disponível em: <https://www.reuters.com/article/us-financial-lula-sb/brazils-lula-calls-for-new-world-economic-order-idUSTRE55E3B520090615>. Acesso em: 15 set. 2017.

MAES, Ivo. On the Origins of the Franco-German EMU Controversies. **European Journal of Law and Economics**, v. 17, p. 21-39, 2004.

MAIR, Peter. Representative versus Responsible Government. **MPIfG Working Paper 09/08**. Cologne, 2009.

MAJOR, Aaron. Neoliberalism and the new international financial architecture. **Review of International Political Economy**, v. 19, n. 4, p. 536–561, 2012.

______. **Architects of Austerity:** International Finance and the Politics of Growth. Stanford: Stanford University Press, 2014. 265 p.

MARSH, David. **The Euro:** The Battle for a New Global Currency. New Haven: Yale University Press, 2011.

MATTHIJS, Matthias. Mediterranean Blues: The crisis in Southern Europe. **Journal of Democracy**, vol. 25, n. 1, 2014, p. 101-115.

______. A Barbarous Relic: The Economic Consequences of the Euro. **Challenge**. Vol. 58, n. 6, 2015, p. 477-491.

______. Powerful rules governing the euro: the perverse logic of German ideas. **Journal of European Public Policy**, v. 23, n. 3, p. 375–391, 2016.

______. The Three Faces of German Leadership. **Survival**, v. 58, n. 2, p. 135–154, 2016.

______. The Euro's "Winner-Take-All" Political Economy: Institutional Choices, Policy Drift, and Diverging Patterns of Inequality. **Politics & Society**, v. 44, n. 3, p. 393–422, 2016.

______. Integration at What Price? The Erosion of National Democracy in the Euro Periphery. **Government and Opposition**, v. 52, n. 02, p. 266–294, 2017.

MATTHIJS, Matthias; BLYTH, Mark. When Is It Rational to Learn the Wrong Lessons? Technocratic Authority, Social Learning, and Euro Fragility. **Perspectives on Politics**, v. 16, n. 01, p. 110–126, 2018.

MATTHIJS, Matthias; MCNAMARA, Kathleen. The Euro Crisis' Theory Effect: Northern Saints, Southern Sinners, and the Demise of the Eurobond. **Journal of European Integration**, v. 37, n. 2, p. 229–245, 2015.

MCNAMARA, K. **The Currency of Ideas**. Ithaca: Cornell Press, 1998.

MCNAMARA, Kathleen R. The Forgotten Problem of Embeddedness. *In*: MATTHIJS, Matthias; BLYTH, Mark (Orgs.). **The Future of the Euro**. Oxford: Oxford University Press, 2015.

MCKINNON, Ronald. Optimum Currency Areas. **American Economic Review**, v. 53, p. 717-725, 1963.

MIROWSKI, Philip; PLEHWE, Dieter (Orgs.). **The Road from Mont Pelerin:** The Making of the Neoliberal Thought Collective. Cambridge: Harvard University Press, 2009.

MODY, Ashoka. **Eurotragedy:** A Drama in Nine Acts. Oxford: Oxford University Press, 2018.

MOLINA, Oscar; RHODES, Martin. The political economy of Adjustment in Mixed Market Economies: A study of Spain and Italy. *In*: HANCKÉ, Bob; RHODES, Martin; THATCHER, Mark (Orgs.). **Beyond Varieties of Capitalism:** Conflict, Contradictions, and Complementarities in the European Economy. Oxford: Oxford University Press, 2007.

MORAVCSIK, Andrew. **The Choice for Europe:** Social Purpose and State Power from Messina to Maastricht. Ithaca: Cornell University Press, 1993.

MOUNK, Yascha. **The People versus Democracy:** Why our freedom is in danger and how to save it. Massachusetts: Harvard University Press, 2018

MUDDE, Cas; PAPASARANTOPOULOS, Petros. **SYRIZA:** The Failure of the Populist Promise. New York, NY: Palgrave Macmillan, 2016.

MUDDE, Cas; KALTWASSER, Cristobal Rovira. **Populism:** A Very Short Introduction. 2nd ed. edition. New York, NY: Oxford University Press, 2017.

MÜLLER, Jan-Werner. What do Germans think about when they think about Europe? **London Review of Books**, p. 18–19, 2012.

______. **What Is Populism?** Philadelphia: University of Pennsylvania Press, 2016.

MÜNCHAU, Wolfgang. The wacky economics of Germany’s parallel universe. **Financial Times**. 16 nov. 2014. Disponível em: <https://www.ft.com/content/e257ed96-6b2c-11e4-be68-00144feabdc0>. Acesso em: 12 dez. 2017.

MUNDELL, Robert A. A Theory of Optimum Currency Areas. **The American Economic Review**, v. 51, n. 4, p. 657–665, 1961.

MYLONAS, Harris. The Agreekment That Could Break Europe: Euroskeptics, Eurocritics, and Life After the Bailout. **Foreign Affairs.** 14 jul. 2015. Disponível em: <https://

www.foreignaffairs.com/articles/greece/2015-07-14/agreekment-could-break-europe>. Acesso em: 22 jun. 2017.

NEWMAN, Abraham L. Flight from Risk: Unified Germany and the Role of Beliefs in the European Response to the Financial Crisis. **German Politics and Society**, v. 28, n. 2, 2010.

NEWMAN, Schmidt. The Reluctant Leader. *In*: MATTHIJS, Matthias; BLYTH, Mark (Orgs.). **The Future of the Euro**. Oxford: Oxford University Press, 2015.

NÖLKE, Andreas. Economic causes of the Eurozone crisis: the analytical contribution of Comparative Capitalism. **Socio-Economic Review**, v. 14, n. 1, p. 141–161, 2016.

OECD. OECD Data. Disponível em: <https://data.oecd.org/unemp/unemployment-rate.htm> Acesso em: 10 set 2018.

OECD. OECD Data. Disponível em: <https://data.oecd.org/gdp/real-gdp-forecast.htm> Acesso em: 10 set 2018.

OREN, Tami; BLYTH, Mark. From Big Bang to Big Crash: The Early Origins of the UK's Finance-led Growth Model and the Persistence of Bad Policy Ideas. **New Political Economy**, 2018. DOI: 10.1080/13563467.2018.1473355.

PAPACONSTANTINOU, George. **Game Over:** The Inside Story of the Greek Crisis. Wrocław: CreateSpace Independent Publishing Platform, 2016.

PAPPAS, Takis S. Why Greece Failed. **Journal of Democracy**, v. 24, n. 2, p. 31–45, 2013.

PAPPAS, Takis. Populist Democracies: Post-Authoritarian Greece and Post-Communist Hungary. **Government and Opposition**, Vol. 49, n. 1, 2014, p. 1-23.

PARKER, George; ATKINS, Ralph. Greece faces court action over false deficit figures. **Financial Times.** Brussels, 30 nov. 2004. Disponível em: <https://www.ft.com/content/edeaaef0-42f6-11d9-bea1-00000e2511c8>. Acesso em: 15 set. 2017.

PARSONS, Craig; MATTHIJS, Matthias. European Integration Past, Present, and Future: Moving Forward Through Crisis. *In*: MATTHIJS, Matthias; BLYTH, Mark (Orgs.). **The Future of the Euro**. Oxford, Oxford University Press, 2015.

PISANI-FERRY, Jean. **The Euro Crisis and Its Aftermath**. New York: Oxford University Press, 2014.

POLANYI, Karl. **The Great Transformation:** The Political and Economic Origins of Our Time. Boston, MA: Beacon Press, 2001.

PTAK, R. Neoliberalism in Germany: Revisiting the Ordoliberal foundations of the Social Market Economy. *In:* MIROWSKI, Philip; PLEHWE, Dieter (Orgs.). **The Road from Mont**

Pelerin: The Making of the Neoliberal Thought Collective. Cambridge: Harvard University Press, 2009.

RANDOW, Jana; SPECIALE, Alessandro. 3 Words and $3 Trillion: The Inside Story of How Mario Draghi Saved the Euro. **Bloomberg.** 27 nov. 2018. Disponível em: <https://www.bloomberg.com/news/features/2018-11-27/3-words-and-3-trillion-the-inside-story-of-how-mario-draghi-saved-the-euro>. Acesso em: 30 nov. 2018.

REGAN, Aidan; BRAZYS, Samuel. Celtic Phoenix or Leprechaun Economics? The Politics of an FDI-led Growth Model in Europe. **New Political Economy**, vol. 23, 2017, p. 223-238.

REHER, Stephanie. German Euroscepticism: Alternativ für Deutschland in 2014. *In*: NILSEN, J.; FRANKLIN, M. (Orgs). **The Eurosceptic 2014 European Parliament Elections**. London: Palgrave Macmillan, 2017.

REIERMANN, Christian; SAUGA, Michael; SEITH, Anne. German Central Bank Opposes Euro Strategy. **Spiegel Online.** Hamburg. 27 jun. 2012. Disponível em: <http://www.spiegel.de/international/europe/german-bundesbank-opposes-euro-crisis-strategy-a-852237.html>. Acesso em: 15 set. 2017.

RODRIK, Dani. **The Globalization Paradox:** Democracy and the Future of the World Economy. Reprint edition. New York, NY: W. W. Norton & Company, 2011.

RONZHEIMER, Paul. Darum kriechen die Griechen nie aus der Krise. **Bild**, 13 maio 2011. Disponível em: <http://www.bild.de/geld/wirtschaft/griechenland-krise/darum-kriechen-die-griechen-nie-aus-der-krise-17870626.bild.html>. Acesso em: 10 set. 2017.

RÖPKE, Wilhelm. **Civitas Humana**. London: William Hodge, 1948.

______. **A Humane Economy:** The Social Framework of the Free Market. Chicago: Henry Regnery, 1960.

RÜSTOW, Alexander. 'Socialpolitik oder Vitalpolitik'. **Mitteilungen der Industrie- und Handelskammer Dortmund**, v. 11, 1951, p. 453-459.

______. Die Staatspolitischen Voraussetzungen des wirtschaftspolitischen Liberalismus. *In*: HOCH, Walter (Org.). **Alexander Rüstow. Rede und Antwort**. Ludwigsburg: Hoch, 1963.

RYNER, Magnus. Europe's ordoliberal iron cage: critical political economy, the euro area crisis and its management. **Journal of European Public Policy**, 2015. DOI: 10.1080/13501763.2014.995119

SCHARPF, F. **Regieren in Europa:** Effektiv und demokratisch. Berlin, Campus Fachbulk, 1999.

SCHARPF, F. Forced Structural Convergence in the Eurozone – Or a Differentiated European Monetary Community. **MPIfG Discussion Paper 16/15**. Cologne, 2016.

SCHARPF, F. International Monetary Regimes and the German Model. **MPIfG Discussion Paper 18/1**. Cologne, 2018.

SCHÄUBLE, Wolfgang. Why austerity is only cure for the eurozone: Piling on debt now will stunt growth in the long run, writes Wolfgang Schäuble. **Financial Times.** London. 5 set. 2011. Disponível em: <https://www.ft.com/content/97b826e2-d7ab-11e0-a06b-00144feabdc0>. Acesso em: 15 set. 2017.

SCHELKLE, Waltraud. **The Political Economy of Monetary Solidarity**: Understanding the Euro Experiment. Oxford, United Kingdom: Oxford University Press, 2017.

SCHMIDT, Vivien A. The Forgotten Problem of Democratic Legitimacy. *In*: MATTHIJS, Matthias; BLYTH, Mark (Orgs.). **The Future of the Euro**. Oxford, Oxford University Press, 2015.

______. 'Varieties of Capitalism: A distinctly French Model?'. *In*: ELGIE, Robert; GROSSMAN, Emiliano; MAZUR, Amy (Eds). **The Oxford Handbook of French Politics.** Oxford: Oxford University Press, 2017.

SCHMIDT, Vivien; WOLL, Cornelia. The state: The bête noire of neo-liberalism or its greatest conquest? *In*: SCHMIDT, Vivien; THATCHER, Mark (Orgs.). **Resilient Liberalism in Europe's Political Economy**. Cambridge: Cambridge University Press, 2013.

SINN, Hans-Werner. **The Euro Trap:** On Bursting Bubbles, Budgets, and Beliefs. Oxford: Oxford University Press, 2017.

SLOBODIAN, QUINN. **Globalists:** The End of Empire and the Birth of Neoliberalism. Cambridge: Harvard University Press, 2018.

SMITH, Helena. Greek man shoots himself over debts: Elderly man takes life outside Athens parliament after saying in note that he did not want to pass debts on to his child. **The Guardian.** Athens, 4 abr. 2012. Disponível em: <https://www.theguardian.com/world/2012/apr/04/greek-man-shoots-himself-debts>. Acesso em: 15 set. 2017.

______. Greek PM Alexis Tsipras calls referendum on bailout terms. **The Guardian.** Athens. 23 jun. 2015. Disponível em: <https://www.theguardian.com/world/2015/jun/26/greece-calls-referendum-on-bailout-terms-offered-by-creditors>. Acesso em: 15 set. 2017.

SORKIN, Andrew Ross et al. As Credit Crisis Spiraled, Alarm Led to Action. **The New York Times.** New York, p. 0-0. 1 out. 2008. Disponível em: <https://www.nytimes.com/2008/10/02/business/02crisis.html?mtrref=www.google.com>. Acesso em: 15 set. 2017.

SORKIN, Andrew Ross et al. As Credit Crisis Spiraled, Alarm Led to Action. **The New York Times.** New York, p. 0-0. 1 out. 2008. Disponível em: <https://www.nytimes.com/2008/10/02/business/02crisis.html?mtrref=www.google.com>. Acesso em: 15 set. 2017.

SPIEGEL, Peter. How the euro was saved. **Financial Times.** London, 11 maio 2014. Disponível em: <https://www.ft.com/content/f6f4d6b4-ca2e-11e3-ac05-00144feabdc0>. Acesso em: 15 set. 2017.

STAMOULI, Nektaria. Greece’s Olive Oil Industry Offers a Lesson on Economic Hurdles: The country is a major producer of ‘green gold,’ but sells much of it in bulk. **Wall Street Journal.** Strefi. 18 dez. 2017. Disponível em: <https://www.wsj.com/articles/greeces-olive-oil-industry-offers-a-lesson-on-economic-hurdles-1513593001>. Acesso em: 15 jan. 2019.

STAVRAKAKIS, Yannis; KATSAMBEKIS, Giorgos. Left-wing populism in the European periphery: the case of SYRIZA. **Journal of Political Ideologies**, v. 19, n. 2, p. 119–142, 2014.

STEEN, Michael. Bond sceptic caught between devil and ECB. **Financial Times.** Frankfurt. 18 set. 2012. Disponível em: <https://www.ft.com/content/558d7996-01af-11e2-8aaa-00144feabdc0>. Acesso em: 15 set. 2017.

STERNBERG, Claudia; GARTZOU-KATSOUYANNI, Kira; NICOLAIDIS, Kalypso. **The Greco-German Affair in the Euro Crisis:** Mutual Recognition Lost? New York: Palgrave Pivot, 2017.

STIGLITZ, J. **The Roaring Nineties**. New York: W. W. Norton & Company, 2003.

STORY, Louise; THOMAS JUNIOR, Landon; SCHWARTZ, Nelson D.. Wall St. Helped to Mask Debt Fueling Europe's Crisis. **The New York Times.** New York, 13 fev. 2010. Disponível em: <https://www.nytimes.com/2010/02/14/business/global/14debt.html?mtrref=www.google.com&gwh=C6C603FD809673E2CECEA29FDF456E25&gwt=pay>. Acesso em: 15 set. 2017.

STRANGE, Susan. **States and Markets**. London: Continuum, 1998.

STREECK, Wolfgang. **Gekaufte Zeit**. Berlin: Suhrkamp, 2013.

STREECK, Wolfgang; ELSÄSSER, Lea. Monetary disunion: the domestic politics of euroland. **Journal of European Public Policy**, v. 23, n. 1, p. 1–24, 2016.

STRUPCZEWSKI, Jan; TOYER, Julien. Europe agrees on Greek safety net with IMF role. **Reuters.** London, 24 mar. 2010. Disponível em: <https://www.reuters.com/article/us-eurozone/europe-agrees-on-greek-safety-net-with-imf-role-idUSTRE62N2WV20100325>. Acesso em: 15 set. 2017.

THE ECONOMIST**.** The sick man of the euro. **The Economist.** Frankfurt. 3 jun. 1999. Disponível em: <https://www.economist.com/special/1999/06/03/the-sick-man-of-the-euro>. Acesso em: 15 set. 2017.

______. Will Germany now take centre stage? **The Economist.** Berlin. 21 out. 2010. Disponível em: <https://www.economist.com/briefing/2010/10/21/will-germany-now-take-centre-stage>. Acesso em: 25 set. 2018.

______. Hail, the Swabian housewife: Views on economics, the euro and much else draw on a cultural archetype. **The Economist.** Stuttgart. 1 fev. 2014. Disponível em: <https://www.economist.com/europe/2014/02/01/hail-the-swabian-housewife>. Acesso em: 15 set. 2017.

______. Of rules and order. **The Economist**. Berlin. 9 maio 2015. Disponível em: <https://www.economist.com/europe/2015/05/09/of-rules-and-order>. Acesso em: 12 dez. 2017.

______. Germany's low investment rate leaves its infrastructure creaking. **The Economist.** Kiel. 17 jun. 2017. Disponível em: <https://www.economist.com/europe/2017/06/17/germanys-low-investment-rate-leaves-its-infrastructure-creaking>. Acesso em: 25 set. 2018.

THOMPSON, Helen. The Limits of Blaming Neo-Liberalism: Fannie Mae and Freddie Mac, the American State and the Financial Crisis. **New Political Economy**, v. 17, n. 4, p. 399–419, 2012.

______. It's Still the 2008 Crash. **The Political Quarterly**, v. 88, n. 3, p. 391–394, 2017.

TOOZE, Adam. **Wages of Destruction.** New York: Viking, 2006.

______. **Crashed:** How a Decade of Financial Crises Changed the World. New York: Viking, 2018.

TRANTIDIS, Aris. Clientelism and economic policy: hybrid characteristics of collective action in Greece. **Journal of European Public Policy**, v. 23, n. 10, p. 1460–1480, 2016.

TRAYNOR, Ian. Sarkozy claims EU agreement on policies to tackle recession. **The Guardian.** Brussels, 8 set. 2008. Disponível em: <https://www.theguardian.com/world/2008/nov/08/eu-global-economy-nicolas-sarkozy-recession>. Acesso em: 15 set. 2017.

TRAYNOR, Ian; CONNOLY, Kate. Hollande and Merkel clash looms over eurozone austerity: German chancellor tells France it cannot rewrite fiscal pact but French presidential frontrunner says Berlin does not rule Europe. **The Guardian.** Berlin, 27 abr. 2012. Disponível em: <https://www.theguardian.com/world/2012/apr/27/francois-hollande-angela-merkel-clash-eurozone>. Acesso em: 15 set. 2017.

TSEBELIS, George. Lessons from the Greek crisis. **Journal of European Public Policy**, v. 23, n. 1, p. 25–41, 2016.

VAIL, Mark I. Europe's Middle Child: France's Statist Liberalism and the Conflicted Politics of the Euro. *In*: MATTHIJS, Matthias; BLYTH, Mark (Orgs.). **The Future of the Euro**. Oxford: Oxford University Press, 2015.

VASILOPOULOU, S.; HALIKIOPOULOU, D. **The Golden Dawn's 'Nationalist Solution.** New York, Palgrave Macmillan, 2015.

VAROUFAKIS, Yanis. **Adults in the Room:** My Battle with the European and American Deep Establishment. First American Edition edition. New York, NY: Farrar, Straus and Giroux, 2017.

VERDUN, Amy. The Political Economy of the Werner and Delors Reports: Continuity amidst Change or Change amidst Continuity. *In*: MAGNUSSON, Lars; STRÅTH, Bo. (Orgs.). **From the Werner Plan to the EMU:** In search of a Political Economy for Europe. Brussels: Peter Lang, 2001.

______. A historical institutionalist explanation of the EU's responses to the euro area financial crisis. **Journal of European Public Policy**, v. 22, n. 2, p. 219–237, 2015.

YOUNG, Brigitte. Ordoliberalism as an Irritating German Idea. *In*: BECK, Thorsten; KOTZ, Hans-Helmut (Orgs.). **Ordoliberalism:** A German odddity? London: CEPR Press, 2017.

WEARDEN, Graeme; TEATHER, David; TREANOR, Jill. Banking crisis: Lehman Brothers files for bankruptcy protection. **The Guardian.** London. 15 set. 2008. Disponível em: <https://www.theguardian.com/business/2008/sep/15/lehmanbrothers.creditcrunch>. Acesso em: 15 set. 2017.

WIESMANN, Gerrit; PEEL, Quentin. Berlin split on bail-out for Greece. **Financial Times.** Berlin, 16 fev. 2012. Disponível em: <https://www.ft.com/content/92026aea-58cb-11e1-b118-00144feabdc0>. Acesso em: 15 set. 2017.

WOLF, Martin. **The shifts and the shocks:** what we've learned – and have still to learn – from the financial crisis. New York: Penguin Press, 2015.

World Bank. **World Bank Open Data.** Disponível em: <https://data.worldbank.org/>. Acesso em: 20 jul. 2018.

ZAHARIADIS, Nikolaos. Bargaining power and negotiation strategy: examining the Greek bailouts, 2010–2015. **Journal of European Public Policy**, v. 24, n. 5, p. 675–694, 2017.

APPENDIX A – DETAILED DATA FROM THE WORLD BANK.

Table 3 – Exports of goods and services (annual % growth)

Year	Germany	Greece	Euro area
2001	1,70%	4,13%	2,16%
2002	0%	3,92%	1,02%
2003	-0,71%	5,79%	0,72%
2004	1,17%	5,06%	2,33%
2005	0,71%	0,60%	1,70%
2006	3,70%	5,65%	3,24%
2007	3,26%	3,27%	3,06%
2008	1,08%	-0,34%	0,44%
2009	-5,62%	-4,30%	-4,52%
2010	4,08%	-5,48%	2,08%
2011	3,66%	-9,13%	1,61%
2012	0,49%	-7,30%	-0,89%
2013	0,49%	-3,24%	-0,25%
2014	1,93%	0,74%	1,33%
2015	1,74%	-0,29%	2,09%
2016	1,94%	-0,24%	1,80%
2017	2,22%	1,35%	2,37%

Source: Author’s elaboration, based on data from the World Bank, 2018.

Table 4 – Unemployment, total (% of total labor force).

Year	Germany	Greece	Euro area
2001	7,8%	10,8%	8,4%
2002	8,6%	10,4%	8,7%
2003	9,7%	9,8%	9,1%
2004	10,3%	10,6%	9,3%
2005	11,0%	10,0%	9,1%
2006	10,0%	9,0%	8,4%

2007	8,6%	8,4%	7,5%
2008	7,4%	7,8%	7,6%
2009	7,7%	9,6%	9,6%
2010	6,9%	12,7%	10,2%
2011	5,9%	17,9%	10,2%
2012	5,4%	24,4%	11,4%
2013	5,2%	27,5%	12,0%
2014	5,0%	26,5%	11,6%
2015	4,6%	24,9%	10,9%
2016	4,2%	23,6%	10,0%
2017	3,8%	21,5%	9,1%

Author's elaboration, based on data from the IMF Database, 2018.

Table 5 – Exports of goods and services (% of GDP)

Year	Germany	Greece	Euro area
2001	31,87%	22,79%	35,31%
2002	32,57%	20,11%	34,59%
2003	32,59%	18,54%	33,62%
2004	35,45%	20,71%	35,15%
2005	37,74%	21,31%	36,44%
2006	41,19%	21,17%	38,42%
2007	43,01%	22,52%	39,51%
2008	43,46%	23,36%	39,88%
2009	37,80%	18,98%	34,95%
2010	42,25%	22,10%	38,93%
2011	44,82%	25,54%	41,63%
2012	45,98%	28,68%	43,22%
2013	45,40%	30,35%	43,36%
2014	45,70%	32,37%	43,88%
2015	46,87%	31,72%	44,68%
2016	46,12%	30,46%	44,27%

2017	47,24%	33,22%	45,73%

Source: Author's elaboration, World Bank national accounts data, 2018.

Table 6 – GDP growth (annual %)

Year	Germany	Greece	Euro area
2001	1,70%	4,13%	2,16%
2002	0%	3,92%	1,02%
2003	-0,71%	5,79%	0,72%
2004	1,17%	5,06%	2,33%
2005	0,71%	0,60%	1,70%
2006	3,70%	5,65%	3,24%
2007	3,26%	3,27%	3,06%
2008	1,08%	-0,34%	0,44%
2009	-5,62%	-4,30%	-4,52%
2010	4,08%	-5,48%	2,08%
2011	3,66%	-9,13%	1,61%
2012	0,49%	-7,30%	-0,89%
2013	0,49%	-3,24%	-0,25%
2014	1,93%	0,74%	1,33%
2015	1,74%	-0,29%	2,09%
2016	1,94%	-0,24%	1,80%
2017	2,22%	1,35%	2,37%

Source: Author's elaboration, World Bank national accounts data, 2018.

Table 7 – General government gross debt (Percent of GDP)

Year	Germany	Greece	Euro area
2001	57,7%	107,1%	67,0%
2002	59,4%	104,9%	66,9%
2003	63,1%	101,5%	68,1%
2004	64,8%	102,9%	68,4%
2005	67,0%	107,4%	69,2%
2006	66,5%	103,6%	67,3%
2007	63,7%	103,1%	65,0%
2008	65,2%	109,4%	68,7%
2009	72,6%	126,7%	79,2%
2010	80,9%	146,2%	84,5%
2011	78,6%	180,6%	86,6%
2012	79,8%	159,6%	89,6%
2013	77,5%	177,9%	91,5%
2014	74,6%	180,2%	91,7%
2015	70,9%	178,8%	89,8%
2016	67,9%	183,5%	88,8%
2017	63,9%	181,8%	86,6%

Source: Author's elaboration, based on data from the IMF Database, 2018

APPENDIX B – LIST OF GREEK PRIME MINISTERS (1974 – CURRENTLY)

Table 8 – Greek Prime Ministers (1974 – Currently)

Period	Prime Minister
July 1974 - May 1980	Konstantinos G. Karamanlis
May 1980 - October 1981	Georgios Rallis
October 1981 - July 1989	Andreas Papandreou
July 1989 - October 1989	Tzannis Tzannetakis
October 1989 - November 1989	Ioannis Grivas
November 1989 - April 1990	Xenophon Zolotas
April 1990 - October 1993	Konstantinos Mitsotakis
October 1993 - January 1996	Andreas Papandreou
January 1996 - March 2004	Konstantinos Simitis
March 2004 - October 2009	Konstantinos A. Karamanlis
October 2009 - November 2011	George A. Papandreou
November 2011 - May 2012	Lucas Papademos
May 2012 - June 2012	Panagiotis Pikrammenos
June 2012 - January 2015	Antonis Samaras
January 2015 - August 2015	Alexis Tsipras
August 2015 - September 2015	Vassiliki Thanou-Christophilou
September 2015 - Currently	Alexis Tsipras

Source: Author’s elaboration, based on Helennic Republic, 2019.

APPENDIX C – LIST OF GERMAN PRIME MINISTERS AND COALITIONS (1949-CURRENTLY)

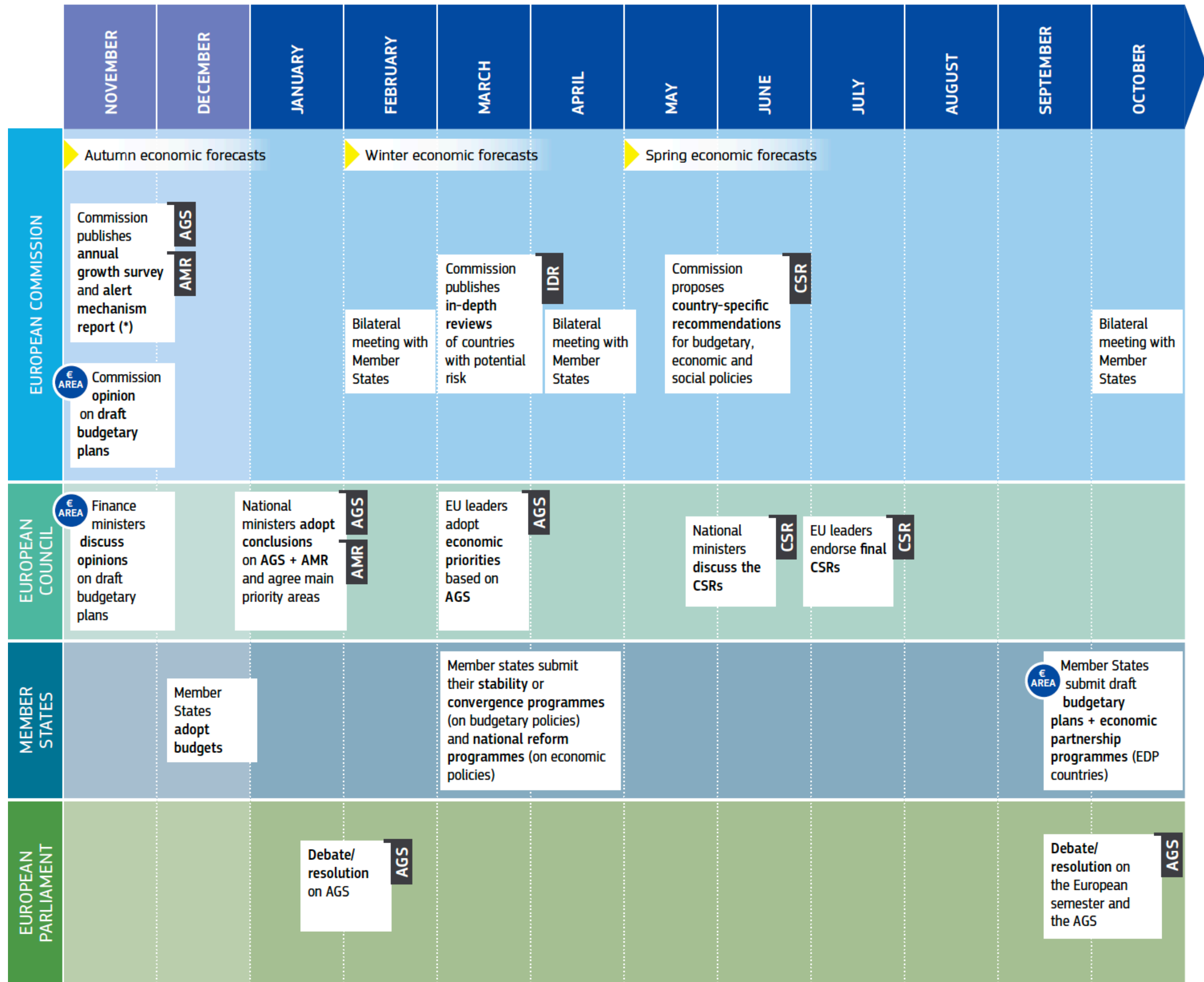
Table 9 – German Prime Ministers and Coalitions (1949-Currently)

Period	Chancelor	Coalition
1949-1953	Konrad Adenauer	CDU, FDP, CSU, DP
1953-1957	Konrad Adenauer	CDU, FDP, CSU, DP, GB/BHE
1957-1961	Konrad Adenauer	CDU, CSU, DP
1961-1962	Konrad Adenauer	CDU, FDP, CSU
1963-1966	Ludwig Erhard	CDU, FDP, CSU
1966-1967	Kurt Georg Kiesinger	CDU, SPD, CSU
1969-1974	Willy Brandt	SPD, FDP
1974-1982	Helmut Schmidt	SPD, FDP
1982-1998	Helmut Kohl	CDU, FDP, CSU
1992-2005	Gerhard Schröder	SPD, Grünen
2005-2009	Angela Merkel	CDU, SPD, CSU
2009-2013	Angela Merkel	CDU, FDP, CSU
2013-	Angela Merkel	CDU, SPD, CSU

Source: Author’s elaboration, based on Bundeskanzlerin, 2019.

ANNEX A – EUROPEAN SEMESTER

Figure 16 – European Semester



Source: EUROPEAN COMMISSION, 2014

ANNEX B – SUMMARY OF MEASURES TAKEN BY THE EU INSTITUTIONS

Figure 17 – Summary of Measures Taken by the EU Institutions

		Purpose	Countries concerned	
			Euro area countries	All EU countries
European semester (since 2010)	Coordination of economic policies	Yearly coordination of economic policies between the EU and national governments	✔ The Commission can issue additional recommendations to euro area countries	✔
Stability and Growth Pact (reinforced by 'six-pack' legislation in 2011 and by the 'two-pack' in 2013)	Deficit/debt prevention	Economic/budgetary coordination and surveillance in order to avoid excessive deficits/ debts in EU countries	✔	✔ European scrutiny of national budgets, as well as fines in cases where the pact is breached, only apply to the euro area
Fiscal Compact (Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG), 2012)	Deficit/debt prevention	Further strengthens the Stability and Growth Pact: countries commit to having their budgets in balance	✔	Signed by all EU countries except Croatia and the United Kingdom. Denmark and Romania have declared themselves bound by all treaty articles
European Stability Mechanism (2012)	Support mechanisms	European emergency fund with €500 billion to help countries with temporary difficulties in borrowing from financial markets due to excessive debts	✔ Only available to euro area countries who have signed the Fiscal Compact	✘
European Globalisation Adjustment Fund (set up in 2006)	Support mechanisms	Fund with an annual budget of €150 million to help workers made redundant due to globalisation or a major economic and financial crisis	✔	✔

Source: EUROPEAN COMMISSION, 2014