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Asymmetric Governance and the Transformation of Employment Relations in the Eurozone: The Contingent Influence of the Ideas of Policy-Makers

Abstract:

The governance of the Eurozone debt crisis has been characterised by the asymmetric distribution of the costs of adjustment, namely the imposition of austerity measures and the liberalisation of institutions of industrial relations in debtor countries that were awarded a bailout package coupled with the protection of banks from creditor countries. By presenting an ideational perspective, this article highlights the role of ideas in explaining these policy outcomes. The importance of ideas is contingent upon the manner in which they are framed. The process of framing enables policy-makers to build support for policies by presenting them in a manner that links an issue with a specific understanding of important economic and political developments. Equally, if not more important in the current context of the Eurozone debt crisis, the importance of ideas is also contingent upon their influence over the maintenance of extant institutional arrangements of Eurozone governance that distribute costs of adjustment in an asymmetrical manner. In particular, we illustrate the role of German Ordoliberalism in heightening the credibility of the threat of withholding financial assistance, in the event of non-compliance with strict conditionality criteria, in the current institutional architecture of Eurozone governance.

Keywords: Eurozone Debt Crisis, Germany, Ideas, Institutions

Introduction

In the context of heightened financial anxieties, Eurozone governments that have received a formal bailout package (Greece, Ireland and Portugal) have also implemented many austerity measures and introduced important structural changes in their industrial relations systems – the latter in the form of the decentralization of collective bargaining and the liberalization of collective redundancy schemes (Clauwaert and Schoemann, 2012, Degryse, 2012; Hall, 2012).[2] The introduction of austerity measures and the transformation of industrial relations in these three countries is also marked by its inter-state character – these changes having been pushed by important creditor countries, most notably Germany; and by supranational actors,

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namely the European Commission, the International Monetary Fund and the European Central Bank (ECB) (Bastasin, 2015; Bini Smaghi, 2013; Schulten and Muller, 2013). However, austerity measures and the introduction of structural changes have not been imposed on large banks from creditor countries. Financial institutions from northern Europe have largely been protected from the potentially negative consequences of their exposure to Ireland and Southern Europe (Blyth, 2013; Hall, 2012). What accounts for the ability of European states and supranational institutions to impose the burdens of the costs of adjustment on debtor countries (and their workers) and not on banks from Northern economies?

This article presents an ideational perspective that highlights the contingent influence of ideas in the governance of the Eurozone debt crisis. Ideas have an important effect on policy outcomes as they shape the agency of policy-makers in confronting the structural environment in which they are embedded. Ideas constitute cognitive scripts that guide strategic behaviour by enabling state officials to interpret events around them and, in turn, delineate the range of considered policy options (Blyth, 2003; Campbell, 1998 and 2002). Given the presence of clashing cross-national narratives about the roots of the Eurozone debt crisis and its policy solutions, analysing the role of ideas provides important insights into the governance of the crisis. However, ideas do not translate in an automatic fashion into policies on the basis of their merits. The influence of ideas over outcomes is contingent upon two factors, namely the manner in which they are framed (Campbell, 2004; Dobbin and Dowd, 2000; Schmidt, 2008) and their interactions with the institutional context in which they are embedded (Hall, 1989; Thelen, 2004). First, framing enables policy-makers to build support for new policy proposals by presenting them in a manner that link an issue with a specific understanding of the distribution of the costs of adjustment and, as a result, at the expense of other interpretations. Second, equally if not more important in the current context of the

Eurozone debt crisis, the influence of ideas is also contingent upon its interactions with the institutional context in which they are embedded. On the one hand, institutional arrangements structure power relations in an unsymmetrical manner among actors (Campbell, 2004; Hall, 1986). In the context of Eurozone governance, the removal of several strategic mechanisms of adjustment, such as currency devaluation and control over the money supply, has weakened the bargaining power of debtor countries who are also often facing a balance of payments crisis (Armingeon and Baccaro, 2012; De Grauwe, 2013). Institutional arrangements of Eurozone governance have substantially enabled creditor countries to impose their ideas on other member states (Hall, 2012). On the other hand, however, the maintenance of institutional arrangements does not occur in an automatic fashion precisely because they distribute power in an asymmetric manner (Deeg, 2007; Thelen, 2004). Ideas are also important in the reproduction of these extant institutional arrangements, which distribute power in an unequal fashion, against challenges from debtor economies and some creditor countries, such as France, that have advocated for the introduction of alternative institutions of governance at the Eurozone level. Moreover, ideas are important in the creation of new institutional arrangements designed to deal with the new environment of the debt crisis.

An analysis of the influence of the German concept of Ordoliberalism on the governance of the Eurozone debt crisis and, ultimately, on the implementation of austerity policies and on the liberalisation of key institutional arrangements of industrial relations in countries that formally received a bailout package is presented in this article. The idea of Ordoliberalism, i.e. the importance of rules in the governance of economic relations, has been influential in the governance of the Eurozone through its framing of the provision of financial assistance in systemic terms, i.e. to prevent the collapse of the Euro and to avoid generating financial instabilities. The concept of Ordoliberalism has also been influential in shaping both the strategic behaviour of German policy-makers in resisting the introduction of new institutional arrangements that would have diluted the constraining character of the no bail out clause of the Maastricht Treaty and the characteristics of new institutions designed to deal with the new environment of the debt crisis.

The article is organized as follows. First, an overview of the adjustment process to the financial crisis in the Eurozone is provided. Second, we argue that the influence of ideas is contingent on how they are framed and on their interaction with the institutional context in which they are embedded.. Third, the case of the influence of German Ordoliberalism on the governance of the Eurozone debt crisis is analysed. The article concludes by situating the influence of ideas in the political science tradition of causal complexity (Hall, 2003; Ragin, 1987) whereby important outcomes occur as a result of an intersection of factors.

Austerity, the Transformation of Industrial Relations in the Debtor Countries and Protection of Banks in the Creditor Countries: An Empirical Overview

The governance of the Eurozone debt has been characterized by the skewed distribution of the costs of adjustment (De Grauwe, 2012; Hall, 2012). Under direct pressure from both key creditor countries, most notably Germany, and the Troika (ECB, European Commission, and International Monetary Fund), policymakers in countries that received a formal bailout package also implemented austerity policies and structural changes in the institutional arrangements of industrial relations (Degryse, 2012; Schulten and Muller, 2013). By contrast, banks from creditor countries, especially but not exclusively French and German financial institutions, have been largely protected from their exposure to the obligations (private and public) of Ireland and southern Europe (Blyth, 2013).

The scope for outside influence has been particularly prominent for debtor countries formally seeking a bailout package (Greece, Ireland, and Portugal). The provision of financial assistance in the first Greek bailout package took the form of bilateral loans: 80 billion euros from Eurozone fellow members and 30 billion from the IMF (Blyth, 2013: 71; Degryse, 2012: 25). The rescue package was conditional upon the imposition of austerity measures, forced upon the Greek government by the Memorandum of Understanding it agreed with the Troika, most notably a freeze on wages and pensions in the public sector and the rise in the minimum retirement age, which amounted to an aimed reduction in the budget deficit of 11% of GDP within three years (Clauwaert and Schoemann, 2012: 11; Hall, 2012: 363). The minimum wage was cut by 22% (32% for workers below the age of 25) – again under strong pressures from the Troika (Schulten and Muller, 2013: 10). The Troika also required greater flexibility in Greek labour markets, particularly in the area of collective dismissals. Lower thresholds were introduced for permanent employees, namely five percent of staff or more than 30 employees for companies with more than 150 employees (Clauwaert and Schoemann, 2012: 13). As a result, the Greek economy experienced an important internal devaluation, i.e. reduction in prices and wages relative to other Eurozone members. From 2008 to 2012, its relative labor unit costs declined by 11% (DeGrauwe, 2012). Finally, it is insightful to note that the provision of financial support to the Greek government in the first bailout package took place without negotiations over debt restructuring, i.e. of which loans would be repaid and of the allocation of the costs of write-down, despite the preferences of the IMF for important debt write-downs (Degryse, 2012: 23). While the IMF expressed serious doubts that reductions in the debt-to-GDP ratio could take place without substantial debt write-downs, the ECB (successfully) argued, with the strong support of the French and German governments, that debt restructuring in the form of losses for private bondholders in the midst of a financial crisis would be destabilizing for the future provision of funding by private bondholders (Bini Smaghi, 2013: 60-62).

The bailout package for Ireland was also characterized by the imposition of severe austerity measures, consisting of spending cuts and taxes increases, designed to reduce the budget deficit by about nine percentage points in just five years (Hall, 2012: 363). Pay freezes for civil servants were universally introduced (2008-2010) by Irish policymakers which, in turn, led a decrease of real income of five to eight percent (Schulten and Muller, 2013: 10). Moreover, the withdrawal of the government from negotiations over public sector reform in the context of the previously high level of bargaining centralization, led to the almost complete breakdown of the multiple-employer bargaining framework. These policies resulted in an important reduction of relative unit labor costs, namely of 23% since 2008 (De Grauwe, 2012). The most controversial and contested aspect of the Irish bailout, however, was the refusal of three governments, France, Germany, and the United Kingdom, to frame the rescue package in terms of private bank debt, turning it instead into public debt (Armingeon and Baccaro, 2012). After all, the decision of the Irish government to rescue its domestic banks, which were seriously exposed to the collapse of the real estate bubble, transformed a banking crisis into a sovereign debt crisis. In other words, the provision of financial assistance was linked to the nationalization of the debts of Irish banks. Against the IMF's wishes, ECB negotiators and Eurozone finance ministers vetoed attempts by the Irish government to impose losses on holders of senior bonds issued by the country's banks. The ECB´s position, namely that the involvement of private bondholders in the losses is counterproductive in the midst of a financial crisis, prevailed (Bini Smaghi, 2013: 60-62). Financial assistance was provided to the Irish government only under the strict conditionality of full protection for bondholders.

The conditionality of the bailout package for Portugal was also characterized by the imposition of austerity measures and the introduction of industrial relations reforms. Among its most important features were the reduction of financial costs associated with collective dismissals (from 30 days per year of seniority to ten), a unilaterally-introduced pay freeze for civil servants and employees in public companies (2010-2013), and budget cuts amounting to a reduction of its budget deficit by six percent of GDP within three years (Clauwaert and Schoemann, 2012: 32; Schulten and Muller, 2013: 8).

The management of the Eurozone debt crisis is also characterised by the skewed distribution of the costs of adjustment to debtor countries. Banks from creditor countries, especially but not exclusively French and German financial institutions, have been largely protected from their risky exposure to GIPPS obligations (Blyth, 2013). First, the content of the bailout packages is consistent with the type of exposure of lending banks. In Greece, the conditionality associated with the provision of funding in the first bailout package enabled the Greek government to service its existing debts, i.e. sovereign bonds held by European banks with French and German financial institutions being the most exposed (Hall, 2012: 363-365). In Ireland, in contrast, the provision of financial assistance was designed to enable domestic banks to meet their financial commitments. An important factor for the refusal of the French and German governments, fully supported by the ECB, to frame rescue packages in terms of private bank debt is that French and German banks were themselves major bondholders of Irish banks (Bastasin, 2012: 233-236; Degryse, 2012: 34). In both cases, a substantial portion of financial assistance provided to debtors (Greek state and Irish banks) was devoted to service existing debt. In other words, Northern European governments were essentially rescuing their own banks.

Second, the Securities Markets Programme of the ECB, which entailed the purchase of bonds of GIIPS countries on the secondary bond markets, enabled banks from creditor countries to reduce their exposure to Southern Europe. In the context of anaemic demand for the sovereign debt of GIIPS countries, large banks from creditor countries managed to successfully reduce their exposure to the sovereign debt of GIIPS countries and, in the process, transfer these risks to the ECB. The protective role of the ECB vis-à-vis domestic banks of creditor countries is illustrated by the timing and content of the second bailout package for Greece. The latter, which was approved in February 2012, was conditional not only on the implementation of further austerity measures, but also upon the acceptance of a deal whereby private creditors of Greek government bonds, including French and German banks, would accept a 53.5% face value loss on their holdings – the so-called 'haircuts'. Nonetheless, the interests of these banks were well protected as their exposure to Greek sovereign debt had been substantially reduced prior to the new bailout package. For instance, BNP-Paribas was able to lower its exposure to Greek sovereign debt from 4.2 billion Euros (end September 2011) to 241 million Euros (end of December 2012); the corresponding figures for Deutsche Bank are respectively 875 million Euros and 36 million Euros (Guardian, 2013). Under the SMP, French banks were able to unload their exposure to Greek sovereign debt as early as May 2010 while German banks sold their stake in Greek debt in December 2010 and February 2011 (Bastasin, 2012: 218 and 270). As a result, the share of Greek sovereign debt held by private bondholders fell from nearly 99% in 2008 to about 27% by March 2012.

Argument: The Contingent Influence of Ideas

Ideas are influential as they shape the ability of policy-makers to confront the structural environment in which they are embedded. There is no denying that the preferences of the business community constitute an important factor over policy outcomes in advanced capitalist economies (Lindbloom, 1977). This statement is particularly insightful for the management of the Eurozone debt crisis given the too-big-to-fail character of banks of creditor countries, especially those headquartered in France and Germany, and their importance in the allocation of credit. The exposure of large systemic French and German banks, to both private banks and public sovereign debt, is not inconsequential since these financial institutions might be too big to bail out given the magnitude of the potential sums involved and the inability of Eurozone governments to print money or implement currency devaluations (see e.g. Blyth, 2013: 71-75).

Yet, the conversion of the preferences of actors, even powerful ones, into desired outcomes is characterized by substantial variations across national settings (Esping-Andersen, 1985; Gallie, 2007). [1] Moreover, and as illustrated in the previous section, the imposition of the burdens of adjustment on debtor countries has been influenced significantly by the behaviour of creditor countries, most notably Germany; and that of supranational institutions. Most, although not all, governments of debtor countries, in contrast, have exhibited marked resistance to the implementation of austerity packages and liberalisation measures (Degryse, 2012). Debtor country governments have been largely forced to implement deeply unpopular policies that have generally doomed their prospects for re-election (Armingeon and Baccaro, 2012). An exclusive focus on the influence of business interests within some creditor countries fails to capture important insights associated with inequalities in inter-state relations.

This article presents an ideational perspective that highlights the prominent, but contingent, influence of ideas over the asymmetric distribution of the costs of adjustment in the governance of the Eurozone debt crisis. Ideas are influential over policy outcomes because they constitute cognitive scripts that enable policy-makers to interpret complex political and economic events that, in turn, delineate the range of considered policy options (Blyth, 2003; Campbell, 1998 and 2002; Schmidt, 2008). The meaning of important events, such as the Eurozone debt crisis, does not emerge in an automatic fashion given the presence of competing interpretations. Moreover, ideational paradigms also exhibit significant variations across countries (Dobbin and Dowd, 2000; Hall, 1989). In the context of the Eurozone, more specifically, clashing cross-nationally based narratives about the roots of the crisis have been presented (Hall, 2012; Young and Semmler, 2011). From the perspective of (several) creditor countries, particularly Germany, the severity of the debt crisis reflects: the fiscal profligacy of Southern European economies; the financing of a speculative, and thus unsustainable, housing boom in Ireland and Spain; and the inability of the industrial relations systems of GIPPS economies to control costs (Bini Smaghi, 2013; Hancké, 2013). From the perspective of debtor countries, in contrast, the diagnosis of the crisis involves: the competitive advantages, perceived as a functional equivalent of currency depreciation, associated with the implementation of overly restrictive budgetary policies in Germany and in other Northern European economies; the cost advantages associated with the deregulation of atypical employment in Germany; and the absence of pan-European institutions to deal with private bondholders targeting Eurozone members (Armingeon and Baccaro, 2012; De Grauwe, 2012).

However, the translation of ideas into outcomes – such as the excessively skewed distribution of the costs of adjustment in the governance of the Eurozone crisis – does not occur in an automatic fashion on the basis of the merits of ideas. The influence of ideas is contingent upon two factors: framing, and the interactions of ideas with extant institutional arrangements. First, the importance of ideas is tightly linked to the process by which policy-makers frame issues (Campbell, 1998). Framing involves the portraying of an issue in terms of specific beliefs that, in turn, facilitate a particular interpretation of events and provide a guide for an actor's behaviour. By linking an issue to some sets of beliefs, policy-makers seek to build support by heightening the resonance of ideas to a specific set of interests and, in turn, by downplaying the connection between that specific issue and other preferences (Hall, 1989). Framing thus implies that ideas are judged not only on their merits, but are also politically contingent upon the wider sets of issues with which they are associated. In the context of the Eurozone, the framing of the crisis in terms of the fiscal profligacy of Greece and of the dangerous exposure of Ireland and Spain to a speculative housing boom reflected the fears of substantial backlash in creditor countries, particularly in Germany, that could result from the enactment of soft conditionality bailout packages for Greece and other Eurozone member states (Young and Semmler, 2011). As a result, this specific framing of the crisis strengthened the bargaining stance of the Troika and creditor countries by making it harder to mobilise electoral support for burden sharing (Degryse, 2012; Hall, 2012). The provision of financial assistance to debtor countries, an outcome far from preordained since the EMU was explicitly established without an institutionalized 'transfer union', took place under the enactment of hard conditionality with creditor countries seeking to extract maximum concessions from GIPPS governments.

Second, and perhaps more important in the case of the Eurozone crisis, the influence of ideas over outcomes is also contingent upon the institutional context in which important decisions take place and the political process by which these institutional arrangements are maintained – two very different political phenomena (Campbell, 2004; Dobbin and Dowd, 2000; Hall, 1986; Thelen, 2004). Institutional arrangements are influential because they structure power relations among actors with different preferences. They do so by reducing the range of strategic adjustment options in an unsymmetrical manner. The translation of the preferences of actors into specific outcomes is mediated by the institutional framework in which they are embedded (Garrett and Lange, 1995; Hall, 1986). The implication is that ideas acquire influence not only because of their own merits, or the manner in which they are framed, but also because of the ability of certain actors to impose them on those with different preferences.

In the current context, the imposition of the burdens of adjustment on debtor countries, and on their system of industrial relations, has been facilitated by the current institutional configuration of Eurozone governance. The Eurozone is characterised by the removal of traditional institutional arrangements that have narrowed the range of adjustment policies of debtor countries, thereby reducing their bargaining power (De Grauwe, 2013). Because they lack control over the money supply, debtor economies cannot monetize their budget deficits to either rescue troubled banks or stimulate economic growth. The Irish case, for instance, illustrates how a banking crisis became a sovereign debt crisis as the result of the decisions of policy-makers to bail out troubled banks (Armingeon and Baccaro, 2012). Debtor countries, which also faced balance of payments deficits, are unable to devalue periodically against their trading partners (Blyth, 2013: 62-68). As a result, export-oriented countries of Northern Europe are able to record balance of payment surpluses without having to fear the introduction of competitive devaluations from GIPPS economies (Hall, 2012). Debtor countries are also particularly vulnerable to the pressures of bond holders in the current institutional architecture of the Eurozone characterised by the lack of a nationally-based lender of last resort (De Grauwe, 2013). Eurozone members, who by definition do not have their own currency and where government debt is denominated in Euros, do not possess the legal means to force the ECB to provide the needed liquidity when hit by economic shocks. In a context where national governments lack the ability to print money and devalue their currency, investors can become uncertain about the ability of certain Eurozone member states to raise enough revenues, or to implement sufficient budget cuts (Armingeon and Baccaro, 2012; De Grauwe and Ji, 2013). In this situation, the implementation of austerity policies constitutes a privileged signalling mechanism for gaining the confidence of the bond markets regarding the solvency of government finances.

Moreover, these three institutional features (loss of control over money supply, inability to devalue the currency and the lack of nationally-based lender of last resort) would not pose a problem if the EU had a transfer union from which debtor countries could benefit in a systematic fashion (De Grauwe, 2013). Instead, the governance of the Eurozone is characterized by the absence of an "institutionalized" transfer union with a small EU budget, representing less than two per cent of GDP, which is tied to two programs: Structural Funds and the Common Agricultural Policy (Bastasin, 2012: 256). As a result, the issue of the distribution of the costs of adjustment to the financial crisis arises because of the absence of supranational mechanisms that would enable EU member states to either provide funding to countries targeted by bondholders in a quasi-automatic manner or to allow countries to restructure their debt above specifically agreed indebtedness thresholds. Instead, internal devaluation in the form of austerity policies has been a prominent mechanism of adjustment given the institutional context of the Eurozone. Thus, the asymmetric distribution of the costs of adjustment in the governance of the Eurozone reflects the presence of institutional arrangements that distribute power in an unequal manner (Hall, 2012; De Grauwe, 2013).

Yet, institutional arrangements, while being highly influential over outcomes, do not reproduce by standing still (Thelen, 2004). There is nothing automatic and self-reinforcing about the maintenance of institutional arrangements precisely because of their distributional consequences (Deeg, 2007; Mahoney and Thelen, 2009). Institutional arrangements are inherently political. They structure power relations among actors with the implication that some actors benefit from extant institutional arrangements, while others may not (Campbell, 2004; Hall, 1986). Moreover, the lack of automaticity in the process of institutional reproduction is also shaped by the range of scenarios for change beyond institutional breakdown (Mahoney and Thelen, 2009). More specifically, endogenous incremental change can result in important cumulative changes over time as an alternative to exogenous radical transformation. One such scenario of incremental change is that of drift whereby existing institutional arrangements do not adapt to environmental changes thereby leading to a transformation of their scope and function; another scenario is layering whereby a new institution, or an informal practice, is introduced alongside an established one thereby leading to the decline in influence of the latter (Thelen, 2003). Therefore, the reproduction of institutional arrangements requires active political maintenance against potential challenges.

The context of the Eurozone crisis, and the broader issue of sovereign debt more generally, highlights the presence of several instances of endogenous changes that would lead to a dilution of the influence of the no-bail out clause the Maastricht Treaty without requiring its formal institutional dismantling: reduction in interest rates, extension of maturity of loans, extensive use of 'voluntary' debt restructuring, bilateral loans, and the provision of cheap funding to domestic banks contingent upon the purchase of government bonds. Moreover, the lack of conditionality associated with any of these measures would dilute the constraining character of the Maastricht Treaty from the current context of the Eurozone debt crisis. This is the challenge of institutional layering, i.e. adding new institutions that reduce the influence of extant institutions. The challenge of institutional drift, in contrast, highlights the potential inabilities of extant institutional arrangements of Eurozone to adapt to the new environmental context of the financial crisis. Institutional arrangements could lose their causal influence by becoming irrelevant in dealing with new sets of issues. Thus, the influence of ideas lies in both preventing the emergence of new institutions that would challenge the influence of existing ones; and adapting existing institutions to the challenges associated with the new sets of environmental conditions.

Ideas and the Governance of the Eurozone Debt Crisis: German Ordoliberalism

A pervasive and influential idea in the governance of the Eurozone debt crisis, and in its diagnosis by the Merkel government, is the concept of Ordoliberalism in German economic policy-making (Jacoby, 2014; Young and Semmler, 2011). The concept reflects the combined thinking of two groups of scholars: the Freiburg school concerned with the economic order for markets (Walter Eucken and Franz Böhm); and sociologists interested in the ethical dimensions and social legitimacy of markets (Wilhelm Röpke and Alexander Rüstow). These two groups of German Ordoliberals were influential in the development of the concept of the social market economy by Ludwig Erhrard in the late 1940s.[2] The concept is characterized by three features. First, German Ordoliberalism refers to a legal order based on the importance of regulation and rules to prevent both: a) unfettered market forces determining outcomes; and b) the concentration of economic power in the hands of private interests (Beck, 2013). Markets do not emerge naturally, but need to be created and maintained by state regulation for securing the joint outcome of fostering competition and undermining the ability of private actors to concentrate economic power. Cartels and monopolies cripple the price mechanism and restrict individual freedom. Second, Ordoliberalism also stands against the implementation of economic policies that generate moral hazard by removing personal responsibility and liability for the adverse consequences of one’s course of actions (Young and Semmler, 2011). The focus on market discipline, an inherent aspect of Ordoliberalism, reflects the dangers associated with unchecked risky behaviour for financial stability (Woll, 2014: 65-69). Third, Ordoliberalism is inclined towards rule-based governance of economic policy whereby the function of the government in the economy is to provide a steering role via the setting up of the broad parameters of markets (Sally, 1996). This is a specific understanding of what makes an economy competitive (Wolf, 2014: 54-59). Ordoliberalism is suspicious of both laissez-faire with its artificial separation between the state and the market; and of activist macroeconomic management such as Keynesianism that provides policy-makers with discretionary powers.

In the context of the Eurozone debt crisis, the concept of Ordoliberalism has been an important factor in the Merkel government framing the crisis in terms of fiscal fickleness and speculative riskiness that, in turn, has resulted in a positioning favoring austerity policies in GIPPS countries. For German policy-makers, Southern European labour markets (employment protection and wage bargaining) have been deemed inflexible and a barrier to addressing issues of balance of payments deficits and cost controls (Bini Smaghi, 2013; Hancké, 2013: 1-13). The aggressive labour market adjustments of the German economy (Hartz reforms), in contrast, have been praised as showing the way forward for the European periphery (Bini Smaghi, 2013; Young and Semmler, 2011). Moreover, the concept of Ordoliberalism has been invoked to explain the reluctance of the Merkel government to pursue reflationary policies in Germany as a strategy to reduce balance of payments imbalances between Northern and Southern Europe (Hall, 2012). Productivity and economic performance under German Ordoliberalism result from micro regulation and supply-side reforms, not from macroeconomic expansionist policies. Thus, in the view of German policy-makers, the issue with reflationary policies is not only that they would fail to generate economic growth in GIPPS countries, but that they would be unlikely to work even in Germany. Finally, the concept of moral hazard has been frequently adduced by the German government for the imposition of hard conditionality on bailout packages and for the refusal to support the introduction of Eurobonds (Bini Smaghi, 2013: 49-55; Degryse, 2012: 35). Breaking budgetary commitments on deficits by Greece has been interpreted as the avoidance of one's responsibilities while the dangerous exposure of Irish and Spanish banks to housing activities illustrates the concept of liability whereby one must assume responsibility when things go wrong (Beck, 2013). Instead, German policy-makers have sought to strengthen budgetary rules rather than implement reflationary policies in order to restart economic growth, that is they have exported rules and principles throughout the Eurozone (Wolf, 2014: 54). These efforts resulted in the reconfiguration of the Stability and Growth Pact via the enforcement of fiscal discipline, the so-called Six-Pack mechanism.

The above discussion of the pervasive influence of Ordoliberalism provides important insights for understanding the process of the preference formation of German policy-makers. However, the European dimension of the management of the crisis, namely the asymmetric distribution of the costs of adjustment, remains only partly explained. Three puzzles stand out. The first one reflects the presence of clashing cross-national narratives in the Eurozone, and the substantial opposition to austerity measures in Greece and other GIPPS countries, that illustrates the little resonance of the concept of Ordoliberalism in debtor economies (Beck, 2013; Young and Semmler, 2011). Why has the framing of (some) creditor countries triumphed?

The second puzzle stems from the observation that diametrically opposed sets of policies have been advocated under the ideational guidance of the concept of Ordoliberalism in Germany (Jacoby, 2014). The internal debate in Germany regarding the most effective management of the European debt crisis highlights the division of Ordoliberals on the most important issues. This division reflects the importance of two concepts with starkly different policy implications: systemic risks versus moral hazard (Woll, 2014: 65-70). The protection of domestic (German) banks, for instance, has been presented as necessary to prevent the collapse of systematically important financial institutions – the combined assets of the largest three banks amounting to 118 percent of the German GDP (Bastasin, 2015: 15). On the other hand, German Ordoliberals have also favored the downsizing of domestic banks since their rescue would amount to moral hazard in the context of previously undertaken risky activities by financial institutions – thereby violating the principle of personal responsibility and liability (Jacoby, 2014: 77). Similarly, the provision of finance to other Eurozone member states has witnessed the presence of Ordoliberals on both sides of the issue. The commitment to the European project has meant that targeted rescue packages with strict conditionality criteria are essential in order to prevent thecontagion of the crisis and the potential collapse of the Eurozone (Young and Semmler, 2011). On the other hand, the institutionalization of a new financing scheme (ESM) and the intervention of the ECB on secondary bond markets without the corresponding introduction of EU-based budget czars, with substantial control over the domestic finances of countries seeking financial assistance, has also been interpreted as a dilution of the original EMU rules (Degryse, 2012; Jacoby, 2014: 73). Thus, the concept of Ordoliberalism constitutes a poor predictor of the behaviour of the German government with its focus on systemic risks at home and on moral hazard in the rest of the Eurozone (Co-author's name removed; Woll, 2014).

The third puzzle is that the concept of Ordoliberalism is uninfluential in France – the second biggest creditor economy in the Eurozone regarding the exposure of its domestic banks to GIPPS countries. From an ideational perspective, the position of French policy-makers in the governance of the Eurozone debt crisis has been characterized by the continuing importance of the idea of state intervention in the economy (Degryse, 2012; Hall, 2012: 366-368). Economic policy-making in France highlights the presence of a substantial gap between the extensive economic adjustment that has taken place in the last twenty-five years and the underdeveloped legitimation of market mechanisms. The impressive transformation of the French economy, made possible by the enhanced role of market forces relative to that of the state in the allocation of resources, took place in a context where the electorate still attached considerable importance to Republican ideals and still assigns a pre-eminent role to state activism (Schmidt, 2007). The reason for the discrepancy between the increasing importance of market mechanisms and continued attachment to state intervention is that policy-makers framed globalization in distasteful terms in order to avoid taking responsibilities for tough decisions. The consequence is that the introduction of further austerity policies to reduce budgetary deficits remains a tough proposition to sell to a reluctant French electorate. What, then, accounts for the prominence of the German concept of Ordoliberalism in the governance of the Eurozone debt crisis?

Ideas did not triumph on the sole basis of their merits.[3] Our ideational perspective also highlights the importance of the contingent character of the influence of ideas (Campbell, 2004; Dobbin and Dowd, 2000; Hall, 1989) in the context of an inter-state Eurozone framework. First, the influence of ideas is contingent upon their framing that privileges a specific understanding of the distribution of the costs of adjustment and, as a result, at the expense of other interpretations – especially when fitting with the communicative discourses of policy-makers (Schmidt, 2008). A common aspect of the framing of the crisis by the German government is its systemic character, namely that the failure to provide financial assistance to countries targeted by bondholders could result in serious contagion effects that would threaten the survival of the Eurozone. Its support for the provision of financial assistance to Greece and other Eurozone members was framed within the perspective of preserving the maintenance of the Euro and in avoiding financial instabilities – not out of solidarity (Bastasin, 2015: 146-159: Jacoby, 2014). The German government also reiterated the compatibility of the bailout packages with the no bail-out clause of the Maastricht Treaty, namely that the provision of financial assistance was 'voluntary' and received the approval of the Bundestag. Such framing was designed to rally reluctant, if not outright hostile, public opinion and to overcome the potential legal objections of the Karlsruhe constitutional court. Moreover, this framing was also invoked in its support of the decision of the ECB to buy bonds of GIPPS countries on secondary markets – the Securities Market programme – despite the strong opposition of the Bundesbank (Bastasin, 2012: 195-218). In addition to the emphasis on the exceptional circumstances of financial markets, the German government stressed that its decision was designed to preserve the autonomy of the ECB in the context of strong attempts at political interference -- principally from Sarkozy but also from debtor countries. The shortcoming of this framing of the crisis, from the perspective of Eurozone governance, is that Merkel's strategy was far more effective in times of high financial contagion – that is when the crisis indeed threatened the survival of the monetary union (Blyth, 2013; Eichengreen, 2015).

Second, the influence of Ordoliberalism also lies in its interactions with the institutional framework of Eurozone governance. As mentioned in the previous section, current institutional arrangements seriously restrict the range of adjustment strategies available to debtor countries targeted by private bondholders (Armingeon and Baccaro, 2012; De Grauwe, 2013). The institutional framework of Eurozone governance has structured, in an asymmetric manner, the distribution of power among member states that, in turn, facilitated the implementation of austerity policies and the liberalisation of employment relations in GIPPS economies (Blyth, 2013; Hall, 2012). Nonetheless, institutional arrangements have required strong political support that have been legitimized by the concept of Ordoliberalism in two ways.

In the first instance, the reproduction of extant institutional arrangements has been made possible by the non-introduction of alternative institutions (institutional layering) that would have diluted the constraining character of the no-bail clause of the Maastricht Treaty. Most prominently, German policy-makers successfully resisted proposals by the Sarkozy and Hollande governments for an EU Commission-backed facility whereby the Commission would itself sell bonds guaranteed by Eurozone members (Bastasin, 2012: 180-218; Degryse, 2012). The French proposals were made at several junctures: negotiations during the first

Greek rescue plan; negotiations during the Ireland rescue plan; the November 2011 summit between France, Germany and Italy in the context of financial contagion to Italy and Spain; and at the EU summit in June 2012. For the German government, this option was considered a form of Eurobond financing scheme that would not only hurt Germany's credit ratings, but would also dampen efforts to reduce budget deficits in some other Eurozone members (Degryse, 2012: 23 and 35; Bini Smaghi, 2013). Enabling debtor countries to raise financing via the mechanism of Eurobonds, thereby avoiding strict conditionality requirements, would be rewarding moral hazard behaviour.

Additionally, the influence of Ordoliberalism was also prominent in the set-up of new institutions designed to deal with the crisis. The institutional arrangements of the Maastricht Treaty were not designed to deal with issues of sovereign debt since central bank independence was seen as a strong disciplinary mechanism on inflationary countries (Hall, 2012). The failure of the institutions of Eurozone governance to adapt to the new environment of the financial crisis would have been conducive to institutional drift, which is a transformation of their scope and functionability (see e.g. Thelen, 2003). Therefore, the provision of financial assistance was crucial in preventing the implosion of the single currency. Equally important, Germany and other creditor countries were able to exercise significant control over the formation of the new mechanism of financial assistance (EFSF and now ESM) (Bastasin, 2012: 205-218). The ESM board decides on issues of increases in the size of the fund and in the type of conditionality associated with the approval of requests on the basis of a qualified majority of 80 percent of the votes, thereby providing both Germany (27.07) and France (20.3) with veto power. The creation of the EFSF/ESM is also interesting in regard to the various options that were rejected, most notably the set-up of an EU Commission-backed facility whereby the Commission would itself sell bonds guaranteed by Eurozone members alongside the ESM. As a result, Germany and other creditor countries, most notably Finland and the Netherlands, prevented the ESM from becoming a large fiscal union with automatic transfers (Donnelly, 2014).

As a result, the causal influence of the concept of Ordoliberalism in the current Eurozone institutional setting lies in the narrowing of the range of potential scenarios faced not only by debtor countries, but also by bondholders, an important shortcoming in the current institutional set-up of the Eurozone. Private bondholders of GIPPS obligations faced three potential scenarios, located on a continuum, between October 2009 (election of the Papandreou government) and August 2012 (Draghi's London speech) (De Grauwe and Li, 2013; Leblond and Chang, 2015). The first one is characterised by the implementation of Pan-European guarantee schemes whereby the debt of individual member states is guaranteed by the rest of the Eurozone regardless of its level. The second scenario entails the undertaking by individual governments of budget reforms and of liberalisation of the institutional arrangements of employment relations, potentially accompanied by financial assistance, designed to restore the confidence of bondholders. The third scenario is characterised by the partial/full repudiation of its debt by a Eurozone member.

The adherence of the Merkel government, and of the bulk of the German political class, to the concept of Ordoliberalism created serious doubts about whether Pan-European solutions (scenario #1) would be implemented to deal with the debt volume of GIPPS countries (Bini Smaghi, 2013; Degryse, 2012). This is a dangerous situation in the context of the institutional configuration of the Eurozone. The absence of a lender of last resort at the European level raises doubts in the minds of private bondholders about whether specific Eurozone member states will be able to raise enough revenue, or to implement sufficient budget cuts, to meet their debt obligations. In contrast to countries with their own currencies, Eurozone members cannot print their own currency nor can they legally force the ECB to provide the needed liquidity in times of economic upheaval (De Grauwe and Ji, 2013). Thus, private, bondholders increasingly perceived the outcome of the process of adjustment as being contingent on the ability of GIPPS policy-makers to introduce and implement austerity measures and to liberalise institutional arrangements of employment relations – until the intervention of the ECB in the form of Draghi's famous speech on "whatever it takes" (Armingeon and Baccaro, 2012).

Conclusion

This article examined the character of Eurozone crisis governance. An important feature of the management of the financial crisis has been its inter-state component. Creditor countries, particularly Germany, and the Troika, have been influential in the introduction of austerity measures and of structural changes in the form of the decentralization of collective bargaining and the liberalization of collective redundancy legislation (Degryse, 2012; Schulten and Muller, 2013). The management of the sovereign debt crisis is also distinctive due to its asymmetric character, namely the absence of restructuring measures and structural changes on large banks from creditor countries involved in cross-national lending (Blyth, 2013).

The causal influence of ideas to account for the asymmetric character of the distribution of the costs of adjustment in the Eurozone has been presented in this article. Ideas are conceptually important as they highlight the role of policy-makers in confronting the structural environment in which important policy decisions take place (Campbell, 1998 and 2002; Dobbin and Dowd, 2000; Schmidt, 2008). However, the influence of ideas over policy outcomes does not rest solely on their merits; it is also contingent upon the manner in which they are framed and on their interactions with the institutional context in which they are embedded (Campbell, 2004; Hall, 1989; Thelen, 2004).

Our argument contributes to important methodological discussions in political science, and the social sciences more generally, about the nature of causation (Hall, 2003; Ragin, 1987). In contrast to studies (qualitative and quantitative alike) that seek to identify the direct effects of hypothesized independent variables as stand-alone explanations, ideas are conceptualized as being part of a phenomenon of complex causation whereby an outcome results from potentially different combinations of factors. Our analysis illustrates that the mechanisms by which ideas are translated into outcomes constitute a complex phenomenon characterised by an intersection of factors. The methodological insights of our argument casts doubts on research designs framed as a paradigm war between different approaches.

The influence of German Ordoliberalism over the governance of the Eurozone debt crisis incorporates the importance of interest-based explanations. The exposure of large systemic financial institutions – mainly French and German banks – to the obligations of the GIIPS economies is not inconsequential since their national governments cannot print money or implement unilaterally monetary policies of quantitative easing (Blyth, 2013). A banking crisis could easily become a sovereign debt crisis. Nonetheless, an important issue remains: why have the costs of adjustment been disproportionally imposed on debtor countries? Similarly, an ideational perspective fits perfectly well with an institutional approach that emphasizes the importance of institutions in the asymmetric distribution of power across national settings. Nonetheless, the reproduction of institutions, and the stability of their influence, do not occur in an automatic fashion. The ideational perspective presented in this article complements interest-based and institutionally-oriented approaches.

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[1] For instance, the recent near-universal rescue of financially troubled banks in the credit crunch of 2008-09, notwithstanding the notable exception of Lehman Brothers, was also accompanied by substantial cross-national variations regarding the conditions attached to bailout schemes (Woll, 2014). Despite facing similar challenges

in preventing the collapse of major financial institutions, policy-makers exhibited marked discretion in the design of bailout schemes: cheap (United States) versus expensive (United Kingdom) pricing of government support; extensive (France) versus limited (Germany) involvement of the private sector in the financing of rescue schemes; and neutral/positive (France/Denmark) versus negative (Iceland/Ireland/United Kingdom/United States) contributions of bank rescue schemes to the public budget.

[2] See Sally (1996) for an historical analysis of the concept of Ordoliberalism.

[3]In fact, the concept of Ordoliberalism has been sharply criticized on the basis of its failure to distinguish between liquidity and solvency crises (Grauwe and Ji, 2013; Wolf, 2014) and its lack of fit with the macroeconomic conditions of low growth (Blyth, 2013).