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DEPARTMENT
OF POLITICAL
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SCIENCES

Explaining Political Leadership

The Role of Germany and the EU Institutions in
Eurozone Crisis Management

Magnus Gregor Schoeller

Thesis submitted for assessment with a view to
obtaining the degree of Doctor of Political and Social Sciences
of the European University Institute

Florence, 17 October 2016.

European University Institute
Department of Political and Social Sciences

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I confirm that chapters 5.2, 5.3, and 5.4 partly draw upon an earlier article I published in the *Journal of European Public Policy* (forthcoming, DOI:10.1080/13501763.2016.1146325) ("Providing Political Leadership? Three Case Studies on Germany's Ambiguous Role in the Eurozone Crisis").

I confirm that chapter 5.4 partly draws upon an earlier article I published in *Global Policy* 6:3 (2015), 256-265 ("Explaining Political Leadership: Germany's Role in Shaping the Fiscal Compact").

I confirm that chapter 5.6 partly draws upon a chapter of a study for the European Parliament (Héritier, Adrienne / Moury, Catherine / Schoeller, Magnus G. / Meissner, Katharina L. / Mota, Isabel (2015): *The European Parliament as a Driving Force of Constitutionalisation*, Study for the AFCO Committee, Ch. 6). The relevant chapter of this study was jointly co-authored with Prof. Adrienne Hériter and I contributed 66% of the work.

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This thesis has been corrected for linguistic and stylistic errors. I certify that I have checked and approved all language corrections, and that these have not affected the content of this work.

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September 17, 2016

ACKNOWLEDGEMENTS

I can hardly imagine a better place to write a doctoral thesis than the European University Institute (EUI). This thesis would not have even been possible, therefore, without the manifold opportunities offered by this unique institute. More than anything else, the EUI has allowed me to meet most of the marvellous people that helped me write this thesis.

First and foremost, I wish to express my deep gratitude to my supervisor Adrienne Héritier, who directed me all the way through this PhD and essentially shaped my way of analysing politics. Without the invaluable commitment and enthusiasm that she dedicated to my research I would never have been able to write this thesis as it stands today. I therefore feel privileged that I have had the chance to be one of her supervisees. The second person who has had a formative influence on my thesis is my co-supervisor Ulrich Krotz. He helped me to present my work in such a way that it became accessible also to people other than myself. Apart from that, he taught me to look beyond the theoretical and geographical borders of my own work – and, in so doing, to learn from what I find. I am truly grateful for both lessons. Furthermore, I am indebted to Amy Verdun and Lucia Quaglia, who, being outstanding experts in my area of research, agreed to serve as external examiners of my thesis.

Many others helped me with this research. In particular, I would like to thank Douglas Webber, Joachim Schild, Claus Offe, Sandra Destradi, and Frans van Nispen for their interest in my work and their constructive comments. Moreover, I wish to thank Albrecht Sonntag, Madeleine Hosli, Amy Verdun, Derek Beach, and Uwe Puetter for accepting my research as a contribution to their conference panels or workshops. These events turned out to be very fruitful venues for academic exchange and a real enrichment for my thesis. Next to them and many other researchers, I am hugely indebted to the 35 interviewees at the EU institutions in Brussels, the German Ministry of Finance, and the European Central Bank who gave their precious time to answer my ‘ivory tower’-questions about their daily work. With hindsight, I feel I learned more from them than from the many books and articles I read about the topic.

With regard to the administrative aspects of writing a PhD thesis, I am grateful to Maureen Lechleitner, who due to her extraordinary competence and kindness made me always feel in good hands. Moreover, I wish to thank Simon Watmough who did an excellent job as language editor. Next to the EUI itself, I am indebted to the German Academic Exchange Service (DAAD), which financed

my stay at the EUI, and the Centre for European Policy Studies (CEPS), which hosted me during my stay in Brussels.

A big thank you also goes to my friends and fellow researchers at the EUI: Alberto Neidhardt, Davide Morisi, Dieter Reinisch, Camille Brugier, Martin O’Lestra, Lachlan McKenzie, Katharina Wolf, Alexis Lubow, Amalie Frese, Philip Rathgeb, Andrea de Angelis, and many others made Florence and the EUI a wonderful place to write a PhD thesis.

Finally, I am grateful to my parents Regitta and Norbert who, each in a different way, laid the ideational and material foundations that enabled me to write this thesis. My deepest gratitude, however, goes to Katharina. Apart from all her invaluable advice on all possible aspects of doing political research, she helped me through the hard times at the EUI and turned the good times into perfect ones.

ABSTRACT

Why and how do composite actors such as states or international institutions emerge as political leaders? Moreover, once in charge, how do they influence policy or institutional change? What are the conditions for successful leadership? These questions become particularly relevant in times of crisis. However, there is no political science theory that explains the emergence and the impact of leadership when exercised by composite actors. In the context of the Eurozone crisis, we observe that neither Germany, which is the actor most frequently called upon to assume leadership, nor any of the EU's institutional actors have emerged as leader under all circumstances. Instead, we find three different outcomes: no leadership, failed leadership, and successful leadership.

This thesis develops a theoretical model to explain this variation and to address the stated gap in the literature. Building on rational-institutionalist assumptions, it argues that leaders can help a group to enhance collective action when there are no, or only incomplete, institutional rules to do so. Thus, especially in times of crisis, leaders can act as drivers of policy or institutional change. However, they emerge only if the expected benefits of leading exceed the costs of it, and if the potential followers suffer high *status quo* costs. A leader's impact on the outcomes, by contrast, depends on its power resources, the distribution of preferences, and the institutional constraint.

The model is applied to Germany's role in the first financial assistance to Greece, the proposal to establish a so-called 'super-commissioner', and the shaping of the Fiscal Compact. Moreover, the attitude of the European Commission and the European Parliament towards the issue of Eurobonds as well as the European Central Bank's launch of the Outright Monetary Transactions are analysed on the basis of congruence tests and rigorous process-tracing. These within-case analyses are complemented by a cross-case comparison in order to enhance the external validity of the results. The analysis draws on 35 semi-structured elite interviews conducted at the German Ministry of Finance, the European Central Bank, the European Commission, the Council of the European Union, the European Parliament, and two Permanent Representations in Brussels.

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LIST OF ABBREVIATIONS

ALDE	-	Alliance of Liberals and Democrats for Europe
DG ECFIN	-	Directorate-General for Economic and Financial Affairs
EA	-	Euro Area
ECB	-	European Central Bank
ECJ	-	European Court of Justice
EDP	-	Excessive Deficit Procedure
EFC	-	Economic and Financial Committee
EFSF	-	European Financial Stability Facility
EFSM	-	European Financial Stabilisation Mechanism
EMU	-	Economic and Monetary Union
EP	-	European Parliament
EPC	-	Economic Policy Committee
EPP	-	European People's Party
ESCB	-	European System of Central Banks
ESM	-	European Stability Mechanism
EU	-	European Union
EWG	-	Eurogroup Working Group
GDP	-	Gross Domestic Product
IMF	-	International Monetary Fund
MEP	-	Member of the European Parliament
MS	-	Member State
NGO	-	Non-governmental organization
OLP	-	Ordinary Legislative Procedure
OMT	-	Outright Monetary Transactions
PES	-	Party of European Socialists
QMV	-	Qualified Majority Voting
RQMV	-	Reversed Qualified Majority Voting
SGP	-	Stability and Growth Pact
SMP	-	Securities Markets Programme
TFEU	-	Treaty on the Functioning of the European Union
TSCG	-	Treaty on Stability, Coordination and Governance in the Economic and Monetary Union

1. INTRODUCTION

*Leadership is one of the most observed and
least understood phenomena on earth
(Burns 1978: 2)*

Why and how do composite actors such as states or international institutions emerge as political leaders? Moreover, once in charge, how do they influence policy or institutional change? What are the conditions for successful leadership? These questions become particularly relevant in times of crisis. Yet, despite a large amount of literature, research on political leadership is “disparate, under-theorised and under-researched” (Hartley/Benington 2011: 211). In particular, there is no political science theory that explains the emergence and the impact of leadership when exercised by composite actors.

This thesis therefore develops a theoretical model to explain the political leadership of composite actors such as states, governmental and non-governmental organizations, or firms.¹ Building on rational-institutionalist assumptions, it argues that leaders can help a group to enhance collective action when there are no, or only incomplete, institutional rules to do so. Thus, especially in times of crisis, leaders can act as drivers of policy or institutional change. However, leaders can also fail. Therefore, the model introduces a crucial distinction between the emergence of leadership on the one hand, and its impact on the outcomes on the other hand.

The theoretical model is applied within the empirical scope of Eurozone crisis management. This empirical analysis not only serves to test the validity and explanatory power of the model, but also to provide new insights into decision-making and institution-building in the Economic and Monetary Union (EMU). In particular, this thesis helps to explain the behaviour of EMU’s most powerful actors in the management of the crisis and contributes to our understanding of whether and how leadership can be a means to overcome the crisis.

¹ For the sake of conceptual clarity, the thesis adopts Scharpf’s category of ‘composite actors’ instead of the more common (but more ambiguous) notion of ‘collective actors’ (which in Scharpf’s classification is only one specific subtype of composite actors). However, the model refers only to those actors that are capable of intentionality and strategic action. At variance with Scharpf’s terminology, it thus does not include ‘aggregate actors’ (Scharpf 1997: 52-8).

1.1 Puzzle and Research Questions

Although the term ‘leadership’ is omnipresent in the political discourse, and most political scientists seem to take it for granted that leadership makes a difference with regard to outcomes, there is no comprehensive political science theory of leadership. Instead, there is a large variety of idiosyncratic approaches which most of the time are essay-like, focus on highly specific aspects, or are purely biographical accounts of individual leaders (Hartley/Benington 2011: 211; Edinger 1990: 509; Peele 2005: 190).

From a theoretical perspective, this gap in the literature is particularly striking with regard to the role of composite actors (Ch. 1.2) in the context of European Union (EU) governance and European integration. Despite the ever more important role of leadership in the EU due to increasing complexity in agenda-setting and decision-making (Beach/Mazzucelli 2007a: 243; Janning 2005: 826f; Tallberg 2010: 245f), there is no comprehensive and generalizable theoretical model which explains the emergence as well as the influence of political leaders.² Moreover, with the exception of Mattli’s *Logic of Regional Integration* (1999), all theories of European integration either deny the importance of leadership or fail to theorize it. (Liberal) intergovernmentalism, for example, denies the role of leadership:³ due to almost symmetrical access to information and relatively low bargaining costs (as opposed to the high gains of regional integration), the provision of leadership is considered redundant. Supranational institutions are therefore not needed as leaders and intergovernmental negotiation outcomes merely reflect the preferences of the most powerful state (Moravcsik 1999a; b; Beach/Mazzucelli 2007b: 7).⁴ Neofunctionalism acknowledges instead that supranational institutions can take over leadership in regional integration (‘cultivated spillover’, see Niemann/Ioannou 2015: 199). However, the only neofunctionalist study that makes this explicit (Lindberg/Scheingold 1970: 128-33) leaves the variance in leadership demand and supply

² The works of Endo (1999), Beach (2005), Tallberg (2006), and Beach and Mazzucelli (2007b) are highly exceptional in that regard as these authors present theoretical models of leadership that are causal, conditional, and generalizable (Tallberg 2006: 18). However, while Endo (1999) and Beach (2005) focus only on supranational institutions as potential leaders, Tallberg (2006) and Beach and Mazzucelli (2007b) restrict their models to the explanation of the rotating presidency in Council negotiations, and EU constitutional negotiations, respectively. Moreover, none of these works makes an explicit distinction between a leader’s emergence and its impact on the outcomes.

³ In the respective debate, Moravcsik (1999a; 1999b) refers to ‘entrepreneurship’ instead of ‘leadership’. However, the two concepts are used synonymously, which becomes visible with Young’s (1999) notion of ‘entrepreneurial leadership’ in his comment on Moravcsik (see also Beach 2005: 21f).

⁴ The works of Beach (2005), Beach and Mazzucelli (2007a), and Tallberg (2006) show that informational asymmetries and institutional positions, which have both been neglected in liberal institutionalist analysis, make a significant difference with regard to negotiation outcomes in the context of EU decision-making (also Beach 2010: 96).

undertheorized and uses the concept only as an ad hoc variable in the empirical analysis (Beach 2010: 97). Mattli (1999), finally, considers state leadership as a crucial explanatory factor of regional integration. Still, he does not elaborate on the theoretical concept of leadership or the questions as to how and why leadership emerges and influences the outcomes.

Thus, there is no specific theory that can help us to explain the puzzling leadership record of Eurozone crisis management. The actor that was mostly called on to assume leadership was Germany (e.g. Financial Times 2012; Jones 2010: 33; Matthijs/Blyth 2011; Morisse-Schilbach 2011: 33f; Steinmeier/Steinbrück 2010; Techau 2014). Maybe most impressively, even Poland's foreign minister made a plea for German leadership:

“I demand of Germany that, for its own sake and for ours, it help the eurozone survive and prosper. [...] I fear German power less than I am beginning to fear its inactivity. You have become Europe's indispensable nation. You may not fail to lead: not dominate, but to lead in reform” (Sikorski 2011).

Yet, Germany has not emerged as a leader in every circumstance. Instead, according to the issue at stake, we observe three different outcomes: firstly, Germany refused to lead (= *no leadership*), as was the case when it came to the first financial assistance to Greece at the beginning of 2010; secondly Germany assumed leadership, but failed to deliver (= *failed leadership*), as happened with the proposal to establish a so-called 'super-commissioner'; thirdly, Germany did emerge as a leader and influenced the outcomes in the desired way (= *successful leadership*), as we observe in the shaping of the Fiscal Compact, for example.

This puzzle recurs also with regard to other actors in Eurozone crisis management. Especially when Germany did not provide leadership, supranational actors such as the European Commission (hereafter Commission), the European Parliament (EP), or the European Central Bank (ECB) had the chance to step in and fill the leadership vacuum. Yet, the performance of these actors also varied according to the issue at stake and we can observe instances of all three outcomes: no leadership, failed leadership, and successful leadership. This raises the question as to what determines a leader's emergence on the one hand, and her impact on the outcomes on the other hand.

In sum, although public discourse and many political scientists assign an important role to the issue of leadership, there is no comprehensive leadership theory in political science. This is especially striking with regard to European integration and EU governance. The recent example of the Eurozone crisis also leaves us puzzled in that regard, as there is no theory that can explain why states as well as supranational institutions sometimes refrain from offering, fail to deliver, or succeed in exercising

leadership. The research questions that arise from this puzzle therefore concern two different aspects of leadership, namely (1) its emergence and (2) its impact:

1. *Why and how do composite actors such as states or international institutions emerge as political leaders?*
2. *How do political leaders manage to influence policy or institutional change? What determines their success or failure?*

1.2 Contribution

The theoretical value added of this work arises primarily from the aforementioned gap in political science theorizing. There is a large amount of literature on political leadership, but aside from the fact that there is little generally accepted knowledge, the strongly diverging studies are widely undertheorized (see Ahlquist/Levi 2011; Hartley/Benington 2011; Masciulli/Molchanov/Knight 2009b). More precisely, two big gaps can be identified in the literature.

First, apart from some literature focusing on the role of powerful states in regional integration,⁵ leadership research has mainly focused on individual actors, but not on composite actors such as states, supranational institutions, or governmental and non-governmental organizations.⁶ But even within this strand of regional integration literature, where leadership of composite actors has been acknowledged as a crucial explanatory factor, the concept has remained largely under-theorized (Laursen 2010: 13f). As one expert in the field put it a decade after the publication of Mattli's *Logic of Regional Integration*: "One can wonder why Mattli's emphasis on leadership has not produced more comparative research over the last ten years" (Laursen 2010: 8, footnote 2).

⁵ See Beach 2005; Beach/Mazzucelli 2007c; Cohen 1998: 87-91; Destradi 2010; Malamud 2011; Mattli 1999; Schirm 2010. With regard to the exceptional role of the Franco-German relationship as a form of bilateral leadership in European integration, see Krotz/Schild 2013. Recently, there has also been a new wave of literature focusing on Germany as an actual or potential hegemon in Europe (e.g. Bulmer 2014; Bulmer/Paterson 2013; Morisse-Schilbach 2011; Paterson 2011). Although leadership and hegemony are two different concepts (Destradi 2010; Ch. 2.2.3), this literature is highly relevant for the empirical analysis of Germany as a potential leader in the EU and Eurozone.

⁶ Leadership by non-individual actors has also been called collective or collegial leadership (e.g. Brown 2014: 9-14, 18). This thesis avoids both terms as they are also used for indicating a type of leadership which is exercised by more than one actor (distributed leadership).

Second, “(t)here is no ‘rational theory of leadership’” (Shepsle/Bonchek 1997: 380). To be sure, there have been some rationalist approaches to political leadership,⁷ but these focus on very specific aspects of leadership instead of providing a comprehensive theoretical model. In particular, the question of how a leader emerges has remained widely unanswered: in most rationalist works, leaders are just exogenously given, and the few recent works that consider the internal emergence of a leader do not specify how this ‘endogenous leader’ is identified (Ahlquist/Levi 2011: 13). Thus, the record of rationalist approaches to leadership remains poor: “Taking a bird’s-eye view of rational choice literature, ‘leadership’ is, if not a dog that does not bark, at least one that does not bark very loudly!” (Brennan/Brooks 2014: 161).

Both theoretical gaps can be addressed by elaborating a rational-institutionalist theory of the (endogenous) emergence and impact of composite actors as leaders. Thereby, this thesis meets precisely those theoretical requirements that have been singled out as crucial by an expert reflecting about the future of political leadership research:

“there is perhaps an even more urgent need to integrate the leadership factor into *both rational choice analysis and the ‘new’ institutionalism*. In terms of the former, to what extent does leadership affect preference formation and the articulation and definition of political choices? In terms of the latter, to what degree does leadership affect the creation of institutions and the process of institutional change?” (Elgie 2001: 8579; *own emphasis*).

As a result, it will be an additional contribution of this work to combine the assumptions of rational-choice institutionalism with the findings of current leadership research.

The empirical value added of this thesis is directly related to the significance of the Eurozone crisis, which has been one of the most severe crises in the history of European integration. In times of crisis, there is an extraordinary high demand for leadership (Boin/t Hart/van Esch 2012: 119; Krotz/Schild 2013: 21f). This raises general questions as to which actor is willing and capable to provide leadership in the EU, whether leadership can be a way to overcome crises in European integration, and – most fundamentally – whether the EU polity with its multiple access- and veto-points allows for the rise of political leadership at all (see Hayward 2008). Furthermore, with the emergence of the Eurozone crisis, EMU’s institutional framework has turned out to be seriously flawed and has thus undergone significant change (e.g. Fabbrini 2013: 1017-22; Hall 2012: 366f; De Grauwe 2013; Scharpf 2012). Therefore, this thesis addresses the question as to whether and how

⁷ For an overview, see Ahlquist/Levi 2011. Tallberg (2006) offers a comprehensive rational-choice institutionalist theory and applies it to EU negotiations. However, since he focuses exclusively on formal leadership in multilateral negotiations, his theory is rather one of chairmanship than of leadership.

leadership in the EU can compensate for flawed institutional settings and whether leaders can act as drivers of institutional change.

Finally, through the single case studies, the thesis helps to understand the behaviour of the most powerful actors in the EU if it comes to assuming leadership, as well as the extent to which they can contribute to overcoming a crisis and fostering further integration. This research therefore investigates the particular questions of who has provided leadership in the crisis and why, which actor might reasonably be expected to take the lead in a given situation, and which conditions must be given to achieve successful leadership in the EU and EMU.

1.3 Argument and Empirical Findings

A core argument of this thesis is that political leadership matters. Leadership is defined as a process in which an actor in a position of power uses its resources in such a way as to guide the behaviour of others towards a common goal. Leadership is thus not only a recurrent pattern of political interaction, but also a solution for collective action problems. As such, leadership is a source of policy and institutional change and may temporarily even function as a substitute for institutions (see Laursen 2010: 13f). Thus, a leader guides a group to outcomes which otherwise would not be possible and thereby improves the group's way of doing things. On the one hand, a leader can help actors to decide between several outcomes, and, in the best case, make them choose a Pareto-improving outcome by serving as a focal point. Similarly, a leader can reduce a group's transaction costs, which impede the finding of an outcome that would be better for all (see Beach 2005: 17-20). On the other hand, a leader can also propose completely new outcomes and thereby act as a game-changer.

Based on this argument, this thesis posits that the emergence of leadership is not a sufficient condition for its impact. The emergence of leadership depends on the costs and benefits of leading as expected by the potential leadership candidate, but also on the *status quo* costs the group has to bear in case the situation continues without a leader. The impact of leadership, in contrast, depends on the leader's power resources, the distribution of preferences within the group, and the institutional constraint faced by the leader.

These propositions are tested by conducting two case studies for each of the three possible outcomes of the theoretical model (no, failed, and successful leadership). The analysis includes all theoretically or empirically relevant leadership candidates in the Eurozone; namely Germany, the Commission, the EP and the ECB. In order to be sure that the different outcomes do not just depend on the different leaders in charge, there are three cases included that represent each of the three possible outcomes while focusing on the same actor (namely Germany). The empirical analysis corroborates the theoretical model. In all six cases, actors emerged as leaders only if they expected individual benefits from doing so. This was the case despite the strong demand for leadership, which was due to the constantly high *status quo* costs of the Eurozone crisis. Once a leader has emerged, there is no single factor that can sufficiently explain her impact. Instead, the interplay of three factors – power resources, preference distribution, and institutional constraint – accounts for the final outcome.

Moreover, this thesis demonstrates that leadership is indeed a solution to collective action problems. In those cases where actors refrained from providing leadership or failed to deliver, the Eurozone as a whole was left worse off. By contrast, the case of the ECB's unconventional measures launched in summer 2012 shows that when a powerful actor decides to bear the costs of leading, this can be to the benefit of the entire group – including the leader herself. Moreover, this thesis unveils new insights with regard to the so-called 'leadership vacuum': on the one hand, this situation can produce surprisingly weak leaders, who can emerge only because no one else is willing to take the lead; on the other hand, a leadership vacuum can bring about 'leaders by default'. These are powerful actors that only provide leadership at the last possible moment because they fear the high costs of leading and therefore attempt to free-ride on the leadership of other actors.

Finally, this thesis entails findings that speak to the particular role of single actors in EMU. Germany, as EMU's most powerful member state (MS), enjoys a *de facto* veto power in EU economic governance. However, its actual shaping power, which is crucial for the exercise of leadership, is much more limited. To put it bluntly, the fact that Germany can block whatever it does not like in the current EMU does not mean that it also has the power to realize the things it does like. With regard to the Commission and EP, this thesis shows that although both institutions are power-maximizers, their actual behaviour differs because they are considerably constrained by their respective institutional roles. The ECB, finally, differs from the other two institutions in the sense that it is not a strategic player in the conventional understanding: if its political independence and its political influence are at odds, the ECB refrains from maximizing its influence on outcomes in order to

preserve its independence. However, given that the Eurozone crisis threatened the ECB's very existence, it could not avoid becoming politicized nevertheless.

1.4 Methodology

This thesis applies a qualitative and comparative methodology. Thus, the central part of the empirical analysis consists in a plausibility probe of the theory, which draws on congruence tests and rigorous process-tracing within the scope of single case studies. These within-case analyses are complemented by a cross-case comparison in order to enhance the external validity of the results. Next to a variety of sources, which include legislative texts, declarations, speeches, press releases, newspaper articles, and existing empirical research, the analysis draws on 35 semi-structured elite interviews conducted at the German Ministry of Finance, the European Central Bank, the European Commission, the Council of the European Union, the European Parliament, and two Permanent Representations in Brussels.

1.5 Structure

This thesis begins with a literature review (Ch. 2), which serves to elaborate the necessary conceptual clarifications and to formulate a definition of political leadership. Based on this conceptualization of leadership, Chapter 3 is devoted to the elaboration of a theory of political leadership: in a first step, the theoretical rationale and argument are presented; then the basic theoretical assumption are outlined; finally, the actual theory of leadership is elaborated and falsifiable hypotheses are deduced. Chapter 4 serves to explicate the implications for the empirical research. This regards the underlying methodology, case selection, operationalization, and data collection. Chapter 5 presents the actual empirical analysis and thus is the centrepiece of the thesis: after some preliminary notes on the concepts of institutional incompleteness, common goal, and *status quo* costs in the Eurozone crisis, the six case studies are conducted. The following chapter (Ch. 6) presents the findings of the cross-case comparison and further comparative results. Chapter 7, finally, draws the conclusions.

2. STATE OF THE ART AND CONCEPTUALIZATION

In 1978, one of the most influential leadership theorists claimed that “[l]eadership is one of the most observed and least understood phenomena on earth” (Burns 1978: 2). Indeed, almost 40 years later there is not even a consensus about whether political leadership – be it at the level of the individual or of composite actors – matters at all.⁸ Instead, “the research on political leadership is disparate, under-theorised and under-researched” (Hartley/Benington 2011: 211).

Against this backdrop, the following literature review has two major aims: first, it will put forward a definition of political leadership which is based on the current state of the art; second, it will assess the existing literature according to the question of whether we deal with a coherent research agenda or with a disparate field of many heterogeneous contributions. In order to reach these aims, the following review is structured around three central features of leadership; namely ‘guidance or power’, ‘common goal’, and ‘innovation’. While elaborating on these features and drawing implications for the conceptualization of political leadership, the review also discusses some crucial questions in the field: How does leadership differ from sheer power? How can we distinguish between a political leader and a policy entrepreneur? Are leaders necessarily successful? And, can we conceptualize the many different types of leadership?

2.1 Demarcation of the Field

The study of leadership is arguably as vast, old, and fuzzy at its borders as political science itself. Therefore, it is indispensable to demarcate the field before assessing it. First of all, this review excludes all the literature on leadership that is not strictly pertinent to political science, such as organizational, psychological, or business literature. But also within the political science paradigm, the thought on political leadership can be traced back at least to Plato.⁹ Thus, this review is confined to the contemporary social science research on political leadership (see ‘Excursus 1’ below). Moreover, being committed to positive political science, the review disregards normative or ethical contributions to the study of political leadership, such as the distinction of good vs. bad leadership (see Kellerman 2004; Nye 2008: 109-45; Masciulli/Molchanov/Knight 2009a: 16f). Finally, while the

⁸ For two recent contrasting views in the realm of international relations, see Jervis 2013 (sceptical) and Nye 2013 (affirmative). Both refer to the influence of individual leaders, but the contrasting points of view are representative of the social science treatment of political leadership in general.

⁹ For a concise overview of the history of the Western political thought on leadership, see Keohane 2014.

review includes political science literature on individual leadership, approaches which focus only on individual traits are not considered, as personal traits like intelligence, self-confidence, or situational adaptability cannot explain the leadership of composite actors such as states or organizations.

Excursus 1: Where to Start? Max Weber or James MacGregor Burns

Max Weber is sometimes mentioned as the founding father of modern leadership research. In his seminal essay *Politik als Beruf (Politics as Vocation)*, Weber indeed addresses the issue of individual leadership: leaders are those who exert state power, which is the object of politics. In addition, he distinguishes three ideal types of legitimate rule ("*Herrschaft*"), which can be traditional, charismatic, and rational-legal (Weber 1982: 9). However, this distinction gave rise to a historical misunderstanding as Weber does not examine different types of leadership, but different types of legitimization (also Blondel 1987: 50-1; Peele 2005: 189). Moreover, according to Weber, political leadership plays only a minor part in modern times because the legal-rational type of legitimization gives precedence to institutional rules over a leader's individual agency. Hence, to start from Weber as founding father of modern leadership research would further contribute to an already existing misunderstanding.

After Weber, it was not until the 1970s that a comprehensive study on leadership was eventually provided. Although Glenn D. Paige presented a conceptual framework of leadership already in 1977, it was the wide-ranging work of James MacGregor Burns (1978) which became a cornerstone for subsequent leadership studies (Peele 2005: 190). In particular, the seminal distinction between transactional vs. transformational leadership became part of the basic vocabulary in current leadership research (see Ch. 2.3.2). Burns' definition of leadership, which not only remains valid in the light of present-day research, but is also one of the most comprehensive definitions, summarizes much of his thought and can thus serve as a starting point for the following conceptualization:

"Political leadership is those processes and effects of political power in which a number of actors, varying in their composition and roles from situation to situation, spurred by aspirations, goals, and other motivations, appeal to and respond to the needs and other motives of would-be followers with acts for reciprocal betterment or, in the case of transforming leaders, the achievement of real change in the direction of 'higher' values. Political leadership is tested by the extent of real and intended change achieved by leaders' interactions with followers through the use of their power bases. Political leadership is broadly intended 'real change.' It is collectively purposeful causation" (Burns 1978: 434).

2.2 Towards a General Conceptualization

Generally speaking, 'leadership' can denote a group of actors, a result, a position, or a process (Grint 2005). However, in line with most of the current leadership research (Northouse 1997: 2-4), this work conceives of leadership as a process.

2.2.1 Guidance and Power

One way of defining a concept is to go through existing definitions and search for common elements or overlaps.¹⁰ Arguably the most common element associated with leadership is guidance, understood as the exercise of a determining influence on a group's behaviour (e.g. Blondel 1987: 3, 5f; Edinger 1993: 6; Tucker 1981: 11, 15). A prototypical definition which emphasizes this element has been provided by Arild Underdal: "Leadership can be defined as an asymmetrical relationship of influence in which one actor guides or directs the behaviour of others toward a certain goal over a certain period of time" (1994: 178).

This implies that leadership is related to power, understood as the "ability to affect the behaviour of others to get the outcomes one wants" (Nye 2010: 306). Power, in turn, is not only defined by the fall-back position of an actor (see Ch. 3.3.3), but to a large extent by its resources. These constitute a formal or informal position of authority as a necessary condition for the exercise of leadership (see Ahlquist/Levi 2011: 5; Burns 1978: 17f, 434; Endo 1999: 16-26).

However, leadership is not the same as power, but a special form of exercising power (Keohane 2010: 2). Thus, leadership goes beyond the purely structural aspect of power and comprises also a behavioural aspect (Underdal 1994: 181f). This implies that a leader not only finds herself in a position of power, but that she translates power into certain outcomes. This is done by the use of leadership strategies, understood as ways of allocating power resources in order to reach a common goal (Ch. 2.2.2) and to bring about innovation (Ch. 2.2.3) (see Baumgartner 1989; Metcalfe 1998; Masciulli/Knight 2009: 92; Moon 1995: 4). Power, in contrast, can be used in many other ways: blocking innovation in order to enforce one's own interest against others, for instance, requires power, but is generally not considered an instance of leadership. Thus, it is especially the pursuit of a

¹⁰ For an overview of some seminal definitions of political leadership, see Elgie 1995: 3.

common goal which distinguishes leadership from other possible ways of exercising power (Malnes 1995: 93, 99-106).¹¹

2.2.2 Common Goal

While the issue of power puts emphasis on the leader itself, the notion of a common goal focuses also on the followers. As already extensively highlighted by Burns, a common goal is a necessary condition for the exercise of leadership (1978: 18f, 425-32; also Underdal 1994: 178f; Malnes 1995: 93f). In the terminology of Kindleberger (1981), this is the provision of a common good, which defines leadership and distinguishes it from dominance or exploitation. A definition that highlights this element is that of Nye, according to whom leaders are “those who help a group create and achieve shared goals” (2010: 306).

Yet, the notion of a common goal is problematic if by implication leadership is understood as an altruistic sacrifice (Skodvin/Andresen 2006: 16-8). As, for instance, Mattli has pointed out, the willingness to lead depends on the payoffs to the leaders (1999: 13). Based on rational choice approaches to leadership, we would expect that these payoffs are given if an actor’s expected benefits of leading exceed the costs of it (Frohlich/Oppenheimer/Young 1971: 7; Shepsle/Bonchek 1997: 381). As a consequence, leadership can emerge only if there is an overlap of the would-be leader’s self-interest and the interests of the potential followers.

Moreover, the notion of a common goal is not a normative criterion of leadership. It does not mean that the actions of a leader are ‘the right thing to do’ or ‘something good for all’. ‘Common goal’ simply means that leader and followers jointly aim at a yet unreached entity or condition in their interest. However, individual preferences over how to reach the common goal might still diverge. This implies that despite the presence of a leader there remain relative winners and losers. In the words of Kindleberger: “Leadership may be thought of at first blush as persuading others to follow a given course of action which might not be in the follower's short-run interest if it were truly independent. [...] Without it, however, there may be an inadequate amount of public goods produced” (1981: 243).

¹¹ See Table 3 below for an overview of different bargaining behaviours of powerful actors, which exist next to leadership.

Finally, the perception of a common goal is subjective and historically contingent. This implies that something which was perceived of as a common goal at the time leadership emerged can *a posteriori* turn out to be beneficial only to some actors or even to no one at all. In the same line, the notion of a common goal might also be only invoked by the potential leader¹² in order to realise her particular goals.

2.2.3 Innovation

Leadership is associated with innovation (Masciulli/Molchanov/Knight 2009a: 3). Burns made this explicit by defining leadership as “real change” (1978: 434). However, since the concept of leadership is often used synonymously with office-holding, innovation gets sometimes neglected as an intrinsic element of leadership, which results in redundant concepts such as ‘innovative leadership’ (see Sheffer 1993; Moon 1995). Still, especially the organizational and business literature keeps reminding us that it is precisely the creation of something new which distinguishes leadership from pure management (e.g. Grint 2005: 15; Northouse 1997: 9). But also in the political science literature leaders have been described as those who change the equilibrium ways of doing things or – more metaphorically – as “agents of change” (Hargrove 1989: 57; see also Schofield 2002).

Innovation may come into conflict with the pursuit of a common goal if the latter consists in maintaining the *status quo*.¹³ Nevertheless, maintaining the *status quo* is the task of a manager, not of a leader (see ‘Excursus 2’ below). Moreover, the criterion of innovation distinguishes a leader from a benign hegemon (Kindleberger 1973; Cohen 1998). Also the latter uses power resources to act as a stabilizer of international or regional cooperation, that is, to pursue a common goal. However, the hegemon maintains the system and therefore – by definition – does not innovate.¹⁴

¹² ‘Potential leaders’ are understood as those who have a chance to emerge as a leader. Given that leadership requires power resources (Ch. 2.2.1), a minimum of resources is therefore necessary to be a potential leader.

¹³ The conflicting tasks of manager and leader become especially evident in times of crisis, since the crisis manager aims at re-establishing the *status quo ante* while the leader pushes for reform in order to overcome the crisis (Boin/t Hart 2003).

¹⁴ Despite its importance for the debate on leadership in the context of regional integration and international relations, this thesis does not elaborate further on the concept of hegemony. The academic debate lacks a clear and commonly accepted definition of ‘hegemony’, and the concept is frequently conflated – or even used synonymously – with ‘leadership’. A conceptual refinement of ‘hegemony’ and systematic distinction from ‘leadership’, which is based on the existing literature, would therefore go far beyond the conceptual scope of this thesis. Nonetheless, still more than twenty years after David Lake’s (1993) seminal attempt to disentangle the two concepts, this remains an important and useful task.

Finally, if we want to avoid the methodological pitfall of measuring leadership by its outcomes, the criterion of innovation can apply only to those leaders who turn out to be successful. This implies that innovation is a target condition of leadership – a leader is supposed to innovate – but not a defining criterion.

Excursus 2: Leadership, Entrepreneurship, and Management

The criterion of innovation connects leadership to entrepreneurship on the one hand, and separates it from management on the other. Both leaders and entrepreneurs strive for innovation. However, although the two concepts have a lot in common, they differ with regard to a few crucial criteria (Malnes 1995; Miroff 2003). The opposite is true in the case of management: while the two concepts overlap in almost all other criteria, they differ precisely with regard to innovation (Grint 2005: 15; Northouse 1997: 8-10). The three central criteria outlined above – guidance, common goal, innovation – allow us to draw a clear distinction between the three concepts (Table 1).

Table 1: Entrepreneurship vs. Leadership vs. Management

	Entrepreneurship	Leadership	Management
Guidance	X	✓	✓
Common Goal	X	✓	✓
Innovation	✓	✓	X

Source: Own Illustration

An entrepreneur can be defined as an actor, often equipped with superior information about her environment, who exploits structural opportunities by defining problems and presenting solutions that imply innovative effects that are favourable to her individual interests (see Kingdon 2003: 179-82; Mintrom/Norman 2009: 650-3, 656; Sheingate 2003: 185-8). In doing so, an entrepreneur might indirectly guide a group of actors towards a certain goal, but this is neither the task nor the motivation of an entrepreneur, which is why the entrepreneur does not need a position of authority – be it formal or informal. Indeed, whereas a leader is defined by guiding a group of followers from a position of power, an entrepreneur can be positioned anywhere (Kingdon 2003: 179f). The same is true with regard to the notion of a common goal. Although an entrepreneur may indirectly contribute to the achievement of a common goal, this is neither a defining criterion nor the aim of an entrepreneur. While a leader explicitly serves a common goal, an entrepreneur is first of all self-

interested (Malnes 1995: 91f). However, provided that they are successful, both leader and entrepreneur have an innovative effect on their environment, which is where both differ from the manager.

Like a leader, a manager directs a group towards a common goal, but it is the manager's primary task to maintain the system by producing order and consistency, not innovation: "Management is concerned with executing routines and maintaining organizational stability – it is essentially concerned with control; leadership is concerned with direction setting, with novelty and is essentially linked to change, movement and persuasion" (Grint 2005: 15; also Northouse 1997: 8-10).

2.3 Implications

Based on the conceptualization of leadership elaborated so far, implications for two crucial debates in the field – namely the relationship of leadership to success (Ch. 2.3.1) and the categorization of different leadership types and conceptions (Ch. 2.3.2) – are drawn in this chapter. In doing so, the current state of the art in these debates will be summarized and possible solutions will be provided.

2.3.1 Leadership and Success

The starting point of this debate is the question of whether leadership is successful by definition or whether there might be also unsuccessful leaders.¹⁵ However, from a methodological point of view, there is a clear answer to this question. If we conceive of leaders as successful by definition, we not only measure leadership by its outcomes, which would be tautological, but we are also forced to assess leadership only *ex-post*, once we know about success or failure. If we conceive of leadership as not successful by definition, instead, the question arises as to when it is successful: what determines a leader's success or failure? While an analytical answer to this second question will be given by the theory of leadership outlined in the next chapter (Ch. 3.3.3), this chapter summarizes the different aspects raised by the existing literature.

¹⁵ In the context of politics and based on the criteria elaborated above (Ch. 2.2, esp. Ch. 2.2.2), 'success' is understood as the attainment of a policy or institutional change that is supposed to contribute to a common goal. For related issues of operationalization, see Ch. 4.3.

The determinants of a leader's success can be differentiated into a positional, a behavioural, and an environmental dimension. This basic division is reflected in the three leadership approaches which dominate the literature: the trait approach (positional), the style approach (behavioural), and the situational approach (environmental) (Northouse 1997: 13-73). A leader's success can therefore be described as a function of these three factors.

The positional factor is given by a leader's position and the corresponding power resources. The stronger a leader's position, or the greater her resources, the more likely her success (e.g. Elgie 1995: 204). However, as Karl Deutsch has already pointed out with regard to individual leaders in international relations, a leader's success depends not only on her resources, but also on other factors such as the support of the followers (Deutsch 1988: 71-3).

With regard to the behavioural factor, the literature suggests that a leader must actively choose the appropriate means or strategies to successfully influence the outcomes (see Masciulli/Knight 2009: 92; Metcalfe 1998; Moon 1995: 4; Underdal 1994: 181f). The fact that a strong position does not suffice to be a successful leader as long as it is not complemented by a certain behaviour has already been pointed out by Philip Selznick in 1957 (Helms 2012: 3). However, since then the political science literature has remained unclear about what exactly constitutes the appropriate means. Moreover, as argued by Baumgartner (1989), the successful employment of means or strategies also depends on the environmental setting of a leader.

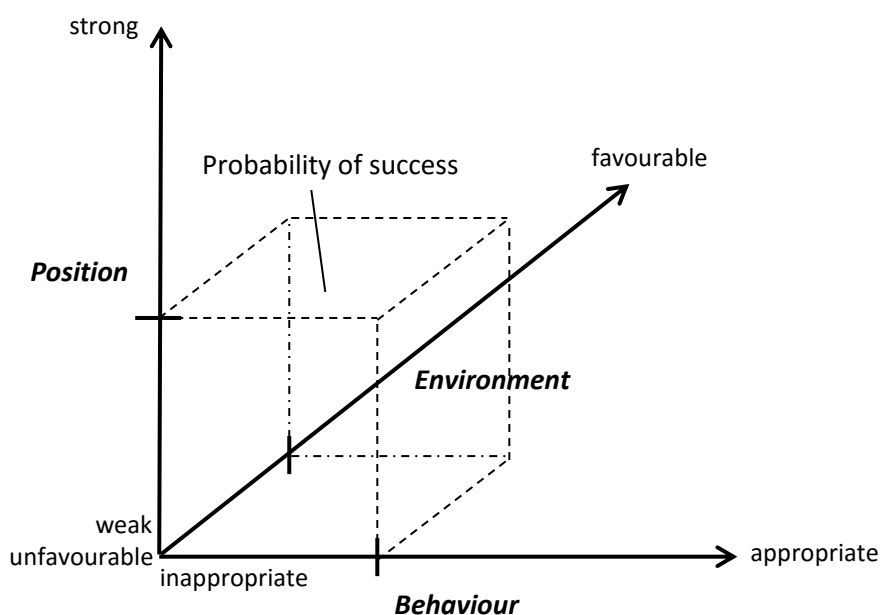


Figure 1: Probability of a Leader's Success as Determined by its Position, Behaviour, and Environment

Source: Own Illustration

Although highlighted by several authors (e.g. Jones 1989a: 13; Cole 1994: 468; Elgie 1995; Hargrove 2004), the environmental factor (or a leader's situation) is still the most neglected one in the study of political leadership. On the one hand, this concerns the followers' preferences or their support for the leader's action: the smaller this support, the less likely a leader's success (see Deutsch 1988: 72). On the other hand, it also concerns the institutional setting. Although the relationship between leadership and institutions is still under-researched (Elgie 2001: 8579), we can state as a general rule: the more favourable a leader's institutional environment, the more likely her success (see Blondel 1987: 148-80; Tallberg 2010: 246).

The interplay of these three parameters not only allows for estimating a leader's success (Figure 1), but also provides an explanation for the paradox of weak, but successful leaders on the one hand, and strong, but unsuccessful leaders on the other. A leader that is equipped with few power resources can still be successful if she actively employs the right means to reach a common goal and if the follower's preferences and the institutional environment constitute only small constraints. *Vice versa*, the most powerful leader can fail if her behaviour does not contribute to a common goal, the followers' withhold their support and/or the institutional environment is unfavourable.

2.3.2 Two Basic Conceptions of Political Leadership

The literature suggests countless types of different leadership categories: structural, entrepreneurial, intellectual, problem-solving, positional, directional, ideational, or innovative leadership are just a few of the leadership types that can be found in the political science literature. However, there is one basic typological distinction that is more pervasive and persistent than the others, which is Burns' (1978) seminal distinction between transactional and transformational leadership (see Nye 2014). In its original meaning, transactional leadership refers to the "exchange of valued things" (Burns 1978: 19); there is no higher, continuing purpose and the preferences of leader and followers remain stable. Instead, in the case of transformational leadership "leaders and followers raise one another to higher levels of motivation and morality" (Burns 1978: 20). This implies that leader and followers mutually affect their preferences, which is why this kind of leadership "has a transforming effect on both" (Burns 1978: 20).

This basic distinction between reaching certain outcomes within a given game and changing the game itself has been put forward by many authors without explicitly referring to the work of Burns

(see Table 2). Examples are Bryan Jones (1989b), who distinguishes between leadership under unambiguous rules and leadership in ambiguous and changing systems, or Raino Malnes (1995), who refers to problem-solving vs. directional leadership. This chapter argues that most of the existing distinctions of leadership types are based on two basic conceptions of leadership, which somehow reflect Burns' original categories, and which in this work are labelled 'enhancing collective action' and 'providing common knowledge'.

Table 2: Two Basic Conceptions of Political Leadership

	Providing Common Knowledge	Enhancing Collective Action
Burns 1978	Transformational leadership	Transactional leadership
Jones 1989b	Leadership in ambiguous and changing systems	Leadership under unambiguous rules
Young 1991¹⁶	Intellectual leadership	Entrepreneurial leadership
Malnes 1995	Directional leadership	Problem-solving leadership
Nye 2013, 2014	Inspirational leadership ¹⁷	Transactional leadership

Source: Own Illustration

According to the first conception of leadership, a leader acts as a provider of common knowledge. Common knowledge is a collectively shared set of beliefs, which constitutes the basis for the actors' interests and preferences. However, a group's collective knowledge can be unsettled by exogenous events like crises. In these cases, uncertainty rises and the group experiences pressure to adapt (Boin/'t Hart 2003; Schofield 2002). As opposed to many collective action problems (see below), the problem is thus not caused by divergent preferences over solutions, but by the actual lack of solutions. In this situation a leader can provide new common knowledge by exposing the drawbacks of the *status quo*, coming up with new interpretations and ideas, and promoting them as solutions to the defined problems (see Eberlein/Radaelli 2010: 791f; Masciulli/Molchanov/Knight 2009a: 7; Stiller 2010: 34-9; Tucker 1981: 18f). The innovation of this kind of leadership is not only given by the solution of a collective action problem, but by the creation of a new situation (or game). This conception of leadership corresponds to what has been labelled 'intellectual' (Young 1991: 298-302),

¹⁶ A third type singled out by Young is 'structural leadership' and refers to the mobilization of power resources. However, as pointed out by Malnes (1995), this type is redundant since all types of leadership are based on power resources (also Ch. 2.2.1).

¹⁷ These are the labels Nye uses when he refers to the leaders' styles, but not to their objectives. According to a conceptualization of leadership where leaders aim at innovation by definition (although they might be unsuccessful), only their styles and not their objectives qualify as distinguishing criteria.

'innovative' (Sheffer 1993), or 'ideational leadership' (Stiller 2010) in the literature (Table 2). For some authors, it even covers the whole meaning of leadership (e.g. Tucker 1981; Keohane 2010).

According to the second conception, a leader enhances collective action. Actors who engage in a collective endeavour face a variety of problems which lead to suboptimal outcomes. These problems comprise coordination and distributional problems and are based on imperfect information and communication, high transaction costs, or free-rider dilemmas. By using certain strategies such as agenda-managing or coalition-building (see Ch. 3.3.1), a leader can help a group to overcome these problems and thereby enhance collective action. This type of leader brings about innovation by solving problems, but she does not change the group's common knowledge and thus the actors' meta-preferences. Therefore, it roughly corresponds to Oran Young's concept of the 'entrepreneurial leader'¹⁸ who uses negotiation strategies to shape deals that "solve or circumvent the collective action problems that plague the efforts of parties seeking to reap joint gains in processes of institutional bargaining" (Young 1991: 285, 293-8; see also Beach/Mazzucelli 2007b: 8f; Fiorina/Shepsle 1989; Frohlich/Oppenheimer/Young 1971; Tallberg 2006; Wilson/Rhodes 1997).

2.4 Defining Political Leadership

There is no coherent research agenda on political leadership. Instead, "much of the work on political leadership is [...] either focused on highly specific aspects of leadership or consists of collections of essays. This suggests that [...] the general phenomenon of political leadership is still understudied" (Peele 2005: 190). Nevertheless, based on the large overlap in content that has been singled out by this literature review, political leadership can be defined as a *process where an actor in a formal or informal position of power employs her resources in such a way as to guide the behaviour of others towards a common goal. In the case of success, this process results in innovation; namely policy or institutional change.*

Based on this definition of leadership, we can conclude that leadership is not the same as power. Instead, it is a special form of exercising power aimed at innovation and the achievement of a common goal. In cases where all actors are formally equal (like in multilateral international negotiations), leadership can thus be conceived of as a type of behaviour at the disposal of powerful actors (Table 3). While powerful actors may block any decision that would make the entire group

¹⁸ However, the category of entrepreneurial leadership as proposed by Young refers only to individuals, not to composite actors such as states or organizations.

better off because this is not in their individual interest (obstructionism) or strive for innovation that primarily serves their self-interest (entrepreneurship), they can also contribute to the common goal by maintaining the *status quo* (management). Only if they aim for innovation *and* pursue the achievement of a common goal, however, this qualifies as leadership.

Table 3: Behaviour of Powerful Actors according to the Nature of their Goal

	Unilateral	Common
Status quo	<i>Obstructionism</i>	<i>Management</i>
Innovative	<i>Entrepreneurship</i>	<i>Leadership</i>

Source: Own Illustration

Two further questions can be answered on the basis of this literature review: First, a leader is not necessarily successful. Instead, success depends on a leader's position, her behaviour, and her environment. Second, most types of leadership can be classified according to the two basic conceptions of 'enhancing collective action' and 'providing common knowledge'.

3. THEORY

3.1 Theoretical Rationale and Argument

This chapter elaborates a theory that combines the basic assumptions of rational-choice institutionalism with current leadership theorizing. The theory is causal, conditional, and generalizable (see Tallberg 2006: 18). It is causal because it makes testable cause-effect propositions on a leader's emergence and impact. It is conditional in the sense that it determines the circumstances that may impede a leader's emergence or impact. Finally, it is generalizable as it is not restricted to the empirical scope of this thesis, but formulated in abstract theoretical terms so that it can be applied to all instances in which composite actors refrain from offering, fail in delivering, or succeed in exercising political leadership. The validity of the theory is tested within the empirical scope of the Eurozone crisis, which allows for an assessment of the explanatory power of rational-choice institutionalism as a 'second-order' theory (Pollack 2006: 32f). This theory-testing research design does not imply that other factors outside a rationalist framework, such as norms, values, or identities, play no role in political leadership in reality.

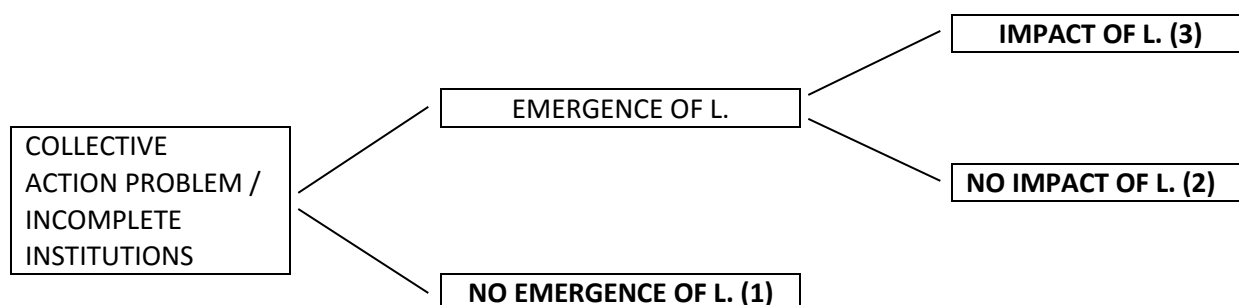


Figure 2: Possible Outcomes

Source: Own Illustration

The theory conceptualizes leaders as drivers of policy or institutional change. If there is a collective action problem and a lack of institutional rules to deal with it, there will be an enhanced demand for a powerful actor to help the group to compensate for the lack of institutions. In this situation, an actor can step in with a proposal for policy or institutional change to overcome the collective action problem or to complete insufficient institutions. This situation can lead to three possible outcomes. First, actors do not make a leadership offer; if all actors refrain from offering leadership, this results

in a *leadership vacuum*. Second, if a leader emerges, she might not be able to realise the desired institutional or policy change; the result is *leadership failure*. Finally, a leader may emerge and successfully influence the outcomes; this *leadership success* is the third possible outcome.

As can be seen from Figure 2, this conceptualization results in two different analytical steps: the emergence of leadership on the one hand, and its impact on the other. With regard to the first step, the theory posits that a leader emerges if there is a demand for leadership and a supply of it. The supply of leadership depends on the ‘leader’s surplus’: if the expected benefits of leading outweigh the costs the leader has to bear, leadership will be supplied. The demand for leadership, in contrast, is determined by the aggregate costs that the group has to suffer if the *status quo* (without a leader) continues: the higher these costs, the higher the demand for leadership. Finally, if there is more than one leadership candidate on the supply-side, the most powerful candidate emerges as leader.¹⁹

Table 4: Two Analytical Steps: Emergence and Impact of Political Leadership

	Emergence of Leadership	Impact of Leadership
Highlighted Aspect	Structural (Position, having followers)	Behavioural (Using strategies, influencing outcomes)
Dependent Variable	Presence vs. absence of leadership	Policy or institutional change
Independent Variables	Leader’s surplus <i>Status quo</i> costs	Leader’s power resources Preference distribution Institutional constraint

Source: Own Illustration

However, the fact that a leader has emerged does not tell us anything about her success or failure. Thus, a second analytical step considers the impact of leadership. Thereby, the second step opens up the dependent variable of the first step as it focuses on one particular dimension of leadership, which is its success or failure. A leader’s success is determined by the distribution of preferences in the group. If they converge on the leader’s preferred outcome, it will be relatively easy for the leader to reach the desired institutional or policy change – even without employing many power resources. The same is true if the institutional constraint on the leader is low. However, the stronger followers are involved in the decision-making process and the more of them are needed to make a certain

¹⁹ This does not apply to formal elections, in which a leader has to be appointed even if there is no actual demand for it. In this case, other factors come into play and the actors may deliberately agree on a weak leader.

decision (e.g. simple majority vs. unanimity), the harder it will be for the leader to take influence on the outcomes. But even if the preferences converge on an outcome different from the one preferred by the leader and if the institutional constraint is high, a leader might still be able to have an impact on the outcomes if she has sufficient power resource at her disposal to convince enough followers to overcome the institutional constraint (Table 4).

3.2 Theoretical Fundamentals

3.2.1 Basic Assumptions

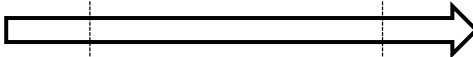
The basic theoretical assumptions of this work can be differentiated into assumptions on the single actors (micro-level) on the one hand, and their environment (macro-level) on the other.

1. *Micro-Level*: All actors are assumed to be capable of intentionality and strategic action²⁰. Their basic motivation is the maximization of their utility, which implies that they act according to a logic of consequentiality and make their decisions by balancing the perceived costs and benefits of a certain action. This assumption determines the actors' type of behaviour (*modus operandi*), but it does not tell us anything about their basic orientation, which might be individualistic, solidary, altruistic, etc.

Actors can be differentiated into individual actors (e.g. Angela Merkel), institutional roles (e.g. German Chancellor), and composite actors (e.g. German government/Germany). The degree of rationality decreases from composite actors via institutional roles through to individual actors (Table 5). Rationality is understood as an actor's ability to make a consistent rank order of all possible outcomes or, in other words, to have complete and transitive preferences. Perfectly rational actors would always choose that course of action that maximizes their utility according to their subjective rank order of outcomes. However, according to the type of actor, rationality is more or less bound by different constraints. In other words, actors make purposive choices, but they are neither 'human computers' nor omniscient (Lake/Powell 1999: 7).

²⁰ 'Strategic' means that each actor takes the behaviour of the other actors into account because the ability to further its ends depends on the actions of others (Lake/Powell 1999: 3).

Table 5: Types of Actors, Degree of Rationality and Constraints

	Individual Actors	Institutional Roles	Composite Actors	
Degree of rationality	low			high
Constraints				
'Irrational' motivations	✓	X	X	
Cognitive constraints	✓	✓	(X)	
Time limits	✓	✓	(X)	

Source: Own Illustration

First of all, the behaviour of individual actors may not only be driven by the maximization of their utility, but also by motivations which are either inherently 'irrational', such as love or hate, or at least not utility-maximizing in an economic or political sense, such as sociability, approval, or status (Granovetter 1985: 506). Moreover, even if the motivation is entirely utility-maximizing, the resulting behaviour might still not be perfectly rational due to cognitive constraints and limitations on the time for the processing of information (Bendor 2001). The behaviour of actors in institutional roles, in contrast, can be assumed to be more rational than that of individual actors. Their behaviour is normally not motivated by emotions and, given that they are expected to behave rationally, other motivations such as the maximization of status or approval, coincide with rational motivations. Composite actors, finally, are not only free of 'irrational motivations' such as love or hate, but, due to their internal decision-making mechanisms, they are also less bound by cognitive and time constraints in the processing of information (Table 5). While it thus seems reasonable to assume rational behaviour for composite actors, they are still bound by imperfect²¹ and incomplete²² information and institutional rules (see below).

The assumption of rational behaviour is helpful only if the underlying orientation of the actors is specified. The utility of an individualistic actor, for instance, is completely different from that of a masochistic actor. While individual actors can have all thinkable types of orientation, ranging from solidarity to mutual destruction, this work assumes that composite actors are individualistic (= self-interested). Given the premises of utility-maximizing, rational, and individualistic actors, we can deduce that their basic interests consist in their survival, autonomy, and growth (Scharpf 1997: 64).

²¹ Perfect information means that the actor is aware of all the relevant events that have previously occurred. This regards primarily the actions that other actors have chosen.

²² Complete information means that the actor is aware of the strategies and payoffs (expected utilities) available to other actors and thus of all possible interaction outcomes.

As a consequence, it seems reasonable to assume that these actors will seek to maximize their power to influence policy outcomes. These basic interests constitute the basis for the actors' concrete preferences²³, which ideally should be deduced from theoretical assumptions (Frieden 1999: 54, 61-6). However, in many cases the actors' preferences can be determined only by empirical observation (Scharpf 1997: 66).

Table 6: Basic Assumptions Regarding Institutional Roles and Composite Actors

Motivation	Maximization of Utility
Type of Behaviour	Logic of Consequentiality / Rationality
Orientation	Individualism
Basic Interests	Survival, Autonomy, Growth
Preferences	Subjective: to be deduced from theoretical assumptions; otherwise to be observed empirically

Source: Own Illustration

Following Lake and Powell's strategic-choice approach, all actors other than individuals are social aggregates, which can be disaggregated into smaller units with the individual as smallest and indivisible constituent unit (1999: 14f). Moreover, it is assumed that "interactions between one set of actors feed into the choices of others at a higher level of aggregation in a well-defined way" (Lake/Powell 1999: 17). Each interaction at a certain level can thus be understood as an analytical box whose parameters (preferences, beliefs, possible actions, available information) are determined in another box: "What is taken to be exogenous in one 'box' or formulation may be endogenized or problematized in another" (Lake/Powell 1999: 15). This decomposition of complex social interaction into single analytical boxes is not to be misunderstood as a simplistic description of reality, but as a methodological bet that allows the researcher to derive causal and generalizable explanations.²⁴

2. *Macro-Level*: Actors are constrained by institutions. Institutions are understood as "rules of behaviour in a society or constraints created by human actors that shape, reshape, and constrain social interaction" (Héritier 2007: 7). By constraining single actors' behaviour, institutions can enable collective action through the stabilization of expectations and thus the reduction of uncertainty. They

²³ Preferences are defined as the subjective evaluation and ranking of possible interaction outcomes.

²⁴ With a view to the empirical analysis, this implies that many explanatory factors are taken as given for the purpose of pragmatism and external validity, although they could be explained themselves by disaggregating certain actors (such as states or organizations) and thus by opening another box located at a lower level.

are formal if they are written down and subject to third-party dispute resolution. By contrast, they are informal if they are implicit and not subject to formal sanctioning. Moreover, all institutions are endogenous in the sense that they do not exist prior to actors, but are rather created by them. However, since they are created by collectivities of actors at t_1 , they are to be considered exogenous when it comes to the behaviour of single actors at t_2 . Hence, we can find institutions on both sides of a causal path: on the one hand they are given pre-conditions or independent variables that determine the outcomes; on the other hand, they are subject to manmade change and can thus also constitute the dependent variable to be explained (Héritier 2007: 5-7).

In sum, this work applies a 'soft' rational-choice institutionalist framework in the sense that it is applied verbally (instead of using formal modelling) and that it does not share the assumption that complex political reality can be comprehensively described as a rigid game form. Instead, reality is conceived of as continuously evolving and thereby creating 'third ways' (instead of 'either-or-outcomes') and new equilibria. Hence, whereas this work refrains from modelling not only dynamic, but continuously changing games, basic game forms are still regarded as helpful heuristic tools to illustrate complex social reality.

3.2.2 Political Leadership: Definition and Levels of Analysis

In Chapter 2, political leadership was defined as a process where an actor in a formal or informal position of power employs her resources in such a way as to guide the behaviour of others towards a common goal. In the case of success, this process results in innovation. Corresponding to the three different types of actors outlined in Chapter 3.2.1, political leadership can be studied at the level of individuals, institutional roles, and composite actors. Although the empirical analysis of this work focuses only on composite actors, its theory of political leadership is supposed to be applicable also to institutional roles. The study of individuals as leaders, instead, goes beyond the scope of this theory as in this case the assumptions of rationality are not met (Ch. 3.2.1) and the role of individual traits such as self-confidence, determination, or sociability can hardly be accounted for by rational choice assumptions.

3.3 A Theory of Political Leadership

3.3.1 Resources and Strategies

Leadership requires power resources (Ch. 2.2.1). Power is the capacity to influence the behaviour of others, or, in the words of Robert Dahl (1957: 202f), to make them do something that they would not otherwise do.²⁵ This capacity is not only determined by the actors' fall-back options or the best alternative to a negotiated agreement, but also by their resources (see Beach 2005: 26-32; Tallberg 2006: 14f, 221). Power resources can be differentiated into material, institutional, and ideational resources (Krotz/Schild 2013: 22-4).²⁶ Leadership that is based on material power resources has also been labelled 'structural leadership' (Young 1991: 288-93), emphasizing thereby the positional advantage of the leader compared to her followers. Generally speaking, material resources comprise military and economic capabilities. Institutional resources, in contrast, refer to procedural advantages, which are formal and informal rights of agenda-setting, decision-making, implementation, and evaluation. Ideational resources, finally, vest the leader with non-material advantages, namely privileged information (including expertise), credibility and legitimacy (Parker/Karlsson 2014: 586f).

Table 7: Power Resources

Material	Institutional	Ideational
Economic capabilities Military capabilities	Procedural rights, e.g. Agenda management Veto rights Executive competences etc.	Information (incl. expertise) Credibility Legitimacy

Source: Own Illustration, based on Krotz/Schild 2013: 22-4.

The exercise of leadership can be assessed by considering the means or strategies an actor uses (Masciulli/Knight 2009: 92; Moon 1995: 4).²⁷ Leadership strategies are thus understood as an actor's

²⁵ To be precise this includes also the option of making others not do something they would otherwise do.

²⁶ A slightly different classification is proposed by Derek Beach, who distinguishes between material, informational, and reputational resources, while conceptualizing institutional aspects as an external variable determining a leader's impact (2005: 26-9). The classification of Beach is better suited to explain the leadership of the EU's supranational institutions, which is the object of his study, but is therefore less applicable to other composite actors.

²⁷ The terms 'means', 'tools', and 'strategies' are used synonymously in the leadership literature. In the following, only the term 'strategies' is used, in order to distinguish the concept clearly from 'resources'.

way of allocating power resources in order to achieve an outcome as close to its preferences as possible.²⁸ However, although leadership strategies play a crucial role, there are no comprehensive categorizations in the literature. Therefore, this work proposes the following typology which distinguishes between ‘providing common knowledge’ and ‘enhancing collective action’ (Table 8). This distinction is already inherent in many studies on leadership, but it is rarely made explicit (see Ch. 2.3.2).

Table 8: Leadership Strategies

Providing Common Knowledge	Enhancing Collective Action
Problem definition Presentation of new ideas Promotion of new ideas	Agenda-management Arena-shifting / -linking Coalition-building Unilateral action Leading by example

Source: Own Illustration

The first set of strategies (‘Enhancing Collective Action’) corresponds roughly to what has been labelled ‘entrepreneurial leadership’ by Oran Young (1991: 293-298)²⁹ and comprises a leader’s negotiation strategies which serve to enable collective action outcomes which otherwise are prevented by imperfect information or communication, high transaction costs, or free-rider dilemmas.

Agenda-management concerns the alteration of issues or proposals for solutions and can be differentiated into agenda-setting, agenda-structuring, and agenda-exclusion (Blavoukos/Bourantonis/Tsakonas 2006: 146; Tallberg 2006: 24).

The agenda-setting of issues can widen the zone of agreement: by adding differently valued or related issues to the agenda, a leader can facilitate the finding of a solution. This is the case when package deals or side-payments are made (Héritier 1999: 16f).³⁰ By directly tabling solutions to

²⁸ Note that this meaning differs from the formal game-theoretic notion of strategy as a plan of action to be chosen at each possible step of a game.

²⁹ However, Young’s entrepreneurial leadership refers only to individuals and not, like this work, to institutional roles or composite actors.

³⁰ There are three possible options for a leader: differently valued issues can be put on the same agenda in order to reach agreement where none would be possible in separate negotiations; related issues can be

controversial issues, instead, a leader provides a focal point around which a solution can ideally be found. In doing so, the leader helps followers to choose one equilibrium among several options (Beach/Mazzucelli 2007b: 8f; Fiorina/Shepsle 1989: 29-32; Scharpf 1997: 159f; Tallberg 2006: 37-9). Agenda-structuring, in contrast, concerns the sequence of issues or proposed solutions, which can determine the bargaining outcomes as well (Blavoukos/Bourantonis/Tsakonas 2006: 146; Scharpf 1997: 160). Agenda-exclusion, finally, refers to the subtraction of a particularly divisive issue from the agenda in order to reach consensus on the other issues (Odell 2009: 279; Tsebelis/Hahm 2014: 1395), whereas the exclusion of possible solutions serves to concentrate the support of followers on only one alternative.

Table 9: Agenda-management

	Agenda-managing		
	Setting	Structuring	Exclusion
Issues	1. Adding unrelated and differently valued issues 2. Adding related issues 3. Unbundling and decomposition of issues	Altering the sequence of issues or proposed solutions	Subtracting a divisive issue
Proposals for Solutions	Providing a focal point for agreement		Exclusion of possible solution

Source: Own Illustration

A second strategy that serves to enhance collective action is *coalition-building*. While agenda-managing concerns the adding and subtracting of issues and proposed solutions, coalition-building refers to the adding and subtracting of actors. A leader can facilitate the finding of an agreement by adding actors that have an interest in a settlement. *Vice versa*, a leader can exclude reluctant actors in order to form a group which allows for the finding of a common solution. Moreover, a leader can add actors to a group in order to spread the risks of a common enterprise or to increase the gains of each single actor.³¹ By contrast, the exclusion of actors can also lead to an agreement if it reduces certain costs (e.g. for monitoring or enforcement) or increases the individual shares in the profit (Lax/Sebenius 1986: 228-30).

brought together in order to exploit their dependencies; finally, one issue can be unbundled or decomposed into more issues if no comprehensive agreement is possible (Lax/Sebenius 1986: 218-20).

³¹ This is the case when it comes to economies of scale, for instance.

Two further negotiation strategies at a leader's disposal consist in the linking and shifting of arenas. An arena is an institutional setting which at the minimum determines the participants and the rules of decision-making (Eberlein/Radaelli 2010: 789). First, by linking two arenas, a leader can use the actors' interests in finding a solution in arena A to overcome deadlock in arena B. This strategy is most promising if the leader can make the outcome in one arena dependent on the outcome of another arena, which, for instance, can be done by relying on a blocking minority or a veto in one of the two arenas. Second, instead of linking two arenas, a leader can also shift the arena: "If agreement on an issue cannot be reached in one territorial or functional arena, moving the issue to a different arena, with a different set of participants and/or different decision rules, may help to alleviate conflict" (Eberlein/Radaelli 2010: 789).

Arena-shifting can be combined with coalition-building in the form of pre-negotiations: a leader can start negotiations outside the central bargaining arena with a few crucial actors in order to shape a compromise which can subsequently be presented to the other actors in the actual negotiations (see Héritier 1999:21). This facilitates communication and coordination among the actors, reduces transaction costs (Schild 2013: 36), enables the leader to split opponents into different bargaining rounds, and enables her to pool power resources – such as voting weights or economic resources to compensate potential losers – which can be used in the central bargaining arena.

If a leader's power resources heavily outweigh those of her followers, she also has recourse to unilateral action. According to Arild Underdal, unilateral action "is exercised whenever one moves to solve a collective problem by one's own effort, thereby setting the pace for others to follow" (1994: 183). There are two ways unilateral action can contribute to the exercise of leadership. First, unilateral action may have an impact on the options available to other actors (thereby providing the leader with a first-mover advantage). Second, it may reduce uncertainty, as this is the case when an actor leads 'by example' (see Underdal 1994: 184).

'Leading by example' refers to the attraction and co-optation of other actors to the leader's way of doing things (Nye 2010). There are two mechanisms through which this happens. First, actors switch to the leader's policy because it is less costly for them (Mattli 1999: 55). The leader may pursue a more efficient policy or the adoption of a common policy offers benefits to followers. Second, the leader actively contributes resources to a common project, thereby signalling credible commitment to followers (Hermalin 1998; Güth et al. 2007).

The second set of strategies ('Providing Common Knowledge') refers to what has been labelled 'intellectual' (Young 1991: 298-302), 'innovative' (Sheffer 1993), or 'ideational leadership' (Stiller 2010). Instead of using negotiation strategies, such a leader comes up with completely new beliefs about which policy instruments work best in certain situations. In doing so, the leader defines a problem, proposes a solution to it, and promotes this solution – as opposed to others – towards its followers (see Ch. 2.3.2).

The use of one or the other set of strategies has different effects on the followers' preferences. In the case of 'Enhancing Collective Action', the followers' preferences over outcomes are already given, but are influenced by the leader's action. In other words, the leader modifies the followers' subjective rank order of possible outcomes. In the case of 'Providing Common Knowledge', in contrast, the leader adds new possible outcomes that have not been known to the followers before. Thereby, the leader extends the followers' rank order of outcomes. Note that while the two sets are clearly distinguishable in theory, they might be well used simultaneously or successively in reality.

3.3.2 The Emergence of Political Leadership

With the exception of formalized selection processes such as democratic elections,³² a leader emerges if there is a demand for leadership and a supply of it. The demand for leadership arises from *status quo* costs that are caused by suboptimal collective action outcomes (Tallberg 2010). These costs are either already present or imminent in the case of *status quo*. If the *status quo* costs are high, the actors involved perceive a high pressure for action. In this situation, powerful actors weigh the expected costs of leading against its benefits. If an actor comes to the conclusion that leading would make her better off, she offers leadership. This is done by expressing her preferences with regard to a change. The other actors, who thereby become potential followers, perceive this expression of preferences and at least some of them object.³³ The powerful actor can then react by employing strategies to reach an outcome as close as possible to her preferences. In this case, she emerges as a leader, which is the dependent variable of this first analytical step.

³² In formalized selection processes, a leader must be appointed regardless, even though there may be no demand for it.

³³ If all actors agree on what to do, there is no need for a leader (as each actor could simply do what she wants without preventing the group from reaching its common goal). However, as pointed out in Chapter 2.2.2, the fact that there is a common goal does not mean that everyone agrees on *how* to reach it. Only in this case of diverging preferences on how to achieve the common goal, a leader is needed who usually employs strategies (Ch. 3.3.1) to persuade the followers of one particular way of reaching the common goal (see also Kindleberger 1981: 243).

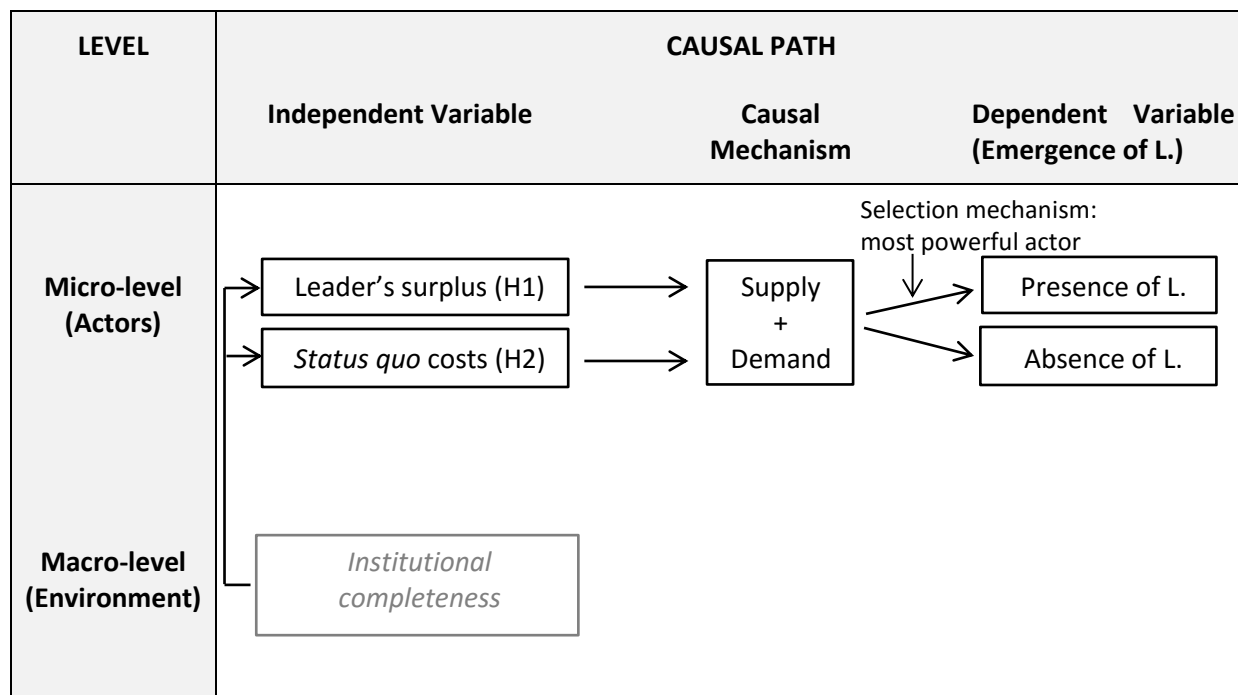


Figure 3: Causal Model 1 – The Emergence of Political Leadership

Source: Own Illustration

With regard to the supply-side, leadership is offered if at least one actor is willing to take the lead. Willingness, in turn, depends on the payoffs to potential leaders (Mattli 1999: 13), which implies that the leader must prefer the expected outcome of leading to the *status quo*. However, given that leadership is costly, this can only be a necessary but not a sufficient condition. In order to invest in costly leadership strategies, the leader's expected benefits in case of success must also exceed her costs of leading. In other words, there must be a '*leader's surplus*' (Frohlich/Oppenheimer/Young 1971: 7). Hence, on condition that there is a demand for leadership, the following hypothesis applies:

H1. If the expected benefits of leading exceed the perceived costs of it, political leadership is offered and thus emerges.

This hypothesis can also explain the case of a 'leadership vacuum', in which there is a collective demand for leadership, but no supply of it. Following the above-stated propositions, a leadership vacuum is a situation in which the collective would benefit from a leader, but no single actor could benefit so much that her costs of leading would be covered by the outcomes.

With regard to the demand-side, a leader can serve followers as a solution to collective action problems. This may be the case in coordination problems, where the common goal and best outcome is reached through cooperation, but actors fail due to a lack of information, communication, or distributional consequences. The same is true for free-rider problems, where the

common goal is jeopardized by stronger individual incentives to defect. However, by using the above-described strategies (see Ch. 3.3.1), a leader can enhance collective action by removing the *status quo* costs caused by suboptimal outcomes (Beach/Mazzucelli 2007b: 8f; Frohlich/Oppenheimer/Young 1971: 18-20; Wilson/Rhodes 1997). Apart from that, a leader can also serve as a provider of common knowledge in cases where exogenous events like crises cause pressure for adaptation. Especially (but not exclusively) under conditions of bounded rationality regarding alternative courses of action, a leader can provide new common knowledge which helps the actors to adapt to the new situation (see Spender 2008: 99). Hence, in both cases the demand for a leader results from the group's *status quo* costs which are caused by suboptimal collective outcomes and/or by non-adaptation to exogenous change. Therefore, under the condition that there is an offer of leadership:

H2a. *If the aggregate status quo costs (caused by a suboptimal collective action outcome or non-adaptation to exogenous change) are high, there is a high demand for leadership, and political leadership emerges.*

H2b. *If the aggregate status quo costs are low, there is a low demand for leadership, and no political leadership emerges.*

Yet, aggregate costs can be high even if only one actor has to bear them all. Since a leader does not act on behalf of a single actor, but on behalf of a collective of actors, the distribution of costs is a necessary condition for the applicability of this hypothesis. In other words, there will be only a demand for leadership if all potential followers have to bear a certain share of the costs.

It is important to clearly distinguish between costs and benefits of leading on the one hand, and *status quo* costs on the other. While *status quo* costs are aggregate and become manifest in the case of non-action, costs of leading are individual and become manifest in the case of action. Moreover, the benefits of leading not only consist in the removal of *status quo* costs, but also in the leader's individual gains if one particular solution (as opposed to others) gets applied to the collective action problem.

Both the benefits of leading and the *status quo* costs are partly determined by the institutional environment. Institutions are behavioural prescriptions which have the same function as a leader; namely to enable collective action and to provide common knowledge. Therefore, the less complete they are with regard to the prevention or regulation of collective action problems,³⁴ the higher the

³⁴ Following Crawford and Ostrom, institutions are incomplete if they do not cover all possible combinations of (1) concerned actors, (2) actions that are obliged, permitted or forbidden, and (3) conditions under which the

need for a leader who steps in to compensate for the insufficient rules and to help the group to fill the institutional gap. As a result, the degree of institutional completeness not only affects the *status quo* costs and thus the demand for leadership, but also the benefits of leading and thereby the supply of leadership. Hence, institutional incompleteness is a precondition for the emergence of leadership.

Once the demand for leadership matches the supply of it, leadership emerges. However, if the supply contains more than one candidate, a selection must take place as just one actor can emerge as a leader in a particular issue. The current state of the art in political leadership research suggests that the selection of a leader among different candidates depends primarily on a candidate's available *ex-ante* resources (Ahlquist/Levi 2011: 19). However, the underlying mechanism has not yet been explicated. This work assumes the following selection mechanism. If there is more than one candidate, the most powerful actor emerges as a leader because her absence in the final agreement would cause the highest costs. This is because leaders not only pursue collective goals, but also their self-interest: if the common solution proposed by a leader does not match the preferences of any concerned actor, this actor can still decide not to cooperate; the more powerful this reluctant actor is, the more costs she can cause for the others; thus, as no leader proposes a solution that contravenes her own interests, the selection of the most powerful leadership candidate avoids the highest possible costs. *Vice versa*, given that the exercise of leadership requires power resources (Ch. 3.3.3), the most powerful candidate has the best prospects of success. Therefore, the selection of the most powerful candidate is rational in the sense that it maximizes the expected utility of the entire group.

3.3.3 The Impact of Political Leadership

As Jean Blondel has pointed out, "there is little point in analysing leaders if we do not know how great their impact is or whether they have any impact at all" (1987: 80). According to Burns there are two sets of influencing factors on a leader's impact: A leader's motive bases and her power (1978: 435). Motive bases refer to a leader's willingness and are relevant for the first analytical step (emergence of leadership), where they are conceptualized as a leader's surplus. This implies that in this second step (impact of leadership) a leader has already decided to deliver and her motive bases

respective rules apply. As a consequence, most – if not all – institutions are to a certain extent incomplete (1995: 596).

do not vary anymore. Actual power, in contrast, refers to a leader's capacity to employ strategies and varies from leader to leader.

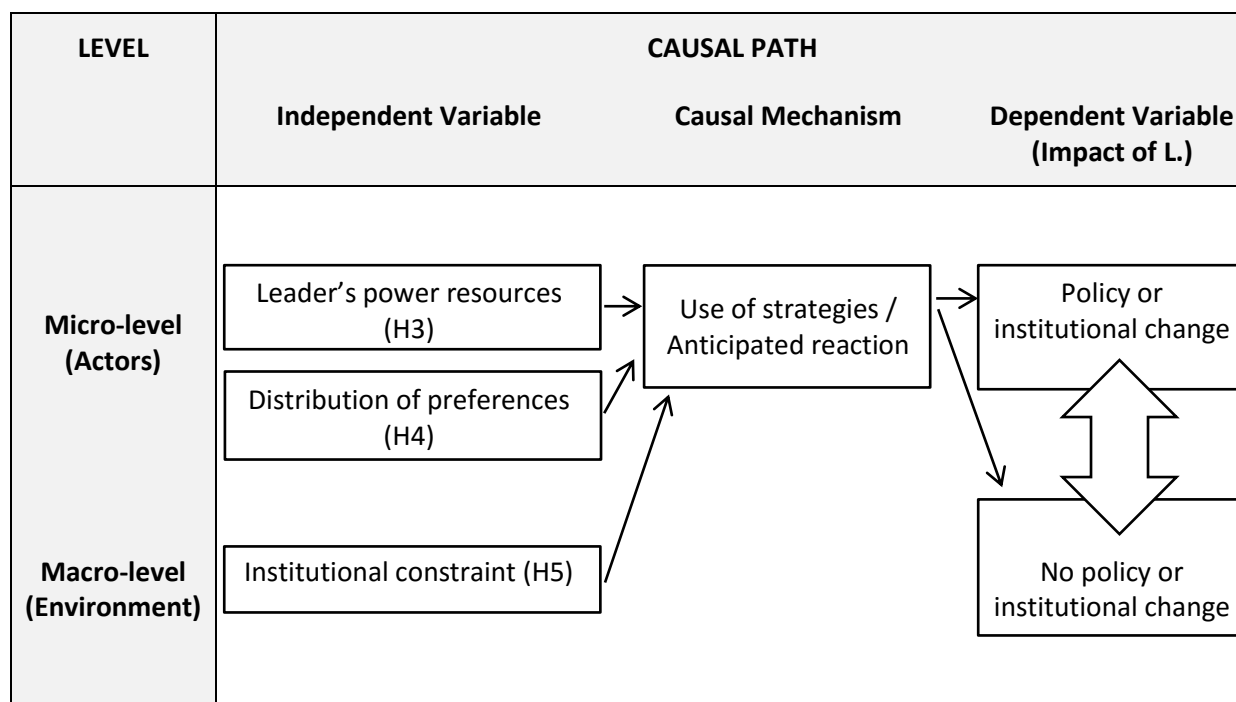


Figure 4: Causal Model 2 – The Impact of Political Leadership

Source: Own Illustration

There are two ways a leader's *power resources* can take effect. First, the leader translates them into strategies to influence the outcomes (Ch. 3.3.1). Thus, the more resources can be invested into the employment of strategies, the more likely a leader affects the outcomes. Second, the leader does not actively use her resources, but influences the outcomes through the "rule of anticipated reaction(s)" (Friedrich 1963: 199-215). In this case, followers anticipate that the resources might be deployed to their disadvantage if they do not behave as the leader wants them to. In both cases, the following hypotheses apply:

H3a. *If a leader possesses many power resources (in relation to the resources of the followers), she will ceteris paribus have a strong impact on the outcomes.*

H3b. *If a leader possesses few power resources (in relation to the resources of the followers), she will ceteris paribus have a weak impact on the outcomes.*

However, a leader's influence on the outcomes not only depends on her individual capacity, but also on her environment. In an unfavourable environment, even huge power resources might not suffice to reach the desired goal (see Ch. 2.3.1).

The first environmental factor determining a leader's impact is the *distribution of preferences*. If all actors have the same preference over outcomes and preferences are thus completely homogeneous, there is no problem to find an agreement, and indeed no leader is needed. If, in contrast, the followers' preferences diverge from the outcome preferred by the leader, some actors have to depart from their preferred outcomes in order to find an agreement. These actors have to bear the respective costs, which can be described as the difference between the utility of their preferred outcome and the utility of the outcome they finally obtain. The stronger the divergence of preferences, the more actors have to bear costs or the higher are the costs of those who have to relinquish their preferred outcomes. With regard to collective action problems, these costs can be distributional consequences ('battle of the sexes') or the opportunity costs of not free-riding ('prisoner's dilemma'). By using strategies (Ch. 3.3.1), a leader can ease distributional consequences (e.g. by giving incentives within the scope of agenda-setting) and overcome free-rider problems (e.g. by signalling credible commitment through 'leading by example'). Generally, a leader can compensate the losers ('Kaldor-Hicks improvement'), find a solution where all followers win – for instance by adding a further outcome through the provision of common knowledge ('Pareto improvement') – or simply make certain actors accept the costs. In the case of 'anticipated reaction' by the followers, instead, already the sheer possession of power resources by the leader may suffice to overcome the divergence of preferences.

Hence, if preferences are only slightly heterogeneous and converge around the leader's preferred outcome, distributional consequences and opportunity costs of non-free-riding are relatively small, which makes it easy for a leader to find an agreement by compensating potential losers or proposing a win-win solution. If preferences are distributed around the whole preference space and are thus maximally heterogeneous, instead, it is more difficult to find a solution. But at the same time it is also extremely difficult to build a successful opposition against the leader.³⁵ However, if the followers' preferences converge on an outcome different from that preferred by the leader, a powerful opposition can be built against her and leadership failure is most likely. Therefore, provided that preferences over outcomes are not completely homogeneous, the following hypotheses apply:

H4a. *If the preferences converge around the outcome preferred by the leader, she will ceteris paribus have a strong impact on the outcomes.*

³⁵ This is why Principal-Agent theory forwards the thesis that latitude, shirking, and slacking of the agent is highest when the principals' preferences are heterogeneous.

H4b. *If the preferences converge on an outcome different from that preferred by the leader, she will ceteris paribus have a weak impact on the outcomes.*³⁶

The second environmental factor accounting for a leader's impact regards the institutional setting (Blondel 1987: 148-80; Elgie 1995: 195-203) or, more precisely, the *institutional constraint* faced by the leader (Endo 1999: 19f). The institutional constraint determines a leader's latitude in decision-making and is defined by the underlying decision-making rule (Tallberg 2010: 246). It is lowest if the leader enjoys full discretion in making certain decisions. Instead, if the leader needs the consent of a majority or even of all her followers, the institutional constraint is considerably higher. It is even higher where not only the followers' final consent is needed, but where they have the right to participate in the decision-making progress from the beginning. Also in the case of decision-making by participation, it makes a further difference whether a simple majority, a qualified majority, or even unanimity is needed to pass a decision. Finally, the institutional constraint is highest if making certain decisions is prohibited.³⁷ Hence, the higher the institutional constraint, the more resources are needed to persuade reluctant followers, and the less likely is a leader's impact outcomes. Provided that preferences are not completely homogeneous,³⁸ this leads to the following hypothesis:

H5a. *If the institutional constraint is low, the leader will ceteris paribus have a strong impact on the outcomes.*

H5b. *If the institutional constraint is high, the leader will ceteris paribus have a weak impact on the outcomes.*

By considering not only leader-specific features, but also the followers' preferences and institutional circumstances as explanatory factors of a leader's impact, the theory can also account for apparently paradox cases, in which weak leaders manage to have a strong impact, while strong leaders only have a weak impact or even no impact at all (see Ch. 2.3.1). With regard to further explanatory factors of a leader's impact, it has been argued that the number of issues and actors involved also

³⁶ The three values of the independent variable thus are: convergence on the leader's preferred outcome (strongest influence) \Leftrightarrow heterogeneity of preferences \Leftrightarrow convergence elsewhere (weakest influence).

³⁷ For methodological reasons, it is important to clearly distinguish between a leader's institutional resources and her institutional constraint. While the resources refer to positive rights of agenda-management, decision-making, implementation, or evaluation, the institutional constraint describes the negative restraints a leader faces when trying to use her resources. For instance, Germany's institutional resources are, among others, its voting weight in the Council; the institutional constraint is that a certain initiative has to go through the Council in the first place.

³⁸ If preferences are completely homogeneous, the institutional constraint does not matter anymore because even if unanimity is needed to make a certain decision, all followers will agree. Only when a certain policy or institutional change is forbidden, which is the highest degree of institutional constraint, could one argue that even unanimity is insufficient for the respective decision to pass.

raises the level of complexity and thus reduces a leader's influence (e.g. Beach/Mazzucelli 2007b: 14). Yet, as Lax and Sebenius (1986: 219f, 228-30) have pointed out, under certain circumstances the increase of issues or actors can also ease consensus-building and thus enhance a leader's impact. Therefore, given that the impact of these variables is ambiguous, no clear-cut hypotheses can be formulated. Apart from that, the number of actors and issues can be influenced by the leader herself, which implies that instead of independent variables, they are rather strategic components playing a role in the explanation of *how* a leader affects outcomes.

4. IMPLICATIONS FOR THE EMPIRICAL RESEARCH

4.1 Methodology

This study adopts a qualitative and comparative methodology.³⁹ *Qualitative* research is especially suited to investigate concepts that are complex and hard to measure. Thus, its focus lies in answering questions of how and why certain phenomena appear rather than proving correlations between presumed variables. Given that political leadership is a highly complex phenomenon, this thesis follows Conger's assessment that qualitative research is the "methodology of choice for topics as contextually rich as leadership" (1998: 107).

The study of leadership requires encompassing in-depth investigation. First, given that the phenomenon of leadership is not objectively given, but socially constructed, it needs to be assessed by taking into account the perceptions and evaluations of the actors involved. Second, the interactional dynamics which constitute the process of leadership require in-depth analysis as well. Third, the fine-tuned mechanisms which connect causal antecedents like a leader's resources or institutional constraint to the respective outcomes, can be revealed only by qualitative in-depth investigation.

The appropriate methodological procedure for these epistemological requirements are *case studies* (George/Bennett 2005). With regard to assessment of the complex concepts represented by this work's variables of interest, case studies provide a high level of conceptual validity. They allow for a detailed consideration of contextual factors and further conceptual refinement, so as to achieve a sample of fewer but more appropriate cases. Moreover, case studies are a means to explore and prove causal mechanisms, thereby taking into account also those contextual aspects that are not codified in variables. Finally, case studies are appropriate tools to assess causal complexity such as interaction effects, path dependency, or equifinality (George/Bennett 2005: 19-22).

Thus, case studies of single instances of leadership emergence and impact serve as plausibility probes in the first part of the empirical analysis. The appropriate method used for these within-case analyses is the '*congruence method*': "The essential characteristic of the congruence method is that the investigator begins with a theory and then attempts to assess its ability to explain or predict the

³⁹ This chapter deals with the thesis' methods in the sense of research strategies and procedures. The thesis' methods understood as techniques of data collection are addressed in Chapter 4.4.

outcome in a particular case” (George/Bennett 2005: 181). The underlying idea of this method is to assess the value of the independent variable(s) first, in order to ascertain whether the predicted outcome of the dependent variable has actually taken place. However, this does not imply that the cases necessarily need to be selected on the independent variable. The congruence method can also be used in deductive “studies that directly examine internal decision-making processes and the dynamics of strategic interaction” (George/Bennett 2005: 200). In this case, the researcher formulates a version of the general deductive theory being employed, identifies historical cases whose outcomes enable the researcher to test the theory’s explanatory power, and eventually examines whether the predictions of the theory are consistent with the outcomes (George/Bennett 2005: 200f). By following this procedure, case selection on the dependent variable is often inevitable (see Ch. 4.2).

As suggested by George and Bennett (2005: 201), the confidence in the findings will be further increased by tracing the causal mechanisms connecting independent and dependent variable, inasmuch as this is feasible on the basis of the empirical material collected. Hence, the first step of the empirical analysis consists in a plausibility probe based on case studies that apply the congruence method and, where appropriate, process-tracing in order to assess the theory’s explanatory power (see Table 10).

Given that “there is a growing consensus that the strongest means of drawing inferences from case studies is the use of a combination of within-case analysis and cross-case comparisons within a single study or research program” (George/Bennett 2005: 18), this thesis also pursues a *comparative* approach. More precisely, it applies the ‘method of structured, focused comparison’: the universe of cases comprises all events of proposed or realized crisis-management in the Eurozone crisis, the ultimate research objective is theory-testing, and the variables of interest are clearly singled out and integrated into hypotheses (George/Bennett 2005: 67-72). Once the within-case analyses are conducted and the values of the variables are assessed, the cases can be matched according to the score of their respective independent variables, so as to allow for a cross-case comparison. The underlying logic is that of Mill’s method of difference or the most-similar case design, where the cases are similar on all relevant variables other than the variable(s) of theoretical interest and the outcome (Seawright/Gerring 2008: 304-6; Gerring 2008: 668-71). Being aware of the fact that in reality it is virtually impossible to find “two or more instances of a well-specified phenomenon that resemble each other in every respect but one”, the result is an “admittedly imperfect controlled comparison” (George/Bennett 2005: 151, 153). However, given that this comparison is preceded by intense within-case analyses, the confidence in the findings can still be high. The importance of a

comparative approach to the study of political leadership has also been emphasized by various authors in the field (e.g. Helms 2012: 6-14; Moon 1995: 4; Jervis 2013: 158).

Table 10: Two Methodological Steps

	Step 1	Step 2
Research Objective	Plausibility probe	Hypotheses testing
Research Strategy	Within-case analysis	Cross-case analysis
Method	Congruence method (Process-tracing where appropriate)	Mill's method of difference
Case Selection	Diverse case design Selection on dependent variable	Most-similar case design Matching according to independent variable

Source: Own Illustration

With regard to the structure of the empirical analysis, this implies that there is one chapter for each case study. At the beginning of each of these chapters, the empirical background of the respective case is briefly introduced. After the case description, the values of the case's dependent variables are described before each independent variable is assessed. Finally, the case-specific results are drawn, that is, the plausibility of the explanation offered by the theory is assessed on the basis of the congruence method and, if possible, by process-tracing. The second step, instead, is devoted to the cross-case analysis, where the cases are matched in such a way that single hypotheses can be tested while holding all the other explanatory variables constant.

4.2 Case Selection

If a researcher wants to explain particular empirical outcomes, such as the absence or presence of a leader's emergence and influence in concrete issues, these outcomes constitute the dependent variable of her work. Given that the researcher wants to explain precisely these outcomes, and not any other possible consequence of the presumed independent variable(s), she necessarily has to select her cases on the dependent variable. This is also the case in the present study: it is virtually impossible to select cases on the independent variables because one would have to be sure that these are at least potential cases of leadership emergence or influence, thereby already pre-selecting on the dependent variable.

Moreover, while the outcomes of the dependent variables – the presence or absence of leadership and policy or institutional change – are relatively easy to identify and actually recognizable at first glance, most of the presumed independent variables require thorough in-depth investigation. In other words, while the values of the dependent variable are known *ex ante* to the researcher, the scores on the independent variables can be known only after the data collection and analysis is concluded. Hence, this study does not allow for a case selection on the independent variable(s).⁴⁰

Therefore, and by analogy with the methodological structure of this work (Table 10), the thesis divides the case selection into two steps. In a first step cases are selected on the dependent variable according to the logic of the *diverse case method* (Seawright/Gerring 2008: 300f; Gerring 2008: 650-2). This, however, entails the risks of selection bias and, in particular, ‘truncated variation’, which I address in detail below. Moreover, a selection on the dependent variable does not allow for a controlled comparison. Thus, in the second methodological step, the (pre-selected) cases are matched according to their values on the independent variable(s), thereby applying the logic of a *most-similar case design* (Seawright/Gerring 2008: 304-6; Gerring 2008: 668-71).

As Barbara Geddes has pointed out in a frequently cited article from 1990, case selection on the dependent variable entails the risk of selection bias. Two of her arguments are relevant for this work: First, selecting on the dependent variable can result in a sample of cases which represents only a certain segment of the variable’s whole range of variation (‘truncated variation’). In a statistical analysis this would bias the regression slope towards zero because the influence of factors not included in the independent variable would be over-represented. In a qualitative analysis this would correspond to an under-estimation of the causal effect. However, qualitative research also offers ways to avoid the problem, namely a careful conceptualization of the dependent variable and a purposive case selection (as opposed to random sampling). Thus, truncated variation does not pose a problem to this research if the selected cases cover the whole range of variation on the dependent variable, from the non-existence of the respective outcome to its upper end, thereby reflecting the full variance the dependent variable can possibly have. In line with this, the resulting comparison must cover the whole contrast space provided for by the research question (Collier/Mahoney 1996: 62f, 66f; see also Collier 1995).

Geddes’ second relevant argument raises the concern that “[a]pparent causes that all the selected cases have in common may turn out to be just as common among cases in which the effect they

⁴⁰ Only once there is a pre-selection of cases, can these be matched according to the values of their independent variables.

were supposed to have caused has not occurred” (1990: 149). However, this argument addresses only those case selections on the dependent variable which are based on the logic of Mill’s method of agreement, according to which cases are selected precisely because they share a particular outcome (same value on the dependent variable). This is a very appropriate method for evaluating the *necessary* conditions for a certain outcome. Geddes’ argument, however, applies only to research designs that claim to investigate the *sufficient* conditions for an outcome (Dion 2003). Hence, there is only a selection bias if cases which are used to investigate sufficient conditions are chosen because they have the same score on the dependent variable (same outcome). If, however, the independent variables are understood as necessary conditions or the cases are chosen because they vary with regard to the outcome, then this second argument also offers no reason to refrain from a selection on the dependent variable. This is why George and Bennett, for instance, not only highlight the advantages of a deliberate case selection, but also acknowledge that “selection on the dependent variable should not be rejected out of hand” (2005: 23).

The empirical scope for testing the proposed model of political leadership is the Eurozone crisis, understood as the sovereign debt crisis in the Euro area which broke out in Greece by the end of 2009 and has affected all Eurozone MS since then, albeit with different consequences. Thus, the universe of cases comprises all events of proposed or realized crisis-management in the Eurozone crisis since the end of 2009. These events are contingent with regard to the emergence and influence of leadership: they might be cases of no leadership, failed leadership, or leadership success.

On the one hand, the Eurozone crisis is fertile ground for the study of political leadership. In times of crisis, the emergence and influence of leadership seem extraordinarily likely, given that instead of managing the *status quo*, new ways of doing things are requested. Thus, the probability of finding appropriate cases of leadership is relatively high. Furthermore, the Eurozone crisis is a relatively narrow and homogenous empirical scope, which, in line with the logic of the most-similar case design, reduces the potential of distorting effects caused by influencing factors that are not codified as variables.

On the other hand, the EU is an increasingly complex political system with multiple access and veto points and thus relatively flat hierarchies. As a consequence, leadership in the EU is highly dispersed (Jesień 2013: 25-8; also Hayward 2008). This has several implications. Firstly, it is hard to identify a leader. Secondly, different actors must be considered as potential leaders. Thirdly, the study of leadership in the EU must be narrowed down to particular issues. Due to these reasons the empirical analysis is not comprehensive in the sense that it does not cover all actors that may have exercised

leadership in the Eurozone crisis, and that it does not focus on all the different roles certain actors may have played in several instances of the crisis.⁴¹

As outlined above, the cases are selected on the basis of their variance along the dependent variable. In order to avoid truncated variation, they must reflect the full variance the dependent variable can possibly have. Chapter 3.1 has outlined the three possible outcomes each case can have, which are the absence of leadership, failed leadership, and successful leadership. The selection of the cases, which have to reflect each of these outcomes, is motivated by the empirical puzzle of this research (Ch. 1.1). The actor generally called upon to lead has been Germany (Schoeller 2016: 1).⁴² Yet, Germany has not emerged as the hoped-for leader in the crisis. Instead, its behaviour reflects all three possible outcomes: no emergence when it came to the first bailout of Greece in late 2009 and early 2010 (Jones 2010); emergence but no impact in the case of the unsuccessful attempt to establish an EU ‘super-commissioner’ to control national budgets (Karagiannis/Guidi 2014); and emergence and impact in the case of shaping the Fiscal Compact (Schoeller 2015). This empirical puzzle recurs also with regard to other actors involved in the EU economic and fiscal governance. Especially where German leadership was lacking, other (institutional) actors could step in. Again, we find all three possible outcomes: no emergence when it comes to the Commission’s attitude towards Eurobonds (Hodson 2013); failed leadership in the case of the European Parliament which unlike the Commission took the lead on Eurobonds, but without success (Héritier et al. 2015: 70f); and successful leadership in the case of the ECB which put a preliminary end to the crisis by announcing to ‘do whatever it takes to preserve the Euro’ and launching the Outright Monetary Transactions (Héritier/Prakash 2013).

These six cases (Table 11) fulfil all the requirements outlined at the beginning of this chapter. They are selected on the basis of their variance along the dependent variable, they cover the whole range of possible outcomes, and they embrace the entire contrast space provided by the research

⁴¹ The Commission, for example, is analysed in a case in which it has not emerged as a leader (Ch. 5.5). This does not mean, however, that there are no other cases in the Eurozone crisis, in which the Commission emerged as a leader.

⁴² The reason that in particular Germany was called upon to take the lead are primarily Germany’s economic power resources, which are reflected in its aggregate gross domestic product (GDP), government bond yields, and current account balance. Thus, Germany has the biggest capacity to contribute to financial stability in the Eurozone, the best refinancing options, and the highest saving potential in absolute terms. For a more detailed analysis of Germany’s power resources, see Chapter 5.3.4. For the relevant indicators for economic power in the context of the Eurozone crisis, see Chapter 4.3.

questions. As compared to alternatives in the universe of cases, these are cases with the most unambiguous score on the dependent variable.⁴³

Table 11: Cases

	Germany	Institutional Actors
No Emergence	First bailout of Greece	Commission: Eurobonds
No Impact (=Failure)	'Super-commissioner'	EP: Eurobonds
Successful Leadership (= Impact)	Fiscal Compact	ECB: 'Whatever it takes' and OMT

Source: Own Illustration

4.3 Operationalization

The dependent variable of the first analytical step is the *emergence of political leadership*. It is conceptualized as a binary (dichotomous) variable with the values 'presence' and 'absence' of leadership. In order to assess this variable, I refer to the definition of political leadership elaborated in Chapter 2.2: political leadership is a process where an actor in a formal or informal position of power use her resources in such a way as to guide the behaviour of others towards a common goal.⁴⁴ This definition provides three indicators for the emergence of leadership: (1) an actor in a position of power, (2) the appropriate employment of power resources, which can be the translation of resources into the predefined strategies (Ch 3.3.1) or the provocation of an anticipated reaction (Ch. 3.3.3), and (3) the existence of a common goal. There are two ways of assessing an actor's position of power. First, a power index based on resources can be used in order to measure the potential leader's resources as opposed to those of the other actors (see below); second, the expressions of the other actors can be used as indicators. The use of leadership strategies or the mechanism of

⁴³ At least three more cases, namely the shaping of the temporary rescue fund EFSF, the permanent rescue fund ESM, and the so-called 'banking union', would have been of empirical interest as they constitute crucial instances of Eurozone crisis management. However, these cases lack unambiguous values on their dependent variables, in particular as regards the emergence of a (single) leader. All three projects were highly collaborative undertakings without one clearly identifiable actor in the driver seat.

⁴⁴ If this pattern is already partly or entirely prescribed by a formal position (e.g. the Commission's formal role in the EU), the employment of resources and/or strategies must exceed the minimal extent which is provided for by that position in order to be considered leadership. This qualification is important for conceptual and methodological reasons: conceptually, leadership must be distinguishable from a formal position or office because not every office-holder is necessarily a leader, while not every leader is necessarily an office-holder (see Ch. 2.2); methodologically, cases of no leadership must be clearly distinguishable from cases of unsuccessful leadership.

anticipated reaction, instead, can only be revealed through the reconstruction of the decision-making process. A common goal is given if all actors involved agree on a yet unreached result of their pursuit of an entity or condition in their interest.

The dependent variable of the second analytical step is the *impact of political leadership*. It is conceptualized as a continuous variable ranging from the complete absence to the complete realisation of the desired leader-initiated policy or institutional change. Change is given if there is a difference between the *ex-post*- and the *ex-ante* situation. The benchmark for the desirability of a given change is the leader's most preferred outcome (preference attainment). Preferences must be assessed on the basis of the actors' expressions (see below). Whether the change is really leader-initiated can be assessed by tracing back the strategies used by the leader.

The first independent variable accounting for the emergence of leadership is a candidate's expected surplus. This is given if the expected benefits of leading exceed the costs of it. The three possible values of this ordinal variable are (i) benefits > costs (surplus), (ii) benefits = costs, and (iii) benefits < costs (no surplus). However, as opposed to economics, cost-benefit analyses in political science can be conducted only under certain conditions. A first possibility is that there are either no significant costs or no significant benefits. If one of the two parts of the subtraction is zero, the respective other automatically prevails. A second situation which enables a cost-benefits analysis is given if the benefits of leading consist in the potential leader's (institutional) survival. Given the basic theoretical assumption that no actor risks institutional suicide, the benefits of leading always exceed the costs in this case. *Vice versa*, if the costs of leading involve the potential leader's institutional death, they exceed all possible benefits. A third option of comparing the expected benefits of leading against the costs is to determine a common 'currency' in which the two variables are assessed.⁴⁵ Given that utilities are always expected and subjective, the costs and benefits of leading must be assessed by the expressions of single actors while assuming an *ex-ante* perspective. The investigation of what the actors' costs and benefits in EMU actually are, is an important empirical contribution of this research (Ch. 6.2).

The second variable accounting for the emergence of leadership are the *status quo* costs caused by a collective action problem. As opposed to the costs of leading, these costs are aggregate (not individual) and they do not appear in case of action, but, on the contrary, they are either already

⁴⁵ Apart from the 'currency' itself, the respective actor and the empirical scope must be clearly defined. For instance, in the Euro area (=empirical scope), MS governments (=actors) assess their costs and benefits in terms of GDP/capita (=common currency); in the EU (=empirical scope), the European Parliament (=actor) assesses its costs and benefits in terms of legitimacy (=currency).

present or imminent in the case of *status quo*. *Status quo* costs are conceptualized as a continuous variable. Like in the case of a leader's surplus, they must be assessed on the basis of the actors' expressions. Since *status quo* costs cannot be evaluated directly, 'perceived pressure for action' is used as a proxy in the data collection. In the context of the Eurozone crisis, the relative development of government bond spreads can be used as a complementary proxy for *status quo* costs since they partly reflect the perceived fragmentation risk in the Eurozone in case of non-action – and thus the gravity of the crisis.⁴⁶

The first variable of the second analytical step are a leader's relative power resources. Apart from theoretical considerations (Ch. 3.3.3), it is of methodological importance that a leader's power resources are measured as relative to those of the other actors, because otherwise it could not be assessed whether a certain amount of resources actually qualifies as a high or low score on this variable. Thus, power resources are conceptualized as a continuous variable. According to this work's conceptual framework (Ch. 3.3.1), they are differentiated into material, institutional, and ideational resources. In the context of EMU, material power resources can be measured by means of economic indicators. The most relevant indicators in the Eurozone sovereign debt crisis are the aggregate GDP of MS, their current account balance, public debt (as a percentage of GDP), and their long-term government bond yields.⁴⁷ In the case of non-state actors (basically EU institutions), material power resources are measured by those budgetary capacities which they can deploy to influence the EU economic governance. Institutional resources, instead, are procedural competences comprising all legislative and executive competences, namely agenda-managing, voting- and veto-rights, and rights of implementation. Ideational resources, finally, comprise information (including expertise), credibility, and legitimacy. While credibility and legitimacy ultimately rely on actors' perceptions, and therefore need to be assessed on the basis of their expressions, information and expertise can also be measured by auxiliary indicators such as the number of relevant administrative staff. The assessment of MS power resources is complemented by the scores of Janning's 'Power Calculator'. It includes the following indicators which are differently weighted: size of population, contribution to EU budget, military strength, status in international affairs, geographic location, net contribution position, opt-outs (Schengen, EMU), 'good governance', capacity for coalition building, and public opinion (Janning 2013: 7-9).

⁴⁶ A figure with the individually relevant period of spreads development will be displayed for each case, respectively.

⁴⁷ The aggregate GDP determines a MS's capacity to contribute to financial stability in the Eurozone and to bail out other countries. Moreover, a MS's current account balance indicates its saving potential, government bond yields reflect the credibility in the financial markets and thus the refinancing options, and gross public debt indicates the long-term solvency.

The second variable accounting for the impact of leadership is the distribution of preferences. It is useful to distinguish between actual and strategic (or situational) preferences, which might differ considerably. Actual preferences are an actor's subjective evaluation and ranking of all conceivable interaction outcomes; that is, independent from situational circumstances. They may be deduced from the theoretical assumptions of actors' basic interests (here: survival, autonomy, growth), or, if this is not possible, they need to be determined empirically on the basis of the actors' expressions (Ch. 3.2.1). Strategic preferences, instead, are an actor's ranking of possible interaction outcomes once she has taken into account the preferences of the other actors and further situational circumstances. Given that this work examines political leadership as an issue-specific phenomenon (i.e. case by case), the actors' strategic preferences at the beginning of the case study (t_1) are the unit of interest, because these are the ones the leader faces when trying to bring about policy or institutional change. The distribution of preferences is conceptualized as an ordinal variable with the values (1) strong convergence on the leader's preferred outcome, (2) weak convergence on the leader's preferred outcome, (3) divergence in the preference space (= heterogeneity of preferences), (4) weak convergence elsewhere, and (5) complete convergence elsewhere (Figure 5). For methodological reasons it is important to make sure that the assessed preferences always reflect the actors' *ex-ante* perspective on the respective outcome (Frieden 1999: 60).

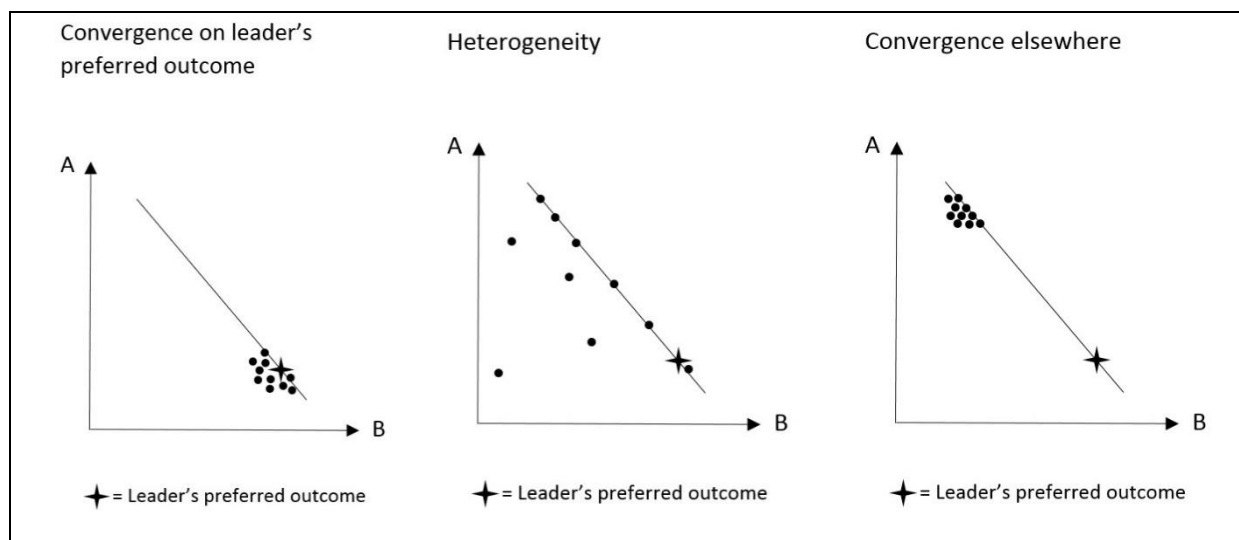


Figure 5: Distribution of preferences

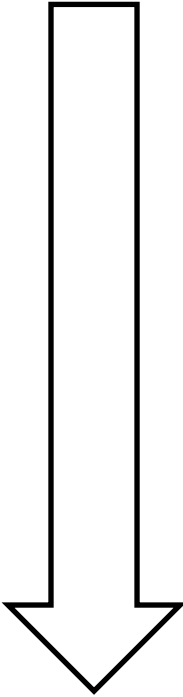
Source: Own Illustration

Finally, the third explanatory variable for a leader's impact is the degree of institutional constraint, understood as the extent to which the given institutional rules limits a leader's latitude in the decision-making process. Institutional constraint is conceptualized as an ordinal variable with the

values (1) discretion, (2) consent, (3) participation, and (4) interdiction. Full discretion is given if the leader can decide autonomously without having regard to the preferences of her followers. This discretion is slightly restricted if the leader needs to consult followers before deciding. However, the institutional constraint is considerably higher if the leader needs the followers' formal consent in order to make a decision. The share of followers required to obtain this consent can vary. Therefore, the institutional constraint is higher if consent by unanimity is required than if only a qualified or even simple majority needs to give its consent. An even higher level of institutional constraint is given if the followers can actively participate in the decision-making process from the outset. Also in this case, the institutional constraint is lower if a final decision can be reached by simple majority than if qualified majority or even unanimity is required. Finally, it may be simply forbidden to make certain decisions, which is the highest possible degree of institutional constraint. Table 12 illustrates the different degrees of institutional constraint and gives empirical examples of the EU context.

In practice we often find combinations of the different theoretical steps presented above. Such combinations normally increase the degree of institutional constraint. In the case of the Ordinary Legislative Procedure (OLP), for example, the Commission not only needs the consent of Council and EP in order to pass a legislative act, but both bodies can also propose amendments which usually are negotiated among all three institutions ('trialogue'). Therefore, this is a case of participation which requires not only the Commission's and EP's approval, but also qualified majority among the MS.

Table 12: Degrees of Institutional Constraint

DEGREE OF INSTITUTIONAL CONSTRAINT	THEORY	EMPIRICAL EXAMPLES (EU)	CASES
	1. DISCRETION		
	Complete	Special legislative procedure based on Articles 45(3)(d) and 106(3) TFEU (= Commission acting alone)	
	Consultation		
	2. CONSENT		
	Simple		
	Qualified majority	Consent procedure (e.g. international agreements)	
	Unanimity		
	3. PARTICIPATION		
	Simple		
	Qualified majority		
		Ordinary legislative procedure	
		Intergovernmental treaty ⁴⁸	
	Unanimity	Treaty amendment	
	4. INTERDICTION	<ul style="list-style-type: none"> - <i>Ex post facto</i> law - Legislation in CFSP - Legislation violating the principles of conferral, proportionality, or subsidiarity etc. 	

Source: Own Illustration

4.4 Data Collection

This research relies on a variety of empirical data. Firstly, primary sources such as legislative texts, rules of procedure, declarations, speeches, press releases, and ‘first-hand accounts’ are used. Secondly, where appropriate or simply inevitable, newspaper articles and other journalistic accounts are consulted. Thirdly, data is drawn from existing empirical research and secondary literature in the field. However, given that many variables can be only assessed on the basis of the actors’ expressions

⁴⁸ Intergovernmental treaties outside EU law require formal unanimity. However, as opposed to EU treaty amendments, reluctant actors can be excluded from the treaty. This implies that single actors cannot prevent the others from adopting the treaty by exercising a veto. Therefore, the institutional constraint of intergovernmental treaties is lower than that of EU treaty amendments.

(Ch. 4.3), the most important data source of this work are semi-structured interviews with officials who have been involved in the cases of interest. As for instance Rathbun has pointed out:

“Interviewing is often necessary for establishing motivations and preferences. [...] Without an understanding of desires, even the most rigorous rationalist argument will not be falsifiable if it simply infers preferences from observable behavior and a posited set of situational constraints. [...] Desires and beliefs must be measured independent of action. In some instances, interviewing is the only way to do so” (Rathbun 2008: 690f).

Moreover, in many cases interviews are the only possible way to collect certain data. This is especially the case “when influence over the outcome of interest was restricted to a few select decision-makers, creating a bottleneck of political power that increases the importance of agency in the story” (Rathbun 2008: 690).

In order to obtain the relevant information, I guaranteed strict confidentiality to the interviewees. Thereby I deliberately increased the validity of the collected data at the cost of transparency. If the respondents agreed, I recorded the interviews. Otherwise I made transcripts. In total, I thus conducted 35 semi-structured interviews. 17 interviews were conducted in November 2014 in Brussels with mostly high-ranking officials from the Commission, the Council of the European Union and European Council, and two Permanent Representations. All of the interviewees were closely involved in at least one of the cases. In February 2015 I conducted another 8 interviews with several officials of the EP’s permanent staff and a Member of the European Parliament (MEP). In March 2015 I conducted 7 interviews with officials of the ECB in Frankfurt who either dealt with the drafting of the Outright Monetary Transactions or were closely involved in the ECB’s (politically relevant) decision-making of summer 2012. Finally, in the same month I interviewed 3 high-ranking state officials in the German Ministry of Finance who were closely involved in those cases that regard Germany’s role in the Eurozone crisis. In order to increase the authenticity of the information, I did not send the questionnaires to the interviewees, so that they could not prepare their answers in advance. Moreover, the questions enquired about the values of the predefined variables, but they did not suggest any causal relation. Based on the 23 recordings and 12 transcripts, I finally coded the data according to the values of the single variables.

5. EMPIRICAL ANALYSIS

5.1 Preliminary Notes

5.1.1 'Institutional Incompleteness' and 'Common Goal' in the Eurozone Crisis

It is a central argument of this work that leaders can substitute for *incomplete institutions* (Ch. 3.1, 3.3.2). Institutions are understood as behavioural prescriptions that constrain single actors and enable collective action (Ch. 3.2.1). If they are incomplete, collective action may fail or result in suboptimal outcomes. In these cases, a leader can step in, enhance collective action – thereby substituting for the incomplete institutions – and finally bring about institutional change.⁴⁹ In so doing, the leader acts as a driver of institutional change. Institutional incompleteness has therefore been conceptualized as a pre-condition for the emergence of leadership.

In the context of the Eurozone crisis, there has been a twofold lack of institutions regulating collective action problems. First, the institutions built to address the Eurozone's inherent *free-rider problem* turned out to be incomplete. Second, there were no institutions regulating the Eurozone's *distributional problem*, which consists in the inevitable mutualisation of risk. As for instance Derek Beach (2013: 123-5) explains, both types of institutions are not only needed in a non-optimal currency area like the Eurozone, but are also linked to each other.

On the one hand, non-optimal currency areas face the problem of moral hazard. MS are tempted to borrow 'cheap money' to finance excessive public spending because even in the extreme case of bankruptcy they can still expect to be bailed out by the central bank or the other MS, which have an interest in preserving the integrity of the common currency. In this case, these 'debtor states' would free-ride at the expense of the fiscally more solid MS. In order to avoid this free-rider problem, strict fiscal rules are needed. On the other hand, however, such strict rules tie the hands of MS when it comes to fighting economic recessions through counter-cyclical spending. Maintaining a balanced budget in hard times, or even applying austerity measures, worsens the economic situation and can lead to an economic downward spiral that might also spill over to other MS and – in the worst case – result in sovereign default. Therefore, a common fiscal backstop is needed to compensate for the

⁴⁹ Institutional incompleteness does not necessarily mean that more rules are needed. It can also mean that instead of the existing rules, there is a need for differently targeted, broader, or stricter rules. All this can be included in the institutional change pursued by the leader.

strict fiscal prescriptions and to assist MS to overcome economic crises (Beach 2013: 123-5). This can take the form of a central bank acting as 'lender of last resort', a permanent transfer union, a central fiscal capacity, central tax powers, or the issuance of common debt. In any case, the mutualisation of risk is indispensable – especially because a single MS' economic or financing problems may easily spill over to the rest of the currency union. This creates a distributional problem which, if it is not regulated by institutions, might jeopardize the existence of the common currency. In other words, institutions providing for both austerity (free-rider problem) and solidarity (distributional problem) are needed in the Eurozone as austerity and solidarity are two sides of the same coin.⁵⁰

One of the Eurozone's two collective action problems – namely its *free-rider problem* – was anticipated at the outset and respective institutional arrangements were laid down by the Treaty on the Functioning of the European Union (TFEU) in articles 123 to 126. Article 123 prohibits monetary financing by the ECB; article 124 denies MS and all other executive bodies privileged access to financial institutions; article 125 is the so-called 'no-bailout clause' which prohibits the Union and single MS to guarantee or assume the financial commitments of other MS; finally, article 126 contains provisions to avoid excessive deficit (max. 3% of GDP) and debt levels (max. 60% of GDP), which include the so-called 'Excessive Deficit Procedure' (EDP). Moreover, since 1997 the Stability and Growth Pact (SGP), which consists of secondary legislation, specifies the operationalization of the Treaty's budgetary rules: the 'preventive arm' prescribes budgets which are balanced or in surplus during normal times, while the 'corrective arm' specifies the conditions under which an EDP is launched as well as the procedural steps up to financial sanctions (European Central Bank 2016; Buti/Carnot 2012: 900).

However, these 'anti-free-rider' institutions turned out to be incomplete when the sovereign debt crisis broke out in Greece towards the end of 2009. With hindsight, the flaws of the original institutional framework can be stated clearly (Buti/Carnot 2012: 900-5). First, there was a lack of national ownership in conjunction with inadequate surveillance (instruments) by the European institutions. In other words, MS did simply not comply with the rules and neither the Commission nor the EP had the means to properly monitor compliance. Instead, the Commission had to trust in the data submitted by the MS themselves. Second, the institutions lacked credible enforcement mechanisms. This is especially true given the fact that it is the MS themselves that decide in the Council whether one of them has breached the rules and whether an EDP is launched. In particular

⁵⁰ One particular institutional solution for both the free-rider and the distributional problem would be a supranational fiscal authority with tax and spending powers, which could complement the role of the ECB as the EMU's single monetary authority (Verdun 2015: 222-5).

after Germany and France made the Council suspend the EDP against them in 2003, the institutions lost credibility. Third, contrary to prevailing expectations, the clauses regarding monetary financing (Art. 123 TFEU) and direct bailouts (Art. 125 TFEU) did not have any effect on the behaviour of the financial markets. Instead of exerting disciplining pressure on financially less solid MS through higher risk premiums, the markets treated all government bonds as risk-free, according to the principle 'same currency – same default risk'. Finally, the SGP was incomplete in the sense that it was targeted only at governments. However, fiscal risks not only stem from government spending, but also from unsustainable private behaviour. This is to say, even if MS are perfectly disciplined as regards their public expenditure, they might still be forced to free-ride at the expense of other MS if their national banks need to be rescued. Such a situation might even result in a "financial-fiscal feedback loop" (Schelkle 2012: 29) or a "bad equilibrium" (De Grauwe/Ji 2015: 742f), in which governments incur debts to rescue banks and thereby worsen the prices of their own government bonds held by these banks. As a consequence, the banks' balance sheets deteriorate further, which is why in the worst case scenario they need to be rescued again by ever more indebted states. In sum, although the Eurozone's inherent free-rider problem was anticipated by decision-makers, the institutions built to deal with it turned out to be incomplete.

This is different with regard to the Eurozone's *distributional problem*. While the 'anti-free-rider' institutions to prevent moral hazard were merely incomplete, institutions to regulate the mutualisation of risk (in the event of a shock hitting the Eurozone despite all institutional prevention) were almost entirely absent (see Verdun 2015: 222-5). As one interviewee put it, there were institutions to prevent a crisis, but no institutions to deal with one in the event that prevention actually failed (Interview 2). Before the introduction of the euro, asymmetric shocks to single MS economies could be absorbed by exchange rate adjustments of the national central banks. With the introduction of the common currency, the function of the national banks was delegated to the ECB (De Grauwe 2013: 9-11, 16-8). However, as outlined above, the ECB is legally prohibited from applying any form of monetary financing and thus to assume the role of 'lender of last resort' (Hall 2012: 366).

An (albeit limited) alternative or complement to the ECB as 'lender of last' resort would be a federal budget with redistributive features (Drudi/Durré/Mongelli 2012: 894). More far-reaching solutions could also consist in a supranational fiscal authority with tax and spending powers or in the issuance of common debt (Schelkle 2012: 31-3; Verdun 2015: 224f). However, at the onset of the crisis there were no such instruments, and even those that were built up as a crisis response turned out to be

insufficient.⁵¹ Thus, institutions to deal with the distributional problem invoked by the introduction of a common currency were virtually non-existent. As Buti and Carnot put it: “preparations to face a possible crisis were insufficient. Crisis prevention had to be complemented by a crisis management arsenal much more developed than initially envisioned” (2012: 906).

In sum, while the institutions to prevent a crisis by regulating the Eurozone’s free-rider problem were incomplete and thus enabled the outbreak of the crisis in the first place, there were no institutions to deal with the ensuing distributional problem of allocating the adjustment costs: “the original mix of fiscal rules and market discipline did not suffice to ensure sound fiscal policies across the entire EMU [...] and EMU missed a framework to address financial and sovereign crises” (Buti/Carnot 2012: 901). Thus, according to the theoretical framework, a leader would either have to complement the existing (but incomplete) institutions against fiscal free-riding (‘austerity’), or come up with institutional solutions to the underlying distributional problem (‘solidarity’). Consequently, all cases analysed in this thesis as instances of potential or actual leadership concern either the enhancement of institutions ensuring fiscal discipline (Super-commissioner, Fiscal Compact) or the establishment of institutions regulating the mutualisation of risk (Greek bailout, Eurobonds, OMT).

This leads to the notion of a *common goal* as a sense and purpose of leadership (Ch. 2.2.2). In the context of the Eurozone crisis, the common goal always consists in overcoming the crisis and preserving the common currency (– as long as this is perceived as beneficial by all MS, which so far no MS government has ever seriously doubted). This, however, does not mean that the concrete means to reach that common goal, as it is proposed and pursued by the leader, is the one preferred by all actors involved. As outlined in Ch. 2.2.2, it is precisely the task of a leader to guide the followers towards a common goal *despite* diverging preferences over outcomes. In the case of the Eurozone crisis, this means that “a common preference for the preservation of the euro was accompanied by divergent preferences regarding the distribution of adjustment costs” (Schimmelfennig 2015: 178). Hence, although proposals like a Fiscal Compact or Eurobonds have by no means been welcomed by all actors involved, they have been framed and perceived as contributing to the common goal of overcoming the crisis and preserving the common currency, which is why they qualify as cases of potential or actual leadership. Moreover, given that a common goal is always subjective and historically contingent, it does not matter whether the single proposals

⁵¹ In the wake of the first financial assistance package to Greece, temporary rescue funds (EFSF, EFSM) were created and later replaced by a permanent fund (ESM). However, this permanent fund also turned out to be insufficient, thereby forcing the ECB to step in with its OMT in 2012 (Ch. 5.7). For an overview of the EMU’s incomplete institutional design at the onset of the crisis and the Eurozone’s institutional responses to it, see Verdun 2015.

did (or would) objectively contribute to achieving the common goal. It is already sufficient if the actors perceive the proposals as such.

5.1.2 '*Status Quo* Costs' in the Eurozone Crisis

In this work's theoretical model, *status quo* costs are conceptualized as an independent variable accounting for the emergence of leadership (Ch. 3.3.2; 4.3). Thus, as opposed to institutional completeness, which is a precondition and therefore constant, the *status quo* costs are supposed to vary. Although the empirical analysis of the interview data shows that these costs indeed vary from case to case, it also reveals that they have been relatively high throughout the entire crisis. Hence, the variation takes place only in the upper part of the variables' range of values.

In the context of the Eurozone crisis, the *status quo* costs consisted primarily in the fragmentation of the Euro Area, which was understood to be an imminent consequence of non-action in several instances of crisis management (Interviews 1, 5, 6, 8, 11, 22, 25, 26). First, a collapse of the Eurozone would have devastating economic consequences. A macroeconomic crisis, accompanied by an unprecedented banking crisis, would be unleashed: for highly indebted and economically weaker MS, this would imply hyperinflation and the loss of external refinancing options; for economically more solid MS, the result would be "a steep appreciation of [their] currency, a concurrent slump in exports, and deep and long-lasting recession" (Schimmelfennig 2015: 181). Second, the fragmentation of the Eurozone would imply political consequences, as this could be perceived as a precedent for European disintegration. In the words of the German Chancellor Angela Merkel: "If the euro falls, then Europe falls" (Spiegel 2014).

Although the perceived risk of fragmentation varied throughout the crisis, it has been permanently high. This is also reflected by the development of government bond spreads in the Eurozone, which are used as an auxiliary proxy for the *status quo* costs (Ch. 4.3). As long as spreads were increasing, the actors needed to fear (and the markets actually did fear) that a collapse was imminent. As can be seen from Figure 6, which plots the EA17's government bond spreads (without Estonia) relative to German bond yields from the beginning of the crisis in Greece in October 2009 to the ECB's announcement of Outright Monetary Transactions (OMT) in August 2012, there was a continuously upward-moving trend in government bond spreads throughout the crisis.

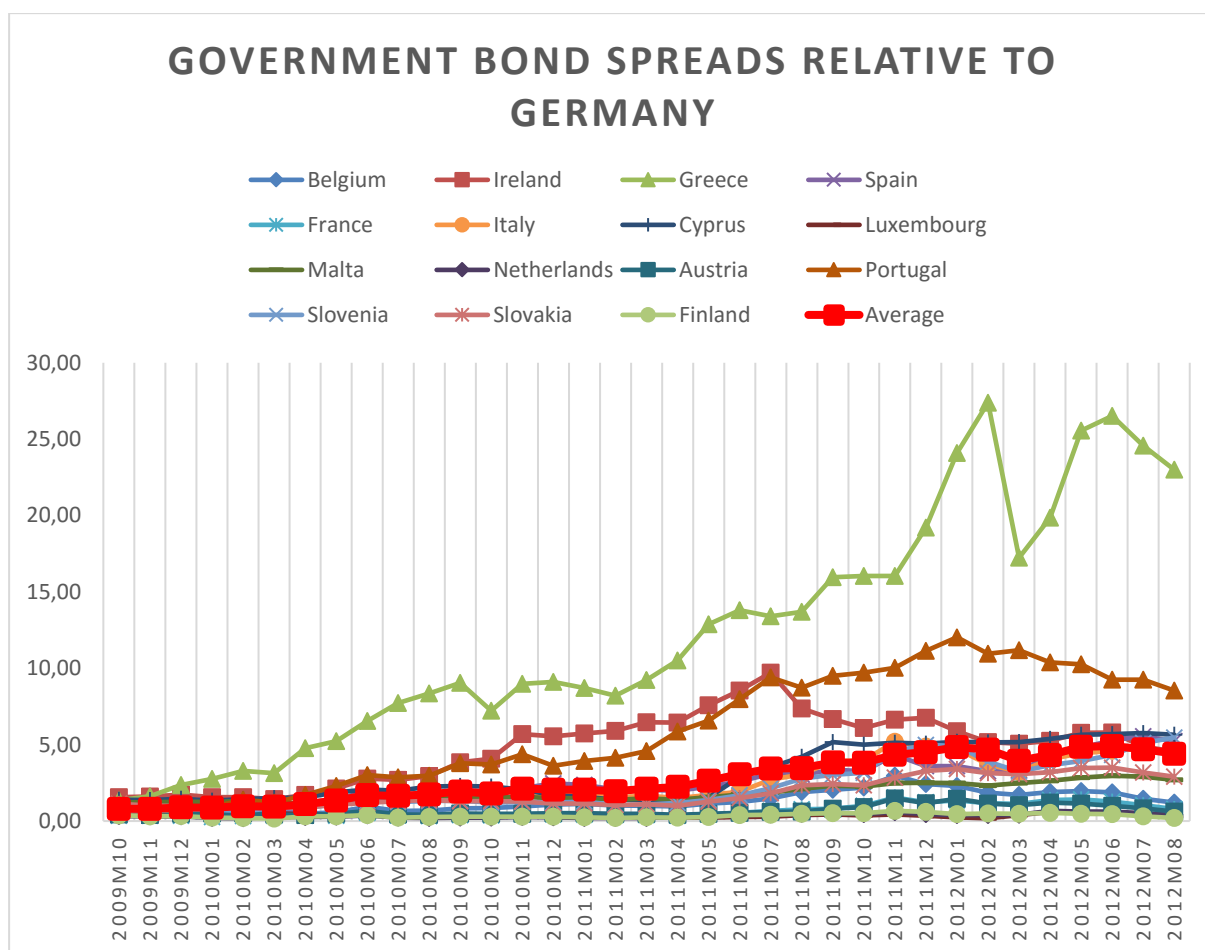


Figure 6: Government Bond Spreads Relative to German Bond Yields October 2009 – August 2012

Source: Eurostat (own illustration)

In addition to the costs which were imminent in the case of non-action, the MS suffered high costs that were already present due to the crisis, “including lost incomes, unemployment, bankruptcies, and dangerous political under-currents” (Giavazzi/Wyplosz 2015: 723).

Hence, given that despite some variation at the upper end, *status quo* costs were permanently high throughout the crisis, this represents a case of truncated variation on the independent variable. In other words, variation on the independent variable is not sufficient to explain the resulting variation on the dependent variable. As a result, this variable can ultimately not be falsified by comparative hypothesis-testing in the context of the Eurozone crisis. However, it is still possible to probe the plausibility of the hypotheses and the theoretical model through within-case analyses. This is to say, in cases in which a leader has emerged, we can examine whether it is plausible that this happened due to the high *status quo* costs suffered by the relevant actors; in cases in which no leader emerged (despite the high costs), we can test whether it was consequently the lack of a leader’s surplus that

accounts for the outcome. Thus, the fact that *status quo* costs are relatively constant enables a controlled comparison with regard to the remaining variable (leader's surplus).

5.2 Germany and the First Financial Assistance to Greece

In the case of the first financial assistance package granted to Greece in spring 2010, Germany did not emerge as a leader. Although the *status quo* costs, which consisted in the feared collapse of the Eurozone, created a high demand for leadership and Germany, as the Eurozone's most powerful member, would have been the ideal leadership candidate, its expected costs of leading clearly exceeded the benefits. Thus, Germany refrained from taking the lead and left the Eurozone as a whole worse off. After a brief description of this case, in which the relevant events as well as the actors and their preferences over outcomes are presented (Ch. 5.2.1), the value of the dependent variable (leadership emergence) is assessed (Ch. 5.2.2). Chapter 5.2.3 determines the values of the independent variables and Chapter 5.2.4 traces the presumed causal mechanisms and summarizes the results of this case study.

5.2.1 Case Description

In October 2009, the newly elected Greek government revealed that its fiscal deficit was roughly twice as high as previously reported (Interview 25; Mussler/Hermann 2009) and its debt level for 2009 even three times higher (Featherstone 2011: 199). This raised fears in the financial markets that Greece would no longer be able to service its debt in the long run. As a consequence, Greek government bond yields started to rise rapidly and thus jeopardized the Eurozone's financial stability and coherence. Although there was an early consensus among decision-makers that a Greek default would not be a solution because of its dire economic and political consequences (see below), no significant action was taken until February 2010. Only after the Greek government announced a first austerity plan, endorsed by the Commission on 3 February (Euractiv 2010a), did the European Council agree on 11 February at an informal meeting to "take determined and coordinated action, if needed, to safeguard financial stability in the euro area as a whole" (European Council 2010). However, in doing so the MS avoided committing themselves in any substantive way. First, the main part of the statement emphasized that each MS is responsible for its own finances. Second, as a German government official stated, there were "no concrete plans" (Euractiv 2010d) for financial

assistance to Greece. Moreover, in the run-up to the February summit the German Chancellor even rejected a more far-reaching draft statement, which had been prepared by the Eurogroup as a calming signal to the financial markets (Ludlow 2010c).

By mid-February, the Greek government made clear that it would need financial assistance, which could range from guarantees by the other MS to external refinancing through the International Monetary Fund (IMF) (Ludlow 2010b: 11f). Nevertheless, other MS (and in particular Germany) denied such a need (see Ch. 5.2.2). On 3 March, the Greek government announced a second far-reaching austerity programme (Euractiv 2010g). This was the precondition for the other Eurozone MS to agree at their summit of 25 March “to contribute to coordinated bilateral loans” (Euro Summit 2010). However, although this second official statement was more concrete than the February statement, it still did not mean that a decision on financial assistance was taken (European Commission 2013b). As the statement made clear, this “has to be considered ultima ratio, meaning in particular that market financing is insufficient” (Euro Summit 2010).

Through the Eurogroup agreement of 11 April, the Eurozone Finance Ministers made the Euro summit statement of 25 March “fully operational” (European Commission 2013a; Eurogroup 2010). Nevertheless, the defined goal was still to calm the financial markets and to avoid actually activating the rescue mechanism (Tagesschau 2010b). On 23 April the Greek government officially requested financial assistance (Euractiv 2010h). Although this request did not come as a surprise because informal consultations had already taken place weeks before the official request (Interview 15), there was no immediate answer by the other MS. As the German Finance Minister stated two days later: “The fact that neither the EU nor the German government have taken a decision [on providing aid] means that the response can be positive as well as negative” (Euractiv 2010e). Indeed, on 29 April the Greek government agreed for the third time in three months on even tougher austerity measures in order to receive the requested financial help (Euractiv 2010f). Eventually, on 2 May 2010, the Eurozone finance ministers and the IMF agreed on the first ‘Economic Adjustment Programme for Greece’: conditional on an austerity programme supervised by the so-called ‘Troika’ (IMF, Commission, ECB), the MS and the IMF committed themselves to bilateral loans to be disbursed in tranches and amounting to a total of 110bn, of which 30bn was provided by the IMF (Barkin/Taylor 2010).

As regards the EU and Eurozone, the first bailout of Greece was therefore a purely intergovernmental endeavour. Although the Commission and ECB were present and provided expertise in the run-up to the bailout, they were not in the role of decision-makers. Thus, the relevant actors were – apart from

the 'external' IMF – only the Eurozone MS. Their preferences over outcomes converged in the sense that they all preferred financial assistance to Greece over a Greek default or a so-called 'Grexit' (Interviews 5; Ardagna and Caselli 2014: 296-9; Schimmelfennig 2015: 182). The reason for this homogeneity of preferences were the feared consequences a Grexit would bring.⁵² Economically, a Greek default would have triggered a bank run in the highly indebted Southern MS and considerable losses for the highly exposed banks in the Northern MS.⁵³ The result would have been a Europe-wide banking crisis and consequently massive bailouts. This banking crisis would have spilled over to the real economy, leading to capital flight from the Eurozone, bankruptcies, a collapse of internal demand, and thus a profound recession. Apart from the banking crisis and its effects on the real economy, there was the risk that a Greek default would lead to a contagion of Italy or Spain, which were considered to be too big to be bailed out. Thus, a default might even have triggered a general Eurozone collapse. Politically, a default or Grexit would have given rise to widespread Euroscepticism – especially in Greece and other potential 'debtor states' – and could have ended up as a precedent for further disintegration:

"The enormous losses a redenomination would inflict on official creditors would poison the Greek political relationship with the EU and the IMF. It would also debilitate highly indebted countries such as Italy and Spain, calling into question their membership and Germany's willingness to lend great sums to another assistance programme" (Haas 2015: 5; also Ardagna/Caselli 2014: 297).

For Germany in particular, a fragmentation of the Eurozone would furthermore result in a considerable slump of exports, a loss of its price competitiveness, and a heavy setback as regards its global leadership aspirations (Bonatti/Fracasso 2013: 1033).

Thus, since all MS preferred a bailout over a default, the former would have taken place also without any particular actor taking the lead. The question of leadership, therefore, did not concern the bailout as such, but rather the shape this bailout would take. The two ideal-typical options were either an early and full commitment to the integrity of the Eurozone, which would lead to more lenient conditions for Greece and less instability and contagion risk for the rest of the Eurozone, or, by contrast, a bailout as *ultima ratio*, resulting in better conditions for the creditors, but less stability and a higher contagion risk. As opposed to the question whether there should be a bailout at all, the

⁵² While it is true that especially in the beginning of the Greek debt crisis, there was a lot of uncertainty and therefore different opinions as regards the concrete consequences of a potential default, there was an early consensus among MS governments that a Greek default, or even a 'Grexit', would in any case do considerable harm to the Euro Area. Even critical decision-makers like the German Finance Minister Wolfgang Schäuble, who later in the crisis adopted a more favourable stance towards 'Grexit', "considered the damage of a default of a euro country to be incalculable and more costly than the rescue" (Schimmelfennig 2015: 182).

⁵³ As regards the banks of 'creditor countries', there was no systemically relevant exposure to Greece alone, but given that a Greek default would most probably have spilled over to other countries like Spain and eventually Italy, the overall exposure was enormous (Ardagna/Caselli 2014: 297; see Thompson 2013: 8).

preferences over the type of bailout diverged. While Greece and a group of economically or financially less solid MS (Italy, Portugal, Spain, Belgium, France) preferred an early commitment and thus a more 'generous' bailout, Germany, followed by the Netherlands, Finland and Austria, preferred the *ultima ratio* type of bailout, which would allow them to minimize their liabilities (Schimmelfennig 2015: 182f).

5.2.2 Dependent Variable: No German Leadership

The dependent variable of the model's first analytical step is the emergence of leadership. It has been operationalized as a binary variable with the values 'absence' or 'presence' of leadership. Leadership is given if there is (1) a common goal and (2) an actor in a position of power who (3) uses her resources in such a way as to guide a group towards the achievement of the common goal.

As pointed out by Erik Jones (2010), an early commitment to bail out Greece would have calmed the financial markets, so that Greece would have had fewer problems in refinancing its debt. With regard to the Eurozone as a whole, this would have contained the risk of contagion, government bond yields and their spread would have remained low, banks would have maintained sounder balance sheets, economic stability would have been restored, and an eventual bailout of Greece would have been cheaper (also Featherstone 2011: 194). Thus, whereas an early commitment to financial assistance implied several disadvantages for the so-called 'creditor states', it certainly would have contributed to the common goal of protecting the common currency and maintaining stability in the Eurozone.

Next to a common goal, there was also an actor in an extraordinary position of power: based on its economic resources, Germany has been the Eurozone's most powerful MS (see Ch. 5.3.4). In the context of the Eurozone crisis, the size of a MS's economy (measured by absolute GDP) is a crucial power indicator as it determines that state's capacity to provide financial stability.⁵⁴ Thus, given the size of the German economy as well as the intergovernmental nature of the first Greek bailout (Ch. 5.2.1), Germany was the ideal leadership candidate.

However, instead of taking the lead by translating its power resources into strategies and making an early commitment to a bailout, Germany denied the need for financial assistance until the very last

⁵⁴ Other important factors are a MS' current account balance (which indicates its saving potential), government bond yields (which reflect the credibility in the financial markets and thus the refinancing options), and gross public debt (which indicates a MS' long-term solvency) (Ch. 4.3).

moment before a Greek default: “In early 2010, Germany was the most reluctant EA country to commit itself to the Greek bailout” (Schimmelfennig 2015: 182). By pursuing these “politics of the *ultima ratio*” (Ludlow 2010b: 13), Germany delayed any decision in favour of financial assistance. In Chapter 2.4, this strategy has been conceptualized as the exact opposite of leadership: instead of leading, a powerful actor can also use its resources to act as a veto player defending the *status quo* (‘obstructionism’, see Table 3).

Already at the European Council of 10-11 December 2009, when the Greek Prime Minister George A. Papandreou emphasized the need for cooperation and coordination in the Eurozone in the light of the Greek sovereign debt crisis, the German Chancellor Angela Merkel began her reply by stating that “the Stability Pact [...] remains the essential reference point for EU policy” (Ludlow 2010a: 12). After the German Chancellor had rejected a draft declaration of the Eurogroup in the run-up to the European Council of 11 February because she considered it too committing with regard to an eventual bailout, she stated: “Greece is a part of the European Union and won't be left on its own, but there are rules and these rules need to be adhered to” (Euractiv 2010b). Of course, this was clearly not “enough to appease the market or satisfy the media” (Ludlow 2010b: 11). When the EU finance ministers met on 16 February to discuss how to proceed further with the Greek sovereign debt crisis, the “Irish Finance Minister Brian Lenihan told journalists that some member states – notably Germany – were unwilling to spell out in detail what member states would be expected to do to prop up the Greek economy” (Euractiv 2010c).

Also after Greece had announced its second far-reaching austerity programme on 3 March, the German Chancellor reiterated with regard to an upcoming meeting with the Greek Prime Minister: “I want to say clearly that it is not about aid measures for Greece” (Euractiv 2010g). When asked again about financial assistance to Greece after the meeting with Papandreou, Merkel answered that “‘this is a question that we do not have to face today’ [and that] Europe was not ‘going to face in the future’” (Ludlow 2010b: 12). On 15 March, Merkel prevented the EU finance ministers once again from finalizing a deal in favour of a Greek bailout (Ludlow 2010b: 47). Even after the Greek Prime Minister had openly urged his colleagues to make a decision about the conditions of financial assistance to Greece on 18 March (Ludlow 2010b: 16), Merkel insisted on 21 March:

“Greece is not insolvent and therefore we do not have to discuss the question of help now [...] It is the best solution for the Euro if Greece solves its problems alone; of course, with the political support of the European heads of state and government”⁵⁵ (Tagesschau 2010a).

⁵⁵ Translated by the author from the original: “Griechenland ist nicht zahlungsunfähig und deshalb ist die Frage der Hilfen auch nicht die, die wir jetzt diskutieren müssen [...] Die beste Lösung für den Euro ist, wenn

While on 24 March the German finance minister Wolfgang Schäuble still claimed that financial aid would not be on the agenda, only one day later the German Chancellor agreed on bilateral loans to Greece under the participation of the IMF, although this had “to be considered ultima ratio, meaning in particular that market financing is insufficient” (Euro Summit 2010: 1). This meant that once again a final decision had been delayed until the very moment Greece would become virtually insolvent. When by the beginning of April the situation had become increasingly pressing and Greek interest bonds raised to unprecedented levels, Papandreou informally asked for immediate help. However, whereas the ECB President Trichet as well as the French President Sarkozy pushed for an immediate mobilization of funds, the German government insisted on several formal steps to be concluded before financial assistance would actually be granted (Ludlow 2010b: 24f; Schimmelfennig 2015: 186). Thus, it took until 23 April for Greece to officially request financial assistance, knowing that at that point it would definitely be granted, which was subsequently agreed on 3 May.

The unambiguous media coverage regarding Germany’s delaying attitude towards a bailout decision has not been challenged by any of the interviewees. While two Council officials, who were directly dealing with the first Greek bailout, admitted that Germany did not lead, but waited until the market pressure forced it and the other MS to react (Interview 1), and an EU top official observed that “Germany and others⁵⁶ were hesitating for a long time” (Interview 10), others were more outspoken: A Commission official in the Directorate-General for Economic and Financial Affairs (DG ECFIN), for instance, stated that “they [the Germans] were essentially a bit quoting the good old treaty stuff and then being a bit late, acting very lately” (Interview 12). Somehow surprisingly, the most corroborating answer in this regard came from a German government official in the Federal Ministry of Finance, who recognized that at the end, Germany was the only one still hesitating (Interview 25).

In sum, by making an early commitment to bail out Greece, Germany would have used its power resources in such a way as to guide the other MS towards a common goal, namely a cheaper (or even no) bailout and more stability in the Eurozone. In other words, Germany would have assumed leadership. Yet, Germany clearly did not emerge as a leader, but opted for the alternative option described: despite becoming increasingly isolated, the German Chancellor denied any need for financial assistance to Greece until the very last moment before Greek default (‘politics of ultima ratio’). Even after the German government had in principle agreed on financial assistance at the Euro

Griechenland alleine seine Probleme löst, natürlich mit der politischen Unterstützung natürlich [sic] der europäischen Staats- und Regierungschefs“.

⁵⁶ The ‘others’ are the “usual Nordic suspects” (Interview 10), i.e. Finland, Netherlands, and Slovakia.

summit of 25 March 2010, it hesitated again when it came to the activation of the bailout mechanism only one month after.

5.2.3 Independent Variables: Germany's Leadership Surplus and *Status Quo* Costs

As mentioned above, there was an early consensus that an exit of Greece from the Eurozone was not a viable option because of the dire economic and political consequences a 'Grexit' could have had for the other MS. It was clear that, if really necessary, a bailout would have taken place also without any particular actor taking the lead. Therefore, the costs and benefits of leading did not concern a possible bailout as such, but rather the shape the eventual bailout would take. From a German perspective, there were two ideal-typical strategies: First, an early and unambiguous commitment to do whatever it takes to keep Greece in the Eurozone and to help whenever Greece would not be able anymore to service its debt; second, no commitment at all and delaying any decision as long as possible. The preceding chapter showed that Germany opted for the second strategy and thus refused to provide leadership.

The first explanatory variable accounting for the supply of leadership is the leader's surplus, which is defined as the difference between the expected benefits of leading and the perceived costs of it. Table 13 provides an overview of those interviews in which the respondents directly answered the question on Germany's costs and benefits of leading⁵⁷ when it came to the first bailout of Greece. As can be seen at the first glance, there is a striking asymmetry between the mentioned benefits of leading, on the one hand, and the costs of it, on the other. Those interviewees who were particularly strongly involved in the events leading to the first Greek bailout are printed in bold. Those representing the German government are italicised.

The most frequently mentioned cost of leading is the causation of moral hazard in Greece and other MS experiencing difficulties with regard to their financial stability. According to the interviewees, the German government feared that an early commitment to bail out Greece would be perceived as a signal that painful fiscal discipline is not rewarding because in the end there would always be a lender of last resort in the Eurozone. Thus, the 'no-bailout clause' (Article 125 TFEU) would be *de facto* neutralised and the Eurozone would become a system in which free riding by 'fiscal sinners' at

⁵⁷ Some respondents referred in their answers to the costs and benefits of the bailout as such. Thus, their answers could not be used for the evaluation.

Table 13: Germany's Costs and Benefits of Leading according to Interviewees (Greek Bailout)

INTERVIEW	BENEFITS	COSTS
		MORAL HAZARD
5		Taking the lead by making an early commitment creates moral hazard in Greece and other MS
7		Moral hazard, see above
10		Risk setting a precedent with regard to other MS (= wrong signal)
12		Moral hazard, see above
15		Wrong signal (German reluctance was functional in order to give the right signal to other MS, i.e. 'bailout is not a cheap solution')
26		<i>Wrong signal to other MS (bailout must be costly)</i>
27		<i>Achieving no (or only weak) consolidation programme in Greece (Greece only reluctantly adopted adjustment measures; they needed to be forced; thus, early commitment would not have been a sustainable solution)</i>
		ELECTORAL COSTS
1	German business profits from economic prosperity in Greece	Acting against public opinion
8		Acting against public opinion
15		Lack of legitimacy: German government was afraid that an early or stronger commitment would run counter to the expectations of German voters
25		<i>Taking the lead would have implied electoral costs</i>
26		<i>Electoral costs, see above</i>
		BARGAINING POSITION
13		Low pressure on Greece, leading to a worse bargaining position of Germany
15		Wrong signal (German reluctance was functional in order to give the right signal to Greece, i.e. 'structural reform is indispensable)
26		<i>An early commitment would have resulted in a 'bad' consolidation programme ('bargaining position needs to be built up along the extremes')</i>
27		<i>An early commitment would not have allowed for effective conditionality (financial assistance must always imply incentives for reform)</i>
		UNCERTAINTY
10		Uncertainty as regards the outcomes of leading; Uncertainty as regards tools and design of bailout (esp. the role of IMF)
15		Uncertainty as regards the outcomes of leading

Source: Own Illustration

the expense of the fiscally more solid 'creditor states' would be rewarding. Especially (but not exclusively) for Germany this would become very costly. The only way to avoid such a result was to make sure that an eventual bailout would not be a 'cheap solution' for the respective debtor state. In other words, if a bailout was already inevitable, it needed to be a costly one. Taking the lead on this, however, would have lowered the costs for Greece, thereby creating moral hazard in Greece and other potential debtor states of the Euro area.

A second aspect mentioned by the interviewees regards the electoral costs the German government would have had to face if it had taken the lead on the Greek bailout. The public opinion at the time was perceived as predominantly against financial assistance to Greece. In general, there has been little understanding of the complex interdependence among the Eurozone MS. The conventional wisdom, which has also been fostered by the German Chancellor Angela Merkel⁵⁸, was that the Greek people had lived beyond their means and thereby created a huge amount of debt. Thus, it was considered their exclusive responsibility to make the necessary cost-cutting efforts in order to consolidate their budget. Financial assistance by other MS, instead, was simply seen as paying someone else's debts. Therefore the German government feared that by even assuming a pro-active role in a possibly already inevitable bailout, it would lose a significant share of electoral votes.

Thirdly, taking the lead by signalling an early commitment to Greece would have considerably worsened Germany's bargaining position with regard to a Greek consolidation programme. From a German perspective, such a programme of tough austerity measures was needed for at least three reasons: firstly, the programme would make sure that a bailout would not be perceived as a cheap solution to a MS's financial difficulties, thereby creating the above-described free-rider problem; secondly, the programme would reduce the electoral costs of a bailout as it would suggest to the voters that the problem will not repeat itself in the future and that Greece will be able to pay the loans back; thirdly, far reaching structural reforms and cost-cutting efforts have been regarded as an essential condition for a sustainable solution to a sovereign debt crisis. However, a programme could not simply be imposed on Greece, but needed to be negotiated. In this context, an early commitment by Germany would have provided a comfortable fall-back position for the Greek government as it would have been assured of the financial assistance by the other MS independently from the programme design. *Vice versa*, the later Germany would act, the stronger would be the pressure on Greece and the more costly its access to the financial markets would become. As one very closely

⁵⁸ See e.g. Merkel's press conference after the European Council of 11 and 12 December 2009 in which she refers to the responsibility of Greece to implement structural reforms as a solution to its financial problems, instead of financial assistance by the other Eurozone MS (Merkel 2009).

involved interviewee put it: In the extreme case of Greece not being able anymore to place its bonds on the markets, its fall-back position would be sovereign default with all its consequences (Interview 13). For Germany, by contrast, precisely this situation would provide the best bargaining position, because it would allow the German government to achieve the toughest and most far reaching programme possible. Thus, Germany's perceived costs of leading comprised also a worsening of its bargaining position and consequently, so the apprehension, a more lenient consolidation programme for Greece.

Finally, some interviewees mentioned the uncertainty about the possible outcomes as a further cost of leading for the German government. First of all, until Greece was actually not able anymore to refinance itself on the financial markets, it had never been absolutely certain whether and when a bailout would become necessary. As one interviewee put it, there was still "the principle of hope" (Interview 10). Secondly, at a technical level, the legal and financial tools for an eventual bailout still needed to be invented. As long as it was not completely clear how the financial assistance could actually look like, the possible costs implied by an early commitment could hardly be estimated. This regarded especially the role of the IMF. While the German Finance Minister Schäuble, together with the representatives of the ECB, was strictly against an involvement of the IMF which was seen as a serious threat to the integrity of the Eurozone, the German Chancellor Merkel finally decided to include the IMF in the bailout package because of her mistrust in the ultimate vigour of the Commission. Given that the Commission was perceived as being more interested in the cohesion of the Eurozone as a whole than in the fiscal discipline of single MS and their financial obligations among each other, Merkel finally shared the view of the Dutch government that the Commission alone could not be a credible representative of the creditor countries. Taking the lead without having sorted out such crucial questions would have been a risky undertaking.

Table 14: Mentioned Costs of Leading by Group of Respondents in Percent

	Moral hazard	Electoral costs	Bargaining position	Uncertainty
All respondents	39	28	22	11
Only strongly involved respondents	37	18	27	18
Only representatives of German government	33	33	33	0

Source: Own Illustration

As regards the reliability of this interview material, it is useful to differentiate the evaluation according to the degree of involvement and the institutional affiliation of the respondents (Table 14, Figure 7).

If we compare the answers of all respondents to the answers of only those who were strongly involved in the decision-making process, we can see that the 'insiders' regard Germany's electoral costs as less decisive when it came to the issue of assuming leadership (only 18% of all answers). Instead, they put a slightly greater emphasis on the role of a worsened bargaining position and uncertainty. This difference might be explained by the fact that the less involved respondents need to rely more on the information they can obtain from the media coverage, while those central to the decision-making process obtain their information by directly participating and observing. In the media coverage, however, the role of electoral costs was clearly overemphasized (probably because it is the intellectually most accessible explanation for Germany's hesitance). The potential cost of creating moral hazard, instead, was mentioned most frequently by both groups of respondents (39/37% of all answers).

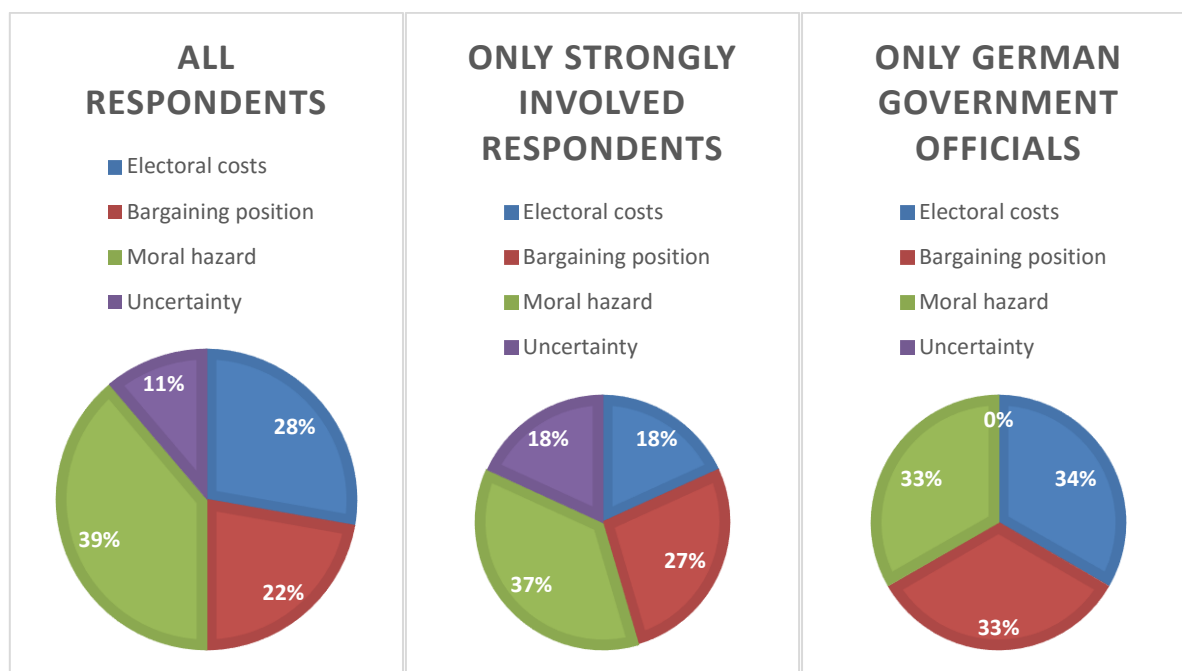


Figure 7: Mentioned Costs of Leading by Group of Respondents in Percent

Source: Own Illustration

If we consider only the answers of the German government officials, we can see that none of the three respondents considered uncertainty as a cost of leading. The reason might be that they would not like to convey the impression that they did not know what they were doing at the time. However,

it is also striking that none of the other three types of costs (moral hazard, bargaining position, electoral costs) was mentioned by all three of them. In sum, no type of costs has been mentioned more frequently than moral hazard and less frequently than uncertainty by any of the three groups.

In stark contrast to all the costs of leading that have been mentioned by the interviewees, only one respondent mentioned also a potential benefit, namely that German business would profit from economic prosperity in Greece. The underlying rationale is in line with the argumentation of Jones (2010) that an early commitment by Germany would have immediately calmed the financial markets. This would not only have had the effect that Greece could refinance its debt at a lower interest rate, but also that foreign and domestic investors would feel safe and continue to invest in its economy. Moreover, given the lower pressure of the financial markets, a less strict adjustment programme might have been considered necessary, which would have done less damage to the growth in Greece. Also the German banks holding Greek bonds would have suffered less depreciation in their balance sheets. Finally, all of these effects would not only have applied to Greece, but to all Southern MS of the Eurozone. Thereby a recession could have been mitigated in these countries, which would have been in the interest of both German banks and the German export industry.

A first glance at Table 13 reveals that the described costs of leading still exceed its benefits. However, to be methodological correct, we can compare costs against benefits only (i) if there are no significant costs or benefits, (ii) if one of the two elements directly implies the institutional survival or death of the potential leader, or (iii) if we find a 'common currency' for the cost-benefits analysis (Ch. 4.3). I agree with Jones (2010) that the benefits of an early commitment by Germany towards Greece are not insignificant (although I do not agree that they outweigh the costs of leading). Moreover, neither costs nor benefits of leading were of vital significance for Germany in this case. Hence, the only option left is a common currency to compare cost against benefits. Given that the benefits consist in the material savings an early commitment would bring about (see above), this is the only currency which is eligible for a proper cost-benefit analysis.

To be sure, the material savings of an early commitment cannot be compared against the uncertainty over outcomes in the case of an early commitment or the electoral costs of leading. However, they can be compared against the material costs which a worse bargaining position of Germany and moral hazard in Greece and other MS would cause. As convincingly argued by Jones (2010), an early commitment might have helped to avoid the *short- and medium-term costs* of a bailout (lower volume of loans, lower risk of contagion to other MS, less depreciation in German banks' balance sheets), but it would not have resolved the persisting fiscal and economic problems of Greece. Thus,

from a German perspective, the actual problem would only have been postponed (Interview 27). This postponement, however, would have come at a cost: there would be no (or only a very lenient) adjustment programme in Greece due to the worse bargaining position of Germany, and there would be no (or only weak) incentives for fiscal discipline in Greece and other MS. Germany would have neutralised the no-bailout clause which hitherto functioned as a safeguard against fiscal profligacy. These *long-term costs* would by far exceed the short- and medium term costs caused by the German hesitance. The danger of much bigger bailouts at a later point in time, not only of Greece, but also of other MS, was perceived as very real by the German government at the time (Interviews 10, 27). As long as Germany and other creditor states would be willing and able to bear the costs of such bailouts, be them bilaterally or in the context of a 'Transfer Union', the feared long-term costs would consist in Germany becoming the 'constant paymaster' of the Eurozone. Once Germany or others would not be willing or able anymore to shoulder the necessary macro-financial transfers within the Eurozone, the long-term costs would even consist in the break-up of the Eurozone.

In other words, the costs of a late commitment to bail out Greece with all its consequences for the German banks and export industry could never be higher than the costs Germany would have to bear in a *de facto* Transfer Union without any safeguards against fiscal free-riding or even in the case of a break-up of the Eurozone. To put it very bluntly, the question was whether to have a costly, but quantitatively limited bailout of Greece (and possibly a few other small MS) in the short and medium term, or systematic and unlimited transfers in the long run. The electoral costs and the risk caused by the high degree of uncertainty come only on top of this calculation. In sum, the expected benefits of leading, namely a cheaper bailout or even no bailout for the time being, are clearly outweighed by the much higher costs consisting in the moral hazard created by the German commitment and the perceived consequence of either becoming the 'paymaster of the Eurozone' or even having provoked the collapse of the Eurozone. Hence, there was no leadership surplus for Germany which implies that according to hypothesis 1 we expect that no leadership was offered and thus no leadership emerged.

Instead, Germany's solution to the dilemma of having to send to opposed signals, namely 'there won't be a sovereign default of Greece' in the direction of the markets, and 'fiscal profligacy is not rewarding' towards the other MS, consisted in acting as late as possible. By acting only when Greece was already in worst trouble and its only option left would have been sovereign default, Germany could still signal to the financial markets that sovereign default is no option and that speculating against a Eurozone MS is not rewarding. At the same time, however, it could signal to the other potential debtor countries in the Eurozone that fiscal profligacy is not rewarding either because financial assistance would take place only in the very last moment, thereby making a bailout a very

costly undertaking for all actors involved. This assessment is corroborated by the interviews. According to an EU official of the Council, Merkel did not lead but waited until the market pressure forced her and the other MS to react (Interview 1). This judgement was independently confirmed by a high-level official of the German Treasury, when asked if there was a trigger point in time which finally would have led to an agreement on the bailout: “No, there was no trigger point. The critical factors were Greece’s readiness to accept an adequate programme and Germany’s readiness to commit itself to the actual financial assistance. Both was only possible because it was the very last moment [before default]”⁵⁹ (Interview 27). The logic of Germany’s behaviour in the first Greek bailout can be illustrated and further corroborated by the following game-theoretic representation of the case.

Given that soon after the Greek government had declared its actual budget deficit in October 2009 it became clear that the situation was not sustainable in the long run, the crucial question for Germany was not anymore *if*, but *when* it should commit itself to a bailout (Interview 10, 27). The possible options were two:

1. Early in time (= quick counter-measure): This would have been the cheaper solution for Greece. Also for Germany the immediate costs for a bailout would have been lower (see above).
2. As late as possible (= ultima ratio): This would have been more expensive for both Germany and Greece. However, Germany would have had the advantages of preventing moral hazard in Greece and other countries and having a better bargaining position as regards the Greek adjustment programme. Therefore, this outcome was preferred by Germany.

In order to make a bailout happen, not only the creditor, but also the debtor must acknowledge that this is actually needed. In other words, there must be not only a supply, but also a demand for financial assistance. Thus, not only Germany, but also Greece could choose between the two strategies of either committing itself immediately to a bailout (= *E*) or waiting as long as possible (= *L*). This leads to the four following outcomes:

(EL) Germany commits early, but Greece requests assistance only in the very last moment before default. This would lead to a bailout as *late* as possible (or even no bailout at all). Despite the strong pressures of the markets, Greece would still have a relatively strong bargaining position due to the

⁵⁹ Translated by the author from the original: “Nein, es gab keinen Trigger-Moment. Ausschlaggebend waren Griechenlands Bereitschaft zu einem entsprechenden Programm und Deutschlands Bereitschaft zur tatsächlichen Finanzhilfe. Beides war möglich weil das der letzte Moment war.“

earlier commitment of Germany. Germany instead would have sent the wrong signal to Greece and the other MS as regards the benefits of fiscal profligacy (or fiscal free-riding) in the Eurozone.

(EE) Both commit early. This would result in an *early* bailout. The costs of the bailout would be lower for both, from which especially Greece would profit. Its bargaining position would be even stronger than in (EL) because its fall-back position would be better (given that there would be no immediate pressure from the markets). Germany, instead would still send the wrong signal to the other MS, but in this case the early bailout under the conditions of a good Greek bargaining position would even have materialised. Thus, as compared to (EL), Germany would not only have created moral hazard, but it would also have worsened its bargaining position.

(LE) Germany commits late, while Greece asks early for financial assistance. This results in a bailout as *late* as possible. Germany could send the desired signal to the other MS and would have an excellent bargaining position *vis-à-vis* Greece, which would have committed earlier and would therefore stand under enormous pressure of the markets. From the Greek perspective, an early demand for help without a German commitment would have considerably worsened the Greek bargaining position, since it would have dramatically and immediately exacerbated the markets' reaction and thereby the pressure on Greece.

(LL) Both actors commit as late as possible. This results in a bailout as *late* as possible. Germany could thus send the desired signal to the other MS and would have a good bargaining position towards Greece, which would stand under enormous pressure of the markets (although not as bad as in (LE)).

Hence, the German preference order is: $LE > LL > EL > EE$

The Greek preference order, instead, is: $EE > EL > LL > LE$

This leads to the following matrix:

		GREECE	
		E	L
GERMANY	E	1 4	2 3
	L	4 1	3 2

Figure 8: Bailout game

Source: Own Illustration

This game form implies that whatever Greece does, it is always more beneficial for Germany to play (L), which thus is the strictly dominant strategy. However, playing (L), which means obstruction or delaying by Germany, is the opposite of what a leader does. Taking the lead would correspond to an early commitment by Germany in order to guide the other MS towards the common goal of quickly overcoming the sovereign debt crisis or at least restricting it to Greece. The game illustrates on the basis of the empirical information given above why Germany could not do this.

The second independent variable accounting for a leader's emergence are the *status quo* costs of all actors involved. As outlined in Chapter 5.1, the *status quo* costs in the eurozone crisis were generally very high, which should lead to a relatively strong demand for leadership throughout the crisis. Nevertheless, even within this truncated sample, they were especially high when it came to the first Greek bailout. Of the 19 interviewees who comprehensively answered the question when the perceived pressure for action during the crisis was highest, 13 (68.4%) named spring 2010 (either exclusively or alongside other periods), when the first Greek bailout and the establishment of the European Financial Stability Facility (EFSF) took place.

The *status quo* costs have been defined as aggregate costs caused by a collective action problem which are either already existing or immediately expected in case no policy or institutional change takes place. As regards the first bailout of Greece, most of the *status quo* costs had not materialised yet, but were expected in case a lack of action would result in a sovereign default of Greece. Firstly, this regarded the other MS' bank exposure to Greece (Interviews 5, 11, 25). Although the exposure to Greece alone was not big enough to be systemically relevant, the exposure to other MS which were seen at risk of contagion in the case no bailout taking place (namely Ireland, Portugal, Spain and eventually Italy) was so big that a new banking crisis would have been inevitable (Ardagna/Caselli 2014: 296f; Mayhew/Oppermann/Hough 2011: 21; Thompson 2013: 7-9). The fatal link between banks holding government bonds and sovereigns bailing out banks could even enlarge the ensuing banking crisis to a sovereign-debt crisis in the financially solid MS, thereby putting the Eurozone as such at risk (see below). Hence, in the words of Featherstone, the "German government was obliged – like its partners – to accept the stark choice of bailing out Greece or bailing out its own banking system" (2011: 203).

Secondly, it was feared that in the case of *status quo* the banking crisis would have been accompanied by a macroeconomic crisis affecting stability and growth in the entire Eurozone (Interviews 25, 26). Amongst others, this would have included capital flights from the Eurozone,

enormous losses for European business and investors, and a Eurozone-wide collapse of internal demand leading to a sustained economic recession.

Thirdly, and most frequently mentioned by the interviewees, maintaining the *status quo* would have put the whole Eurozone at risk (Interviews 1, 5, 8, 11, 25, 26). A sovereign default of Greece, so the general apprehension, would have spilled over on other MS. This might have happened directly through an explosive surge of other MS' interest rates on government bonds and, in the worst case scenario, the complete loss of access to the financial markets, as it was primarily feared with regard to the Southern MS. However, it could have also happened indirectly through the banking crisis in the Northern MS that would have followed once the sovereign debt crisis had spread beyond the Greek borders. In this case the governments would have been forced to bail out their banks, thereby accumulating huge amounts of public debt, which in turn would have worsened the banks' balance sheets even more ('vicious circle'). Further attacks by the financial markets accompanied by negative self-fulfilling market sentiments would have only come on top. Thus, already at the European Council of 10 and 11 December 2009, "everybody was aware that Greece's difficulties constituted a threat to the euro area as a whole" (Ludlow 2010a: 9).

This assessment is corroborated by the short-term development of the Eurozone government bond spreads at the time (Figure 9). As outlined in Chapter 4.3, government bond spreads partly reflect the perceived fragmentation risk in the Eurozone in case of non-action: the higher the spreads, the stronger the expectation that single MS will default on their debt and, in case of *status quo*, will have to redenominate and thus leave the Euro Area. Therefore, government bond spreads can be used as indicator for *status quo* costs in the Eurozone crisis.

As can be seen from Figure 9, since October 2009 the spread between Greek and German bonds had been dramatically increasing. This was an unprecedented phenomenon since the introduction of the common currency. Moreover, given that the Eurozone MS and in particular Germany did not commit themselves to rescue each other in case of need, also Portuguese, Italian, and Spanish bonds yields started to increase in relation to German bond interests. This demonstrates, that by the beginning of 2010, *status quo* costs in terms of fragmentation risk had reached unprecedented levels in the Eurozone.

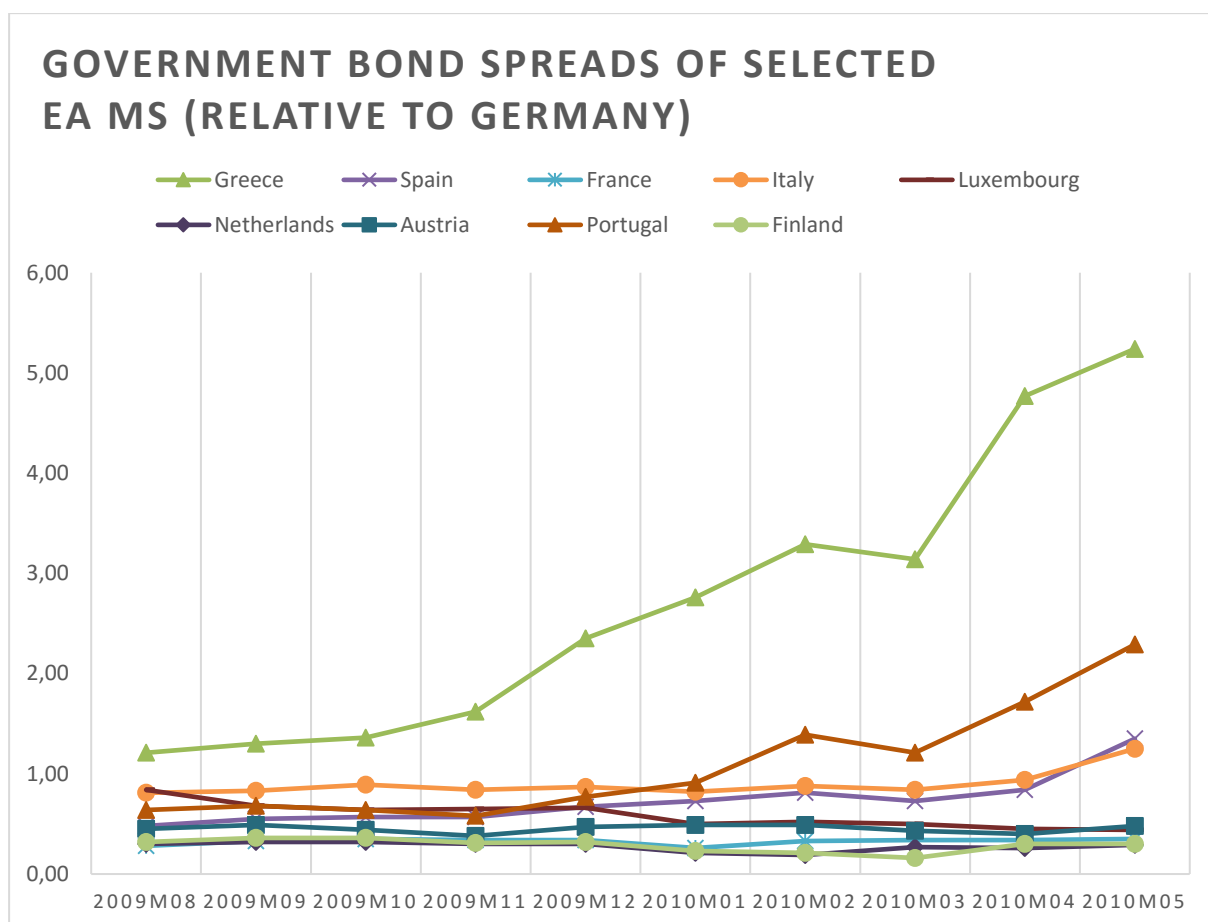


Figure 9: Government Bond Spreads Relative to German Bond Yields August 2009 – May 2010

Source: Eurostat (own illustration)

In short, the immediately expected costs in case of *status quo* were the collapse of the Eurozone (also Featherstone 2011: 203, 205). Although the economic consequences of a Eurozone break-up would differ from country to country, they would be devastating for all Euro area MS. While for

“the highly indebted countries, abandoning the euro would have meant [...] a likely breakdown of the monetary and financial system, hyperinflation and being cut off from external capital [...] [f]or Germany and the north, a breakdown of the euro would have resulted in a steep appreciation of its currency, a concurrent slump in exports, and deep and long-lasting recession” (Schimmelfennig 2015: 181).

A proof that the perceived danger of a Eurozone collapse is not just an *ex-post* exaggeration is given by the fact that the German Ministry of Finance was “cluttered”⁶⁰ at the time with policy proposals and think tank papers outlining alternatives to the existing Monetary Union, such as a split into a Northern and a Southern Eurozone (Interview 26).

⁶⁰ Translated by the author from the original “zugeschüttet“.

Finally, there was the fear that, apart from the concrete economic consequences, a Greek default accompanied by the country's exit from the Eurozone could become a precedent as regards the irrevocability of EMU:

“a Greek default may have been perceived by some heads of government as a threat to the integrity and long-term viability of the common currency. [...] Some heads of government might have felt that such an exit would be seen as a precedent, to be used by other countries in the future to engineer more accommodating monetary conditions” (Ardagna/Caselli 2014: 297).

The underlying idea is that the common currency is not just an economic project, but another crucial step of European integration with historical and political significance. Thus, the ultimate rationale of EMU is not just economic prosperity, but peace and stability in Europe. A failure of this project, so the apprehension, could be a precedent with regard to other integration projects that so far have never been contested. In the most extreme case, it was feared that a failure of EMU could ultimately result in the failure of the entire European integration. As the German Chancellor Angela Merkel put it at a later point in the crisis: “I have chosen for Europe and the euro, and thus for Greece [...] If the euro falls, then Europe falls” (Spiegel 2014). An EU official of the Council Secretariat was even more concise. When being asked about the perceived pressure for action in the case of the first financial assistance to Greece, the immediate answer was: “there was no other choice” (Interview 1).

Thus, the *status quo* costs were extraordinarily high, which, according to our hypothesis, should lead to a strong demand for leadership. However, given that there was no offer (see above), the result was what in Chapter 3.3.2 has been labelled a ‘leadership vacuum’.

5.2.4 Results and Causal Mechanisms

The first hypothesis accounting for the emergence of leadership predicts that if the expected benefits of leading exceed the perceived costs of it, leadership is offered and – *ceteris paribus* – emerges. According to the congruence method (Ch. 4.1), this hypothesis has proved to be plausible in the case of the first Greek bailout. On the independent variable, Germany's costs of leading clearly exceeded its benefits. Thus, the hypothesis predicts that Germany does not offer leadership and consequently cannot emerge as a leader. Given that this was the case, the value of the independent variable is congruent with the outcome.

The confidence in the hypothesis can be further increased by tracing the underlying causal mechanism. Given that it is a negative case, the expected causal mechanism as outlined in Chapter

3.3.2 did not take place. If the causal mechanism had taken place, we should find expressions by the German government early in the process, whereby it signalled its preferences with regard to the change of the *status quo*. More precisely, we should find evidence that the German government clearly communicated towards the other actors at an early point in time that it was not willing to let Greece go bankrupt and what kind of bailout it preferred instead. This evidence would disprove our hypothesis. However, no such evidence could be found. If, instead, we find evidence that Germany expressed its preferences for maintaining the *status quo*, this would increase our confidence in the hypothesis. While this evidence is not necessary to affirm causal inference, because Germany could also simply not have expressed any preferences, it is a sufficient condition given that such an expression would equal a refusal to lead. Hence, searching for evidence that Germany expressed its preference for the *status quo* provides a so-called ‘smoking-gun test’ for the underlying hypothesis (Collier 2011).

In Chapter 5.2.2, it has already been shown that Germany delayed a decision in favour of a Greek bailout as long as possible. As the evidence for that assessment partly consists in expressions by the German government in favour of *status quo*, this chapter is limited to expressions by the German government which have not been mentioned yet. On 9 March the German Chancellor held a press conference together with Jean-Claude Juncker, who was Euro Group President at the time. At this occasion, she once again underlined that for the time being no financial aid was necessary and that the Greek adjustment programme was sufficient for resolving the crisis (Ludlow 2010b: 16). In this way, she clearly expressed the German government’s preference for maintaining the *status quo* instead of changing the ‘no-bailout clause’. In the context of a parliamentary debate in Germany on 16 March, Merkel said furthermore that “Greece had not asked for [help] and the question was therefore theoretical” (Ludlow 2010b: 16). By making this statement, which in a similar form was also made by the German Finance Minister (Janssen 2012), Merkel not only expressed the German preference for *status quo*, but even ascribed it to the Greek government. This, of course, was only true with regard to the formal request for financial aid, which was made only on 24 April once Greece could be sure of a positive response. An informal request for help, however, had existed since mid-February (Ludlow 2010b: 11f). Hence, together with the evidence reported in Chapter 5.2.2, these expressions further strengthen the confidence in the plausibility of the hypothesis’ underlying causal mechanism.

As opposed to hypothesis 1, the second hypothesis accounting for a leader’s emergence could not be assessed on the basis of this case study. This hypothesis predicts that if the aggregate costs caused by the *status quo* are high, there is a high demand for leadership, and - given that there is a

leadership offer – leadership emerges. However, although the *status quo* costs are very high in this case, there was no leadership offer by Germany. Thus, the hypothesis does not apply to this case.

In sum, although only one of the two hypotheses could be assessed on the basis of the congruence method, the theoretical model appears plausible since it can deliver an explanation as to why Germany did not emerge as a leader in the case of the first Greek bailout. The extraordinarily high costs caused by the *status quo* created a high demand for leadership as regards a potential bailout of Greece. Given that Germany would have had to shoulder the biggest share of this bailout, it was the most powerful actor and thus the most suited leadership candidate. By taking the lead, Germany could have shaped a bailout closer to the Pareto frontier, thus producing a collectively better outcome (see below). This outcome, however, would have been farer away from its own preferences. Therefore, as predicted by the rationalist model of this work, Germany decided not to take the lead and to leave the Eurozone worse off.

Finally, this case study corroborates the basic assumption of this work that leadership functions as a solution to collective action problems. Given that Germany did not emerge as a leader, we would expect only a suboptimal solution to the underlying problem. On the one hand, this can be clearly seen by the fact that the bailout came too late: when it finally took place, the crisis had already spread to Portugal and Spain, and the markets' confidence into Greece's long-term solvency could not be restored anymore (Ludlow 2010b: 28). On the other hand, it is highly plausible that an earlier and thereby more generous programme for Greece would have led to a collectively better outcome for the entire Eurozone. As for instance Ardagna and Caselli argue:

“Regarding the May 2010 bailout, we argue that this was a political-economy equilibrium in the sense that, for each of its signatories, it was *individually rational* to agree to it. In particular, the deal on offer was preferable to unilateral and disorderly Greek default, which would have been the outcome had any individual player refused to sign up. However, this does not necessarily mean that the agreement of May 2010 was the best possible deal available to European leaders, or that it was *collectively rational*. We speculate that a program more generous towards Greece, particularly one that gave Greece more time before having to return to borrowing on private markets, might have made everyone better off” (2014: 292).

Although this assessment goes beyond the argument of this work, because it states that not only the entire group, but even each single actor would have profited from a more lenient bailout,⁶¹ it corroborates the assumption that leadership in the form of an early commitment by Germany to support Greece would have resulted in an outcome closer to the Pareto-frontier. While Germany

⁶¹ Based on the empirical results of Chapter 5.2.3., I argue, instead, that at least Germany would not be better off by shaping a more lenient bailout.

might have set a precedent which would have pushed it closer to the feared role of the Eurozone's 'lender of last resort', the contagion risk for the rest of the Euro area and the enduring recession (especially in Greece and the other Southern MS) could have been restrained. Thus, although Germany as a single actor would have been worse off (see Ch. 5.2.3), the Eurogroup as a whole would have profited if Germany had taken the lead.

5.3 Germany and the Super-commissioner

In the case of the so-called 'super-commissioner' proposal, Germany emerged as a leader, but failed to influence in the outcomes in the desired way. The emergence of leadership can be explained with the benefits that a super-commissioner would have brought for Germany as a classic 'creditor state' and the high *status quo* costs, which were due to the fact that in autumn 2012 the actors still considered themselves to be in the middle of a crisis. As regards the impact on the outcomes, Germany's leadership failure can be traced back to the unfavourable preference constellation and the high institutional constraint, which consisted in a treaty change. The following chapter (Ch. 5.3.1) describes the case of the super-commissioner and singles out the relevant actors and their preferences. After that, Chapter 5.3.2 determines the value of both dependent variables, which are the emergence and the impact of leadership. While Chapter 5.3.3 assesses the independent variables of the first analytical step (emergence), Chapter 5.3.4 focuses on the explanatory factors of the second step (impact). Finally, Chapter 5.3.5 investigates the presumed causal mechanisms and draws the conclusions of this case study.

5.3.1 Case Description

In autumn 2011, the Dutch government suggested considerably strengthening the competences of the European Commissioner for Economic and Monetary Affairs (at the time Olli Rehn) as a measure to overcome the crisis. This idea was coined 'super-commissioner' (Karagiannis/Guidi 2014) or 'budget-tsar' (Chaffin 2011). The proposal was supported by the German government and most notably by its Finance Minister Schäuble (Interview 11; Spiegel/Schäuble 2011). However, although Rehn's position was slightly strengthened, the crucial features of the plan, namely full discretion in the College of Commissioners and a veto on national budgets (Spiegel/Schäuble 2011; Schäuble 2014; Lamers/Schäuble 2014), were not realised.

In the beginning of October 2012, Schäuble therefore started a new initiative with the same demands. After bilateral talks with his Dutch colleague Jan Kees de Jager, who had presented the original proposal in 2011 (Interview 11), Schäuble presented the idea to the media and mentioned it repeatedly in the Eurogroup meetings at the time (Euractiv 2012g; Tagesschau 2012; Böll 2012; Interviews 2, 7, 8, 13, 25). In doing so, the German Finance Minister represented the German government and was clearly backed by Chancellor Merkel. However, after the Commission President Barroso at the European Council of 18/19 October 2012 publically declared that he had already done everything which could be done without Treaty change to strengthen the Economic and Monetary Commissioner, the idea was quietly abandoned again (Ch. 5.3.2).

As opposed to other proposals in the crisis management, the super-commissioner idea did not originate from the European institutions, but was developed in the Dutch (and later also German) Finance Ministry. The proposal was discussed internally in the Eurogroup and at the European Council and Euro Summits as well as in the form of a public debate. Although the MS were thus the key players in this case, the Commission played a prominent role in both the internal and the public debate. On the one hand, the proposed changes directly concerned the institutional structure of the Commission, which is why its reaction to the proposal got immediate public attention (Riegert 2012; Spiegel 2012b; Bohne 2012). On the other hand, the Commission was crucial in the internal debate, too, because it had the necessary expertise with regard to the legal requirements and the feasibility of the proposed changes. To a lesser extent, also the opinions of the ECB and EP played a role in the public debate (Telegraph 2012; Bohne 2012). The preferences of these actors about the possible outcomes differed considerably, though. While the Northern 'creditor states' strongly supported the idea, the Southern MS preferred the *status quo* or a super-commissioner in conjunction with further risk-sharing mechanisms such as Eurobonds. While the Commission strongly rejected the proposal, the ECB was clearly in favour of it (for details on the actors' preferences over outcomes, see Ch. 5.3.4).

5.3.2 Dependent Variables: German Leadership Failure

The dependent variable of the first analytical step is the emergence of political leadership. This is given if there is (1) a common goal and (2) an actor in a position of power who (3) uses its resources to guide a group towards the achievement of this common goal (Ch. 4.3). As outlined in Chapter

5.1.1, in the context of the Eurozone crisis, the common goal consisted in overcoming the crisis and preserving the common currency. Given that a common goal is always subjective and historically contingent, a leader can invoke the notion of a common goal by framing a proposal as a measure to overcome the crisis (Ch. 2.2.2). Indeed, Germany presented the super-commissioner proposal as an anti-crisis measure and a way to stabilize the common currency (see Ch. 5.3.5 for detailed evidence). As the Eurozone's most powerful MS (Ch. 5.3.4), Germany was also in an ideal position to take the lead in this issue.

With regard to the third indicator for leadership emergence (use of strategies), the German government, which was mainly represented by its finance minister (see below), employed a twofold approach: internally, it interacted with the other MS 'behind closed doors'; externally, it used the media to promote the idea publically. As regards the internal interaction, Schäuble coordinated the German initiative in bilateral talks with his Dutch colleague Jan Kees de Jager (Interview 11). Although these were no strategic pre-negotiations as elaborated in Chapter 3.3.1 because both MS had the same preferences, these talks can be considered a type of preliminary coalition-building and thus a typical leadership strategy. Moreover, Schäuble promoted the super-commissioner proposal *vis-à-vis* his other Eurozone colleagues and the presidents of Commission, European Council, Eurogroup, and ECB (Böll 2012). Next to all relevant EU fora, the idea was primarily promoted in the Eurogroup. As an eye witness of the Eurogroup meetings stated:

“It was more Mr Schäuble saying it from time to time in the Eurogroup. [...] As a politician he has learned [...] that by simply repeating something, especially if you are a powerful politician, [...] it develops a life of its own and gets on to other people's agendas” (Interview 13).

Externally, Germany used the press as a “multiplier” (Interview 2) of the super-commissioner idea. Due to the resistance faced in the Eurogroup, not least by the then President Juncker, the media were considered the “only effective channel” (Interview 25) by some officials in the German government. This strategy is part of what has been conceptualized as the provision of common knowledge in Chapter 3.3.1.

Although the super-commissioner initiative was primarily driven by Schäuble, there was no doubt that he represented the German government in doing so. The German finance minister was explicitly backed by the Chancellor who advocated the proposal herself at the European Council of 18 and 19 October 2012 (Interview 2; Spiegel 2012b; Böll 2012; Tagesschau 2012; BBC 2012):

“German Chancellor Angela Merkel is in full agreement with Schäuble on his proposals for fiscal union in the euro area [...] ‘The Chancellor and the finance minister are pulling in the same direction on this,’ said deputy government spokesman Georg Streiter at a regular government news conference, when asked about Schäuble's proposals” (Euractiv 2012g).

However, the German government did not engage in the more expensive employment of negotiations strategies ('enhancing collective action', see Ch. 3.3.1), because it anticipated that there would be "a very significant counter-price paid" (Interview 10; also 13, 27). Instead, Germany restricted itself to the provision of common knowledge and thus provided a 'light version' of leadership, which did not exploit the entire spectrum of leadership strategies.

The dependent variable of the second analytical step is the impact of leadership. It is conceptualized as a continuous variable ranging from the absence to the realisation of the desired leader-initiated policy or institutional change (Ch. 4.3). This implies three indicators for the assessment of a leader's impact: (1) the presence of change, measured by the difference between the *ex-ante* and the *ex-post* situation, and, in case there is any change, (2) its desirability, based on the leader's most preferred outcome, as well as (3) its initiation by the leader. In the case of the super-commissioner, the first indicator suffices because the proposal has never been realized. Although Schäuble's proposal was even mentioned in the Commission's 'Blueprint for a Deep and Genuine Economic and Monetary Union' – despite the Commission's resistance against the idea (European Commission 2012a: 38f) – the super-commissioner saga is "a case of attempted, but ultimately unsuccessful, institutional change" (Karagiannis/Guidi 2014: 177). The trigger point for abandoning the idea was Commission President Barroso's statement at the European Council of 18 and 19 October that without Treaty change nothing else can be done to further strengthen the position of the Economic and Monetary Commissioner. In anticipation of these institutional requirements combined with the high counter-price demanded by the Southern MS (Ch. 5.3.5), Germany stopped the initiative before it could come to an open defeat.

In sum, Germany provided a 'light' version of leadership: it emerged as a leader, but restricted itself to the provision of common knowledge, thereby avoiding the more expensive employment of negotiation strategies; as regards the impact on the outcomes, Germany failed as a leader: the government abandoned its initiative because it anticipated a politically costly defeat.

5.3.3 Independent Variables I: Germany's Leadership Surplus and *Status Quo* Costs

The first variable accounting for the emergence of leadership is a candidate's expected surplus, which consists of the expected costs and benefits of leading. As pointed out by Schimmelfennig (2015), there are basically two ideal-typical options how to distribute the adjustment costs caused by

the common goal of preserving the euro and overcoming the crisis: first, the adjustment costs can be allocated nationally through fiscal restraint in the highly indebted states (austerity); second, they can be allocated at the European level through the temporary or permanent mutualisation of debt (solidarity). Thus, the more an outcome of EU crisis management shifts the adjustment costs towards the actual or potential debtor states (e.g. by implying austerity measures), the more beneficial this is for the typically Northern creditor states. *Vice versa*, the more of these adjustment costs are allocated at the European level (e.g. through common funds), the more costly it is for states like Germany.

Therefore, the most obvious benefit Germany would have if it managed to guide the other MS towards the establishment of a super-commissioner, would be a further institutionalization of fiscal discipline in the Eurozone (Interviews 1, 25-27). A commissioner with particular discretion within the *College* and a real veto-right over national budgets would considerably strengthen the enforcement of the SGP and thereby foster national consolidation (instead of mutualising debt or stimulating growth). As a result, the adjustment costs of the eurozone crisis would be further allocated to the debtor states (Schimmelfennig 2015: 182f). A feature which was especially emphasized by the officials of the German Treasury is the intended effectiveness of such a commissioner, who is perceived as enabling a “more *effective* control over fiscal sinners”⁶² (Interview 25) and as “*effective* means to consolidate national budgets”⁶³ (Interview 27).

A second benefit, which Germany expected from a super-commissioner, is a calming effect on the financial markets that would contribute to the stabilization of the Euro area (Interviews 8, 27). As the markets would understand the super-commissioner as a means to make sure that single MS keep solid budgets and thereby stay capable of paying back their debts, government bond spreads and thus redenomination and fragmentation risks in the Eurozone would be expected to decline.

Moreover, there are three further benefits for Germany that were mentioned by single interviewees. Although they mainly seem to rely on the interviewees’ assumptions and impressions, they are reported in the following in order to be complete. An EU official working in the Council secretariat mentioned that apart from the benefits of the German government as a whole, especially the German Finance Minister Schäuble would benefit from a super-commissioner, because this further integration of national budgetary powers would add to his explicitly pro-European agenda (Interview 8). A German government official, who independently said the same, speculated that Schäuble’s

⁶² Translated by the author from the original: “effektivere Kontrolle über Fiskalsünder”.

⁶³ Translated by the author from the original: “effektives Mittel zur Haushaltskonsolidierung”.

promotion of a super-commissioner could also serve as a domestic signal towards its party, in which not everyone is convinced by his pro-integrationist approach (Interview 25). Such a signal might be effective because the German public – and especially the conservative voters – are perceived as being clearly in favour of a super-commissioner. Thus, a further benefit of leading in this issue would be the electoral approval of the idea (Interview 8).

Finally, the establishment of a super-commissioner might serve the purpose of blame-shifting (Interview 1). The concept of blame-shifting normally refers to politicians who deliberately concede decision-making competences to other actors if the respective decisions on the agenda imply electoral costs. In this case, however, blame-shifting does not refer to the electoral costs of Germany, but to the electoral costs of the other Eurozone MS. Since the voters in other MS perceive Germany as the country which illegitimately imposes austerity measures on them, their governments face high electoral costs if they adopt German preferences. Thus, the other MS are more reluctant to accept the policies demanded by Germany. If, however, the EU institutions are seen as the cause of austerity, the perceived legitimacy in the highly indebted MS is higher and thus the electoral costs for the other MS to adopt the consolidation policies are lower. Therefore they would be less reluctant to agree on fiscal restraint if it is demanded by the Commission than if Germany requests it. Thus, Germany's benefits of leading would be that it could shift the blame of imposing austerity measures to the Commission and thereby actually facilitate the achievement of its goals.

As regards Germany's costs of leading, instead, there is a large consensus that there are no relevant costs as the German government never considered to commit itself to any concessions in exchange for the other MS' approval of the super-commissioner (Ch. 5.3.2). Only one interviewee mentioned that Schäuble's proposal led to an internal debate in the government and the Christian Democratic party (CDU), where certain groups rejected a further conferral of national competences to the European level (Interview 2). However, in none of the other interviews it could be confirmed that such an internal debate was actually expected to become a cost of leading for the German government.

As elaborated in Chapter 4.3, a cost-benefit analysis is possible if there are either no significant costs or no significant benefits. If one of the two parts of the subtraction is zero, the respective other automatically prevails. As can clearly be seen from Table 15, this applies to the super-commissioner case. The German government either expected no costs of leading at all or, with regard to the alleged internal debate on the proposal, the costs were so insignificant that the interviewees did not mention them as such in the interviews. In sum, Germany's benefits of leading clearly outweighed

the costs, and thus there was a leadership surplus. Hence, according to hypothesis 1, we expect that Germany offered leadership and, under the condition that there was also a general demand for leadership, that it emerged as a leader.

Table 15: Germany's Costs and Benefits of Leading according to Interviewees (Super-Commissioner)

INTERVIEW	BENEFITS	COSTS
1, 25, 26, 27	Institutionalization of Fiscal Discipline	
8, 27	Calming Financial Markets / Stabilizing Euro Area	
8, 25	Realization of Schäuble's Pro-European Agenda	
8	Electoral Approval	
1	Blame Shifting	
(2)		(Internal Debate?)

Source: Own Illustration

The second variable accounting for a leader's emergence are the *status quo* costs suffered by the relevant group of actors. At the time when Schäuble revisited the originally Dutch proposal of a super-commissioner in October 2012, the peak of the eurozone crisis was already overcome. One month earlier, the ECB had presented their OMT, which had the effect that government bond spreads in the Eurozone decreased and speculations about a possible end of the Eurozone came to an end. However, in autumn 2012, there was no consciousness yet that the peak of the crisis might have already been overcome (Interview 6). The announcement of the OMT was perceived as an attempt to buy time for MS reforms and a further enhancement of the Eurozone's institutional framework. Thus, the effect of the ECB's measures was perceived as temporary and dependent on the actual willingness and capability of the governments to implement structural reforms at home and to undertake further common steps at the European level (e.g. banking union). This implies that although the perceived pressure for action was not as high anymore as in the preceding summer, there was still little confidence that the measures already taken would actually suffice. In line with this, the actors still considered themselves to be in a crisis, which is why the *status quo* costs were relatively high (Ch. 5.1; Interview 6).

This can also be seen from Figure 10 which plots the Eurozone government bond spreads against Germany's bond yields. Firstly, the graph shows that the effect of the ECB's OMT was not as immediate as it is sometimes suggested. Secondly, it can be seen that in October 2012, when Schäuble presented the super-commissioner proposal, the bond spreads (and thus the perceived fragmentation risk) were almost as high as in the months before, and still much higher than before

the sovereign debt crisis had started by the end of 2009. Hence, the *status quo* costs perceived by the actors were still relatively high.

According to hypothesis 2 we therefore expect that there was a high demand for leadership and, under the condition that Germany as the most powerful actor offered leadership, it emerged as a political leader.

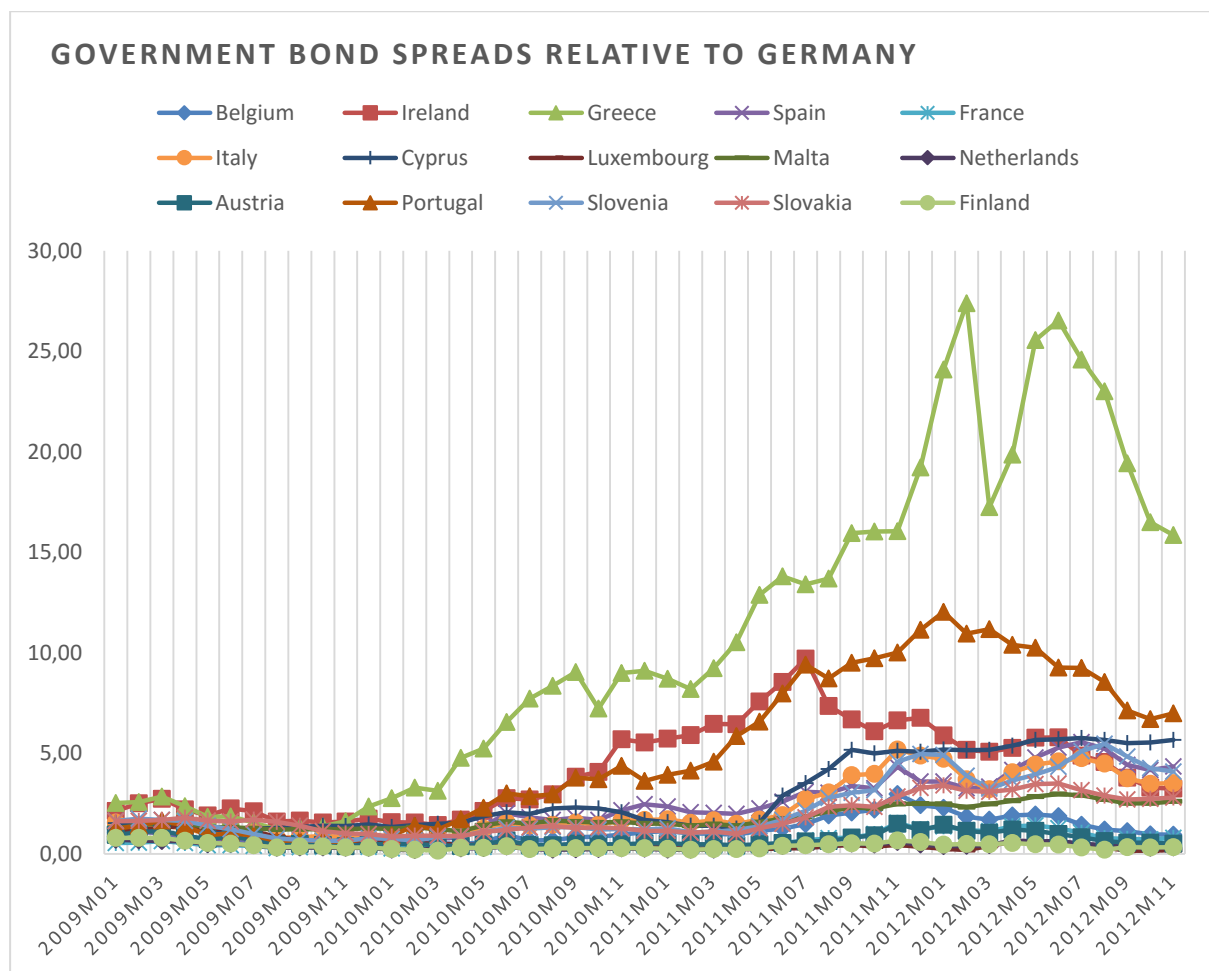


Figure 10: Government Bond Spreads Relative to German Bond Yields January 2009 – November 2012

Source: Eurostat (own illustration)

5.3.4 Independent Variables II: Germany's Resources, Preference Distribution, and Institutional Constraint

The first variable which accounts for a leader's impact are her power resources. They are differentiated into material, institutional, and ideational resources. In the relevant literature,

emphasis is put almost exclusively on Germany's economic resources when it comes to its role in the EU crisis management (e.g. Beach 2013: 123, 125f; Schild 2013: 27; Bulmer/Paterson 2013: 1395; Bulmer 2014: 1251-3). However, a few accounts also go beyond the narrow view on economic resources only (Krotz/Schild 2013: 22-9; Janning 2013).

The most important economic indicator for Germany's position of power in the context of the eurozone crisis is its aggregate GDP.⁶⁴ The size of a MS's economy ultimately determines its capacity to contribute to financial stability in the Eurozone and to bail out other countries. In 2011, Germany's GDP amounted to 2699 billion euro or 27.7% of the entire Eurozone's GDP. Thus, Germany had the largest GDP of the Eurozone, already twice as big as the one of Spain which in terms of GDP was the fourth of the 17 Eurozone MS at the time. Moreover, especially in the context of a sovereign debt crisis, not only the overall size of MS's economy, but also its credibility in the financial markets and thus its refinancing options play an important role. Also on this score, Germany ranked first among the Euro area MS. With an average interest rate of 2.61% on 10 years government bonds in 2011, and a constantly falling trend at the time (Table 17), Germany paid the lowest interest rates in the Eurozone and considerably less than the EU-17 average of 4.34%.⁶⁵ Also as regard the MS' current account balance, which is not only an important indicator for an economy's overall performance, but also for its savings potential, Germany achieved the Eurozone's biggest current account surplus in absolute terms. With more than 164 billion Euro, its surplus was almost three times as large as the one of the Netherlands which ran the second biggest surplus. In relative terms, Germany still ran the second largest surplus of the Euro area with 6.1% of its GDP. Finally, in the context of a sovereign debt crisis, the gross public debt (in percent of GDP) of a MS is an important indicator since it reflects the country's long-term solvency. Although Germany's government debt in 2011 amounted to 77.9% of its GDP and was thus considerably higher than the Maastricht criterion of 60%, it was still lower than the Eurozone's average public debt of 86.0% (Table 16).

⁶⁴ As regards Germany's economic resources, data from 2011 is the most appropriate because these are the figures which were known at the time.

⁶⁵ Given that government bond yields are more volatile than the other economic indicators, Table 17 shows the quarterly development since autumn 2011.

Table 16: Germany's Economic Power Resources (2011)

	GDP		GOVERNMENT BOND YIELDS (10 YEARS) %	CURRENT ACCOUNT BALANCE		GROSS PUBLIC DEBT % of GDP
	Million EUR	% of EU-17		Million EUR	% of GDP	
Germany	2.699.100	27,7	2,61	164.550	6,1	77,9
France	2.059.284	21,1	3,32	-21.245	-1,0	85,2
Italy	1.638.857	16,8	5,42	-50.387	-3,1	116,4
Spain	1.075.147	11,0	5,44	-34.040	-3,2	69,2
Netherlands	642.929	6,6	2,99	58.579	9,1	61,3
Belgium	379.915	3,9	4,23	-4.067	-1,1	102,0
Austria	308.675	3,2	3,32	5.058	1,6	82,1
Greece	207.752	2,1	15,75	-20.634	-9,9	171,3
Finland	196.869	2,0	3,01	n/a	n/a	48,5
Portugal	176.167	1,8	10,24	-10.616	-6,0	111,1
Ireland	171.042	1,8	9,60	n/a	n/a	111,2
Slovakia	70.160	0,7	4,45	-3.497	-5,0	43,4
Luxembourg	42.410	0,4	2,92	2.461	5,8	19,1
Slovenia	36.868	0,4	4,97	84	0,2	46,5
Cyprus	19.487	0,2	5,79	n/a	n/a	66,0
Estonia	16.404	0,2	n/a	222	1,4	6,0
Malta	6.903	0,1	4,49	n/a	n/a	69,7
Euro Area (EU-17)	9.748.036	100,0	4,34	n/a	n/a	86,0

Source: Eurostat (own compilation)

A leader's power resources must be assessed in relation to those of the other actors. One way of assessing Germany's material resources as opposed to those of the EU institutions, is to compare the available budgetary capacities the respective actor can deploy to influence the EU economic and fiscal governance. In October 2012, Germany was exposed to Greece through the Greek loan facility with 15,165bn euro (Dor 2015) and to Greece and other Eurozone MS through the EFSF with 54,448bn euro (EFSF 2011; 2015). Moreover, Germany subscribed to 190,025bn euro of the European Stability Mechanism (ESM), which was established in September 2012 (ESM 2012, app. II). In total, Germany's actual commitment to EMU amounted already to 259,638bn euro. It was clear, however, that if single MS were not able anymore to actually fulfil their commitments with the ESM, Germany might have to bear their parts as well (Paterson 2011: 73). Furthermore, it could not be excluded at the time, that Germany would commit itself even more if necessary.

Table 17: 10yr Government Bond Yields Development 2011/2012

	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3
Germany	2,26	1,93	1,83	1,42	1,36
Finland	2,73	2,52	2,31	1,91	1,64
Luxembourg	2,63	2,32	2,11	1,99	1,67
Netherlands	2,73	2,43	2,23	2,06	1,78
Austria	2,94	3,13	3,05	2,54	2,03
France	3,01	3,19	3,05	2,77	2,21
Belgium	4,07	4,46	3,78	3,33	2,61
Malta	4,35	4,35	4,26	4,24	4,06
Slovakia	4,45	4,75	5,04	4,80	4,28
Italy	5,49	6,61	5,71	5,79	5,69
Ireland	10,18	8,44	7,21	7,03	5,77
Spain	5,43	5,66	5,23	6,17	6,43
Slovenia	4,91	6,17	5,85	5,39	6,49
Cyprus	6,56	7,00	7,00	7,00	7,00
Portugal	11,47	12,23	13,22	11,39	9,67
Greece	16,61	19,03	24,74	25,40	23,69
Estonia	n/a	n/a	n/a	n/a	n/a
Euro Area (EU-17)	4,27	4,48	4,26	4,14	3,86

Source: Eurostat (own compilation)

The Commission does not have a budget which it could deliberately use to influence the crisis management. However, it is empowered by the EU treaty to borrow from the international capital markets on behalf of the EU. Thus, through the European Financial Stabilisation Mechanism (EFSM) it can raise 60bn euro on the financial markets in order to lend assistance to Eurozone MS in financial difficulties (European Commission 2015). The EP, in contrast, has neither budgetary capacities to influence the crisis management, nor does it have any control over the funds provided by the MS. Finally, the ECB's material capacity to influence the Eurozone economic and fiscal policy is theoretically unlimited, since the ECB is the Eurozone's issuing authority. Although this material capacity is strictly limited by the ECB's mandate (Ch. 5.7.4), it still exceeds the budgetary resources Germany could mobilise. At the time in 2012, this had already become clear by the ECB's announcement of OMT, which, under certain conditions, implied *unlimited* government bond purchases on secondary markets.

In sum, Germany's economic resources exceeded those of all other Eurozone MS as well as those of the Commission and the EP. Only the ECB had even more material capacities at its disposal. The

resulting importance of economic resources for Germany's position of power in the Eurozone was largely confirmed by the interviewees. Four of the remaining five interviewees, who on the one hand were close enough to the negotiations in the EU/Eurozone fora and their preparatory bodies to make credible assessments, and on the other hand differentiated their evaluations in terms of resources, mentioned Germany's economic resources as source of its power.

The second type of power resources are institutional resources. They comprise an actor's legislative and executive competences, such as agenda-managing, voting- and veto-rights, and rights of implementation. In the EU polity, the official forum in which Germany exercises its institutional power, is primarily the Council of Ministers.⁶⁶ In the area of economic and fiscal governance, the respective configuration is the ECOFIN Council which formally decides by qualified majority and, in the area of fiscal matters, by unanimity. The corresponding configuration for the Euro area is the so-called Eurogroup, but the actual voting on Eurogroup decisions takes place in the ECOFIN Council under exclusion of Non-Eurozone MS. In 2012, the Qualified Majority Voting (QMV) based on the Treaty of Nice was still in place. According to this voting system, Germany had 29 out of a total of 345 voting weights. Thereby Germany's voting weight corresponded to 8.4% of all votes and to 31.9% of the blocking minority. Besides France, the UK, and Italy, Germany had thus the biggest voting weight in the Council. In terms of population, which also played a role in order to pass a decision, Germany had exclusively the biggest share of ca. 16.5% (of 62% needed) (Krotz/Schild 2013: 26f).

However, also in the areas to which QMV formally applied, the Council tended to decide on the basis of consensus. Especially in the ECOFIN Council "there is a strong sense to come to joint, common solutions" (Interview 15). To be sure, the theoretical option of deciding by QMV might sometimes be used to force such a consensus. Nevertheless, especially during the crisis Germany enjoyed a *de facto* veto in the ECOFIN Council and the Eurogroup. As one high-level official in Brussels put it: "Germany practically has a veto on whatever is happening at present. And if they don't like it, they don't take it. So you need to rewrite, and rewrite, and rewrite, until the Germans are in agreement" (Interview 13; also Interviews 10, 11).⁶⁷

⁶⁶ Krotz and Schild also consider the number of Commissioners and the relative number of MEPs to determine the institutional resources of EU MS (2013: 25-7). However, I don't consider these numbers because it cannot be assumed that the voting behaviour of Commissioners and MEPs fully reflects the preferences of their national governments.

⁶⁷ This is an example of how a high score in one category of power resources can lead to higher score in other categories. In this case, Germany's huge economic resources lead to a *de facto* veto and thus a higher score on institutional resources.

Nevertheless, Germany's voting- and veto-rights should not be overrated. Firstly, many decisions of EU crisis management were made outside the Council. This would also be true for the decision about a super-commissioner, which would require treaty change (see below) and thus needed to be decided by the heads of state and government in the European Council. Secondly, in the case of the OLP, the participation of the Commission and EP further diminishes the ultimate significance of a MS's institutional resources within the Council. Thirdly, many other factors that go beyond the formal competences of the single MS determine the decision-making in the Council. For instance, the work of the preparatory bodies, the pre-negotiations among single MS, the preferences of the Council Presidency, the mutual anticipation of voting behaviour among the MS, side-payments and package-deals lead to decisions that do not merely reflect the MS' voting rights.

In sum, if it comes to the shaping of new policies or rules, Germany had only few institutional resources in the EU or the Eurozone. Its voting weights in the Council, for instance, corresponded to only 8.4% or, in case unanimity was required, even less. Only if it comes to the prevention of certain decisions ('nondecision-making'), Germany's institutional resources were bigger because it had a *de facto* veto.⁶⁸ Although Germany still had the most institutional resources of all MS, they should not be overrated because they are further diminished by the participation of the Commission and EP in the OLP. Especially the Commission, which cannot only propose legislation, but also withdraw it if it does not agree with the amendments of Council and Parliament (= *de facto* veto), appears as institutionally stronger. Outside the OLP, Germany's institutional resources are even smaller because in this case all the MS have the same voting weights and usually decide under unanimity. Thus, as regards institutional resources, Germany had to rely on its *de facto* veto provided by its strong economic position ("Germany was often saying 'no'" (Interview 10)). This permits to avoid unpleasant decisions, but as regards policy or institutional innovation, it enables only little more than agreements on the lowest common denominator.

Finally, Germany's ideational power resources need to be assessed. A proxy for Germany's information and expertise is the number of the administrative staff who works primarily and specifically in the area of European economic and fiscal governance. According to the written answers of the German Chancellery and Treasury on the respective requests from June 2015, the *German government* employs a total of 117 staff members who closely and primarily deal with issues of European economic and fiscal governance.⁶⁹ The *Commission's* DG ECFIN, in contrast, employs 391 staff members in its relevant directorates and units according to an information obtained from

⁶⁸ These resources, however, are less useful for a leader which is defined as an actor that attempts to change the *status quo* instead of maintaining it (Ch. 2.2.3).

⁶⁹ Information obtained from the Chancellery on 16 June and from the Treasury on 3 July 2015.

Europe Direct on 5 August and referring to the number in July 2015. The *EP* communicated on 13 and 17 July 2015 that it has about 40 staff members closely dealing with the relevant issues in its Secretariat of the ECON Committee (~25) and the Economic Governance Support Unit (~15), ranging from Head of Unit to trainees. The *EP* emphasized in its answer that there are another 149 staff members employed in the Directorate for Economic and Scientific Policies, whose work is less closely related to the relevant issues, though, as well as external services (e.g. think tanks) providing the *EP* with expertise. However, this applies also for the German ministries and the other institutional actors: in case of need, they all consult other internal and external resources, too. Finally, the *ECB* answered on 9 July 2015 that it employs 523 staff members in its relevant divisions.

In sum, taking the number of administrative staff as proxy, the *ECB* is the actor with most expertise in the area of the Eurozone's economic, fiscal, and financial governance. The figures are strongly corroborated by the interview material. Based on its generally acknowledged expertise, the *ECB* has assumed to the role of an advisory body for MS and other EU institutions⁷⁰ (Interviews 14, 21, 22, 24). Besides the *ECB*, only the Commission with its thematic and geographical units has both the legitimacy and the technical means to provide the latest facts and figures about the situation in the single MS, which are of extraordinary importance in the context of crisis management (e.g. Alcidi/Giovannini/Piedrafita 2014: 24). Finally, with regard to the other MS, no evidence for any significant differences in information or expertise could be found. Thus, while Germany has less informational resources than the *ECB* and the Commission, it has roughly the same resources as the other MS, and clearly more than the *EP*.

Another ideational power resource is an actor's credibility. Being an actor pursuing national interests by definition, Germany's credibility cannot be as high as that of the Commission, the *EP*, or the *ECB*. As regards the Commission, it is in its own interest to preserve its role and reputation as an honest broker that can be trusted by the MS (Interview 17). In the same line, the *EP* is interested to preserve its role as promoter of the EU's common good representing all EU citizens (Alcidi/Giovannini/Piedrafita 2014: 42f). However, as compared to the Commission, the *EP* is more exposed to political pressures and thus less 'technocratic'. As regards the *ECB*, it is in its own interest to remain politically independent and to fulfil its primary objective of ensuring price stability, thereby preserving its position as a provider of the common good in the Eurozone (Interviews 2, 5, 8, 13, 18,

⁷⁰ For instance, as a background talk with a strongly involved *ECB* official revealed, it was the *ECB* which before the onset of the Eurozone crisis alerted the Commission several times to disconcerting irregularities in the Greek data on sovereign debt and deficit.

20, 22). Thus, the innate institutional interest of all three bodies, Commission, EP, and ECB, provides them with a degree of credibility which is necessarily higher than that of any MS.

As compared to the other MS, however, Germany's credibility has been high. Two different sources of credibility have been revealed by the interviews. First, "it is the interest of the other MS to borrow from the credibility of Germany in the capital markets" (Interview 15). The ESM, for example, would most probably fulfil its function also without Germany, but this would have the effect that government bond interests in the Eurozone would be considerably higher. Therefore, Germany's credibility in the financial markets, which is nurtured by its strong economic position, is an ideational power resource in the context of the eurozone crisis. A second type of credibility derives from the dependence of the Germany government on its national Parliament (*Bundestag*) and Constitutional Court (*Bundesverfassungsgericht*). The legal requirement that for each decision implying further integration the German government needed the approval of its Parliament served as a credible commitment and thus strengthened Germany's position in Eurozone negotiations. In other words, when the German government expressed not only its unwillingness, but its sheer inability to make certain concessions in favour of more solidarity or more integration in the Eurozone, this was perceived as credible by the other MS due to the need for the *Bundestag's* approval. The same is true with regard to the Federal Constitutional Court, which set strict limits to any further step of integration and, on the basis of multiple constitutional challenges, had to render a verdict on the legality of each significant decision of EU crisis management (Bulmer/Paterson 2013: 1398f⁷¹; Poptcheva 2014). This domestic constraint strengthened Germany's bargaining position at the European level. As a German government official put it: "The others were sick of hearing the word 'Karlsruhe'⁷², although it was not used explicitly [as bargaining chip]"⁷³ (Interview 25). In sum, due to the roles of the German Parliament and Constitutional Court, Germany's bargaining position was more credible than that of most other MS.

What applies to Germany's credibility, also applies to its legitimacy. On the one hand, Germany's legitimacy to direct the EU crisis management has generally been perceived as lower than that of the supranational institutions, which had been established precisely for such purposes and, as opposed to Germany, are regarded as primarily interested in the common good of the Eurozone (Interview 13,

⁷¹ Bulmer and Paterson (2013), however, don't consider the role of the Federal Constitutional Court as a source of German credibility in the negotiations, but as a domestic constraint for leadership at the European level.

⁷² Karlsruhe is the city where the Federal Constitutional Court is located and has thus become a synonym for the Court itself.

⁷³ Translated by the author from the original: "Die andern konnten das Wort 'Karlsruhe' nicht mehr hören, auch wenn es nicht explizit eingesetzt wurde".

17). On the other hand, Germany is perceived to have the biggest claim to a hearing among the MS because of its economic weight (Interview 2). As the German Finance Minister himself once admitted when answering a question on the legitimacy of the Franco-German dominance in the EU crisis management: “At some Council meetings I ask myself, why is it always me who should speak first. Also the others could begin once in a while, especially because my accent in English is not the very best” (Spiegel/Schäuble 2011). This anecdote shows that although Germany’s legitimacy is perceived as lower than that of the supranational institutions, it is still considered to be the most legitimised actor among the MS.



Figure 11: Types of German Power Resource by Frequency of Interview Reference

Source: Own Illustration

Figure 11 provides an overview of the frequency a certain kind of power resource was mentioned by the interviewees with regard to Germany’s role in the EU crisis management. Only those interviewees were considered who (i) were close enough to the relevant decision-making procedures to make a credible assessment which is not based on the media coverage, and (ii) differentiated their evaluations of German power in terms of underlying resources. At a first glance it is surprising that ideational resources were mentioned with the same frequency as material or economic resources. However, ideational resources might well be based on material resources. In this case, for instance, Germany’s credibility in the financial markets clearly derives from its economic and fiscal performance. Indeed, a closer look on the interview data reveals that only one respondent mentioned ideational resources as source of German power without also referring to Germany’s economic weight. In line with the above-stated empirical assessment, only one interviewee

mentioned Germany's institutional resources, namely its *de facto* veto right, in connection with its power in the Eurozone.

The own empirical assessment of Germany's power resources is complemented by the results of Janning's 'Power Calculator'. This index includes indicators which to a great extent go beyond the three categories considered by the present work. Amongst others, it comprises the MS' geographic location, their opt-outs (Schengen, EMU), and their public attitudes towards the EU (Janning 2013: 7-9).⁷⁴ The results of the power index are in line with this work's empirical assessment (see also below), although they not only refer to the Eurozone's economic and fiscal governance, but to the entire EU. Germany is the most powerful MS in the EU, but its power position is not overwhelmingly strong. Instead, the asymmetries in power are relatively small (Figure 12).

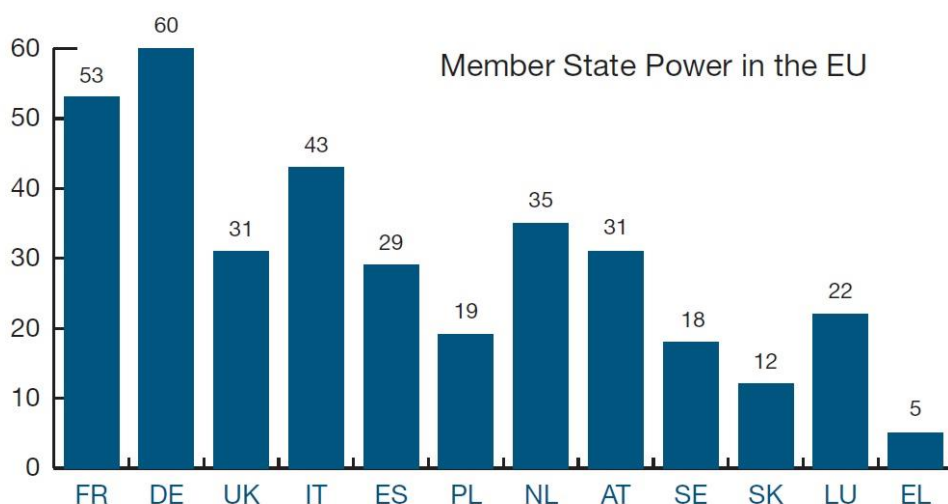


Figure 12: Member State Power in the EU

Source: Janning 2013

This is also the result of the present analysis. Germany scored highest on economic resources. Only the ECB had even more material capacity. As regards its institutional resources, however, Germany was much weaker. Within the OLP, it was still the strongest among the MS, but its advantage was very slight (e.g. same voting weights as France, Italy, UK). As regards the formal procedure, the Commission appeared even stronger. Outside the OLP, all MS have formally the same voting weight

⁷⁴ The full list of indicators, which are differently weighted, is: size of population, contribution to EU budget, military strength, status in international affairs, geographic location, net contribution position, opt-outs (Schengen, EMU), 'good governance', capacity for coalition building, and public opinion. Some of these indicators are implicitly or explicitly included in the indicators used by this work. While 'size of population', for instance, is explicitly considered as an institutional resource, it is implicitly considered as crucial factor of Germany's aggregate GDP.

as well as a veto. Thus, Germany prevailed only informally because, based on its economic strength, a German veto 'weighed more' than that of smaller MS (Interviews 10, 11). Finally, with regard to Germany's ideational resources, the assessment is mixed. In the context of the EU economic and fiscal governance, Germany has the same information and expertise as the other MS, but less than the Commission and the ECB. Moreover, its credibility and legitimacy is higher than that of other MS, but still lower than that of the EU institutions. In sum, Germany is still the most powerful actor among all MS, but, as also Janning's power calculator shows, the asymmetry in power is not as strong as this might be perceived by single actors or by the media. Especially as regards ideational resources, the supranational institutional appear to be more powerful.

Nevertheless, as clearly emerged from the interviews, Germany's position of power in the EU and Eurozone is unprecedented. As one EU official put: "One country leading so much at the back is something which is new by EU standards" (Interview 17). This assessment is shared by the German government officials themselves: "Germany has become the hegemon of Europe – what we never wanted to be"⁷⁵ (Interview 26). The reason for this new role in Europe is not so much seen in Germany itself, but rather in the apparent weakness or passiveness of the other MS.

This regards, first of all, France, which from a German perspective "fails completely" (Interview 15; also Interviews 25, 26). According to some senior EU officials, this had (inter-)personal reasons. First, the French and German Ministers of Finance, Christine Lagarde and Wolfgang Schäuble, apparently collaborated very well until Lagarde took up the post as Managing Director of the IMF in July 2011. The collaboration with her successors, especially with socialist Pierre Moscovici was less successful, instead (Interview 2). Second, the same has been said about the German Chancellor Angela Merkel and the French Presidents: while the collaboration with former President Sarkozy worked very well, even earning them the nickname 'Merkozy', the one with its successor François Hollande has rather been described as a failure (Interview 10). Other interviewees, in contrast, stress domestic problems in France as reason for its lack of power at the European level (Interview 15). In particular, a political weakness to reform, an economic weakness to enhance growth and competitiveness, and, as a consequence of this, a fiscal weakness to consolidate the national budget, is alleged in this context (Interview 26).

However, also other EU MS have been mentioned as contributing to the German position of power through their own weakness or passivity. As regards Italy, either former President Silvio Berlusconi,

⁷⁵ Translated by the author from the original: "Deutschland ist zum Hegemon Europas geworden – was wir nie sein wollten".

who resigned in November 2011, or the traditionally unstable political system have been seen as reasons for its weakness at the European level. Spain, instead, has been described as weak because of its financial problems, for which it eventually had to accept a bailout programme (Interviews 2, 10). The UK, finally, assumed an outsider role not only because it is not a Eurozone member, but also because of the Eurosceptical tendencies in its domestic politics. Although a Eurosceptical attitude in the own country does not necessarily weaken a MS's power, the UK has stayed extraordinarily passive at the European level, thereby strengthening Germany's position. As one interviewee put it, the UK has virtually been "absent from the debate" (Interview 2).

Thus, we can conclude that Germany's power is big, and certainly bigger than in the past, but not overwhelming. The differentiated empirical analysis reveals that Germany's score on the variable 'power resources' is high indeed, but in none of the categories it has the highest score of all actors' involved. Especially Germany's institutional and ideational resources do not reflect its economic power. With regard to the analytical model, this relatively undistinguished value should have the effect that the other two variables' impact on the outcome is more decisive. In other words, given that Germany's power resources are definitely not so high that strategic and institutional obstacles to policy or institutional change could easily be wiped away, we expect that the distribution of preferences among the actors and/or the institutional constraint on the leader make the substantial difference with regard to the outcome.⁷⁶

Given that at the time when Schäuble resurrected the originally Dutch super-commissioner initiative in October 2012 the proposal was very clear (discretion in the *College* and veto on national budgets) and not linked to any other issue, the actual preferences of the other MS largely coincided with their strategic preferences. Therefore, they can first be deduced from theoretical assumptions and then be empirically scrutinised where the evidence allows it. As outlined at the beginning of Chapter 5.3.3., it is in the interest of rational MS governments in the eurozone crisis to distribute the adjustment costs of the crisis in such a way that their individual share is as small as possible. Broadly speaking, this means that "solvent northern countries prefer national adjustment [while] heavily indebted southern countries prefer mutualized adjustment" (Schimmelfennig 2015: 181; see also Beach 2013: 116f). Given that the super-commissioner would be a tool to better enforce EMU's fiscal rules, namely the SGP, and thus to ensure fiscal discipline in the MS, it would foster national adjustment in the Southern states and reduce the risk of debt mutualisation in the Northern States. While this was certainly the main conflict of interests, a secondary cleavage separated those states principally in

⁷⁶ For the causal mechanism connecting Germany's power resources to the outcome, see Chapter 5.3.5.

favour of further integration through treaty changes (if this contributes to their national welfare) from those unwilling to accept further losses of sovereignty (Interviews 2, 25). This theoretical assumptions lead us to a two-by-two matrix which can be filled by the empirical information obtained through the interviews (Table 18).

Table 18: Preference Distribution among MS Regarding Super-Commissioner**

		Allocation of Adjustment Costs	
		National Level (‘Austerity’)	European Level (‘Solidarity’)
Further Integration / Loss of Sovereignty	Pro	<i>Germany</i> <i>Netherlands</i> <i>Austria</i> <i>Estonia</i>	<i>Portugal</i> <i>Cyprus*</i>
	Contra	<i>Finland</i>	<i>France</i> <i>Italy</i> <i>Spain</i> <i>Ireland</i> <i>Greece*</i>

* The interview material does not provide empirical evidence on these MS in particular, but on a group of MS whose criteria clearly correspond to these MS.

** No reliable empirical information could be obtained on the preferences of the following five Eurozone MS: Belgium, Slovakia, Luxembourg, Slovenia, Malta.

Source: Own Illustration

As can be seen from Table 18, of the twelve Eurozone MS on which empirical information could be gathered, only four were in favour of both fiscal restraint at the national level and further integration implying a loss of sovereignty. These were also the states which according to the interview material were in favour of a super-commissioner as proposed by the German Finance Minister. As deduced from the theoretical assumptions, the preference distribution among the MS roughly represented the North-South cleavage between creditor and (potential) debtor states in the Eurozone (Interviews 25, 27). However, some MS like Finland, Ireland, or France were primarily against a super-commissioner because they felt that “having a supranational body or single politician governing over the public finances of member states is not something that [their] societies [were] ready to accept” (Interview 2).

This was especially the concern of France: first, as a French government official said, France is very sceptical about everything that interferes with national law; second, the so-called Twopack regulations, which were negotiated at the same time, we already regarded as sufficient; and third, a super-commissioner was seen as something that would create “a lot of frustration in many member states” (Interview 5). Hence, France was most clearly opposed to the German proposal (Interview 25; BBC 2012; Euractiv 2012c). But also the other two big Eurozone MS, Italy and Spain, were very sceptical, although rather because of their fiscal position than their sovereignty concerns. The only thing that could have changed their strategic preferences would have been a package deal including a further shift of adjustment costs to the European level through solidarity instruments such as a Euro area budget, a fiscal capacity for the Euro area, or the establishment of permanent transfer and insurance mechanisms (Euractiv 2012a, 2012d). As a very close observer put it:

“There is very little appetite in other countries for this. You can imagine how our French colleagues see this. And it will only fly if there is a very significant counter-price paid. But just to have the vigour without the incentives, I guess the Italians, the Frenchs, and others will not buy it” (Interview 10).

Germany, however, had decided *ex ante* that it was not willing to pay this counter-price.

With regard to the smaller MS, Finland would have been in favour of a further institutionalisation of fiscal discipline in the Eurozone. However, because of the right-wing faction in its Parliament, the Finnish government was very sceptical towards further integration of national powers. Similarly, also the Irish government is traditionally very sceptical when it comes to the further sharing of sovereignty because it has “problems with its Parliament” (Interview 25) and treaty changes at the European level which usually require national amendments to the constitution of Ireland and thus a referendum. Portugal, being a small MS, is normally not opposed to further integration, but due to its own financial problems it generally prefers the mutualisation of risk to national adjustment. Thus, only the Netherland, which originally came up with the proposal of a ‘budget tsar’, Austria, and Estonia remained in the German camp in favour of a super-commissioner.

With regard to the European institutions, the Commission was most firmly against a super-commissioner as proposed by Schäuble, although it principally would have been in favour of getting more *ex-ante* influence on the shaping of national budgets (Interview 12). Thus, the Commission steadily adhered to its official position saying that the topic is not on its agenda at the moment (Interview 10). Even when the spokeswoman of the Commission, Pia Ahrenkilde, was taken by surprise by journalists who asked her about Schäuble’s proposal already before she had been informed about it, she immediately replied that “[t]his is not an issue, which, as far as we're concerned, is something that is up for decision, or even central to the discussion this week” (Riegert

2012; also Bohne 2012). When asked what the Commission's position would be if the topic came on the agenda, a high-ranking Commission official said this would depend on the bargaining context and the concrete institutional design. In other words, the Commission would make its position conditional on the package deal Germany would have to propose and on the concrete competences that would be assigned to the Commission (Interview 6).

Internally, the Commission was even more hostile towards Germany's proposal. According to a senior official in the German Treasury, the Commission rejected the idea out of hand, stating that it would already have a super-commissioner because Olli Rehn had been made Vice-President and could decide discretionary as long as there was no written objection by his colleagues (Interview 27). This was confirmed by senior officials of the European Council and the Commission (Interviews 2, 7). The Commission official also gave more detailed reasons for the Commission's attitude: Firstly, the Commission considered the idea as not suitable in terms of legitimacy and accountability, because apart from the MS' loss of sovereignty it would have been another step outside the community method and thus without the involvement of the EP and the European Court of Justice (ECJ). Thus, the Commission was convinced that a super-commissioner would have provoked more euro-scepticism in the MS. Secondly, in the light of the already adopted Sixpack- and the initiated Twopack legislation, the German proposal was perceived as simply not necessary. Thirdly, at the time the financial markets had already calmed down, which is why the Commission saw less need for further action (Interview 2). There are two further possible reasons for the Commission's outright rejection of the idea. According to a German government official, the Commission was actually in favour of a super-commissioner because it would have implied a gain in power, but it did not want to take a stand for an unpopular issue (Interview 25). According to a Dutch government official, instead, the actual resistance came directly from the Barroso cabinet because the President of the Commission feared to lose power himself by giving even more competences to Olli Rehn (Interview 11).

The EP's approval of the idea, instead, depended on the question whether there would be a favourable deal for the major political groups (Interview 16). In other words, the super-commissioner as such had no relevance for the EP as a whole: if the concrete institutional design had increased the EP's influence, for instance by making the super-commissioner accountable to the Parliament, it would have been in favour; if the EP had been left aside, however, it would have been against the idea. Thus, the EP's official statements on the super-commissioner were always directly linked to its own role and the issue of accountability, as for instance in its resolution of November 2012 on the 'Four Presidents Report': "the independent role of the European Commissioner for Economic and Monetary Affairs needs to be reinforced, accompanied by strong accountability mechanisms to both

Parliament and the Council” (European Parliament 2012e). In this context, the EP even went beyond Schäuble’s proposal and suggested merging the posts of the Commissioner for Economic and Monetary Affairs and the President of the Eurogroup (Bohne 2012). However, an involvement of the EP has never been part of Schäuble’s proposal.⁷⁷ Therefore, the German government could anticipate that the EP would have disapproved the idea once its adoption had become realistic.⁷⁸

The ECB, finally, was Germany’s only ally among the supranational institutions. Already one year before Schäuble’s proposal, former ECB President Jean-Claude Trichet had brought the even more far-reaching idea of a European Finance Minister into play (Bohne 2012). Although the ECB did not adopt an official position on the issue because this would go beyond its mandate, almost all interviewees answered that the ECB was in favour of a super-commissioner. First of all, every step towards more fiscal integration and coordination is in the interest of the ECB because it would provide more financial stability in the Eurozone, enhance the efficacy of the ECB’s monetary policy, and ultimately consolidate the Eurozone and thus the ECB’s *raison d’être* (Interview 19). For the same reason, the ECB is generally in favour of fiscal discipline in the MS and a rule-based approach to supervision. Given that a super-commissioner was seen by the ECB as an appropriate tool to enforce fiscal rules and, due to its discretion in the *College*, to provide more automaticity, the central bank was strongly in favour of the proposal (Interviews 18, 21-24). Indeed, seven of eight current or former ECB officials confirmed this position in the interviews. Only one interviewee said the ECB would be neutral. However, after Schäuble had announced his plans in October 2012, even ECB President Mario Draghi himself said that he “completely supported” the idea (Telegraph 2012). Thus, there remains no doubt that the ECB was clearly in favour of the German proposal.

The distribution of preferences has been conceptualized as an ordinal variable with the values (1) complete convergence on the leader’s preferred outcome (= homogeneity of preference), (2) weak convergence on the leader’s preferred outcome, (3) divergence in the preference space (= heterogeneity of preferences), (4) weak convergence elsewhere, and (5) complete convergence elsewhere. As can be seen from Figure 13, the preference distribution in the case of the super-

⁷⁷ At the same time Schäuble made the super-commissioner proposal, he also said the EP – or at least the MEPs of the Eurozone MS – should be involved earlier in the process. However, he did not link this to the concrete institutional design of the super-commissioner (Spiegel 2012b).

⁷⁸ The fact that all three government officials, who have been interviewed in the German Treasury, could not remember the EP’s position, while they were able to provide information on the Commission’s and the ECB’s preferences, shows that the EP was not considered an important actor by the German government, though.

commissioner represents the fourth possible value: a weak converge of preferences on another outcome than the one preferred by Germany, namely no super-commissioner at all.⁷⁹

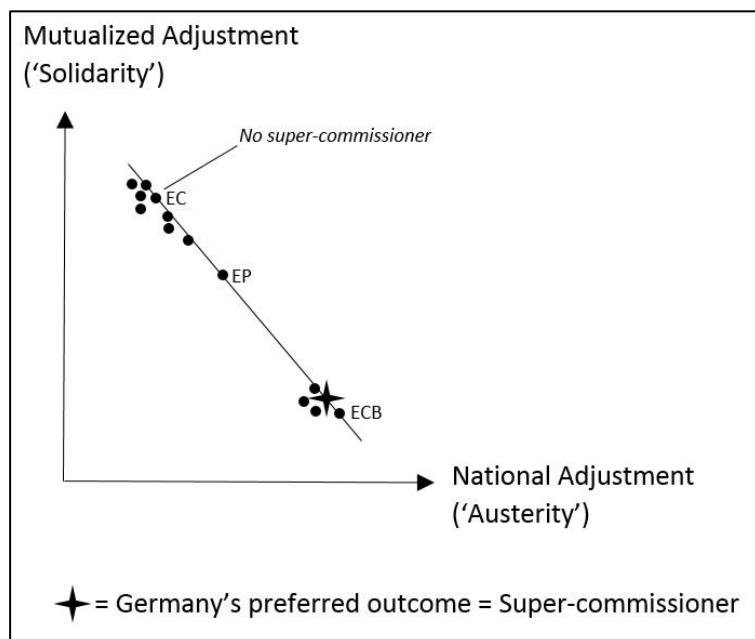


Figure 13: Preference Distribution Regarding Super-commissioner

Source: Own Illustration

The assessment of the institutional constraint on Germany in the case of the super-commissioner proposal is straightforward: “Within the Commission, any steps designed to reinforce even further than today the position of the Vice President for Economic and Monetary Affairs and the euro, would require adaptations to the collegiality principle and, hence treaty changes” (European Commission 2012a: 38). Thus, the realisation of a super-commissioner would not only require an amendment of the Commission’s rules of procedure, but also an amendment of Article 250 TFEU. This was unanimously confirmed by all officials from the Commission, the Council, and the German Treasury, who have been asked about this (Interview 1, 2, 13, 15, 25, 27). According to the conceptualisation of institutional constraint as an ordinal variable with the values (1) discretion, (2) consent, (3) participation, and (4) interdiction, treaty change corresponds to decision-making by participation. Given that EU treaty changes require unanimity, this is the highest institutional constraint possible apart from the legal interdiction of making a certain decision (Ch. 4.3).

⁷⁹ Figure 13 only represents the preference distribution with regard to the proposal of the super-commissioner, not necessarily the actors’ general preferences as regards the allocation of adjustment costs in the Eurozone crisis. The non-labelled dots represent the single preferences of the 12 MS, on which information could be gathered.

5.3.5 Results and Causal Mechanisms

As regards the first analytical step, there is perfect congruence between the values of the independent variables and the outcome. Germany's benefits of leading, primarily the further institutionalization of fiscal discipline and thus the allocation of adjustment costs at the national level, clearly outweighed the costs of it, which, due to Germany's limited commitment, were virtually inexistent. Therefore, according to hypothesis 1, we expect that the German government offered leadership, and, provided that there was also a demand for it (see below), political leadership emerged. Also with regard to the second hypothesis we find perfect congruence. Although the peak of the crisis was already overcome, the actors still perceived a relatively high pressure for action. Thus, a demand for leadership action, which would go beyond the extraordinary measures already taken by the ECB, was still present. In sum, given that there was both a demand for and a supply of leadership, the hypotheses predict the actual outcome, namely the emergence of leadership.

The confidence in the internal validity of this explanation can be further strengthened by evidence which corroborates the presumed causal mechanism (Ch. 3.3.2). Thus, on the side of the leader, we should find expressions that emphasize the leader's preferences with regard to a change of the *status quo* that aims at removing the aggregate costs of the entire group. In other words, the alleged leader should at least frame the proposed innovation as something all parties involved would ultimately profit from, thereby invoking the notion of a common goal. On the side of the potential followers, instead, we should find evidence that they have perceived this offer of leadership and that at least some of them objected to the leadership candidate's preferences.⁸⁰ Both the leader's offer and the followers' reaction provide so-called 'hoop tests' as this type of evidence is necessary, but not sufficient to affirm causal interference (Collier 2011). In other words, if we find the above-described evidence, it increases our confidence in the underlying hypothesis, although it does not eliminate alternative explanations. Instead, if we do not find the evidence, this would eliminate the hypothesis. The same is true if we find the respective disconfirming evidence. This is to say, if we find that Germany openly preferred the *status quo* to the establishment of the super-commissioner or that it admitted *vis-à-vis* the other actors that the super-commissioner would increase the aggregate costs for the whole group, the assumed causal mechanism would be discounted. Also if all potential followers agreed on Germany's proposal, this would disconfirm the analytical model.

⁸⁰ Otherwise there would be no need for leadership and we would not expect its emergence (Ch. 3.3.2).

As regards Germany's offer of leadership, it is indeed evident that the super-commissioner has always been presented as a way of preserving the common currency and overcoming the crisis (e.g. Spiegel 2012b; Euractiv 2012c). Thus, when Schäuble made the proposal public, this was perceived as a German 'master plan for the euro' (Böll 2012). Both the German Chancellor Merkel and her Finance Minister Schäuble emphasized that this would be a necessary step "in the direction of a fiscal union" and a "lasting solution" (Euractiv 2012g; also Euractiv 2012c; Spiegel 2012b). Moreover, Schäuble framed the proposal as a chance for the entire Eurozone that must be used. As his spokesman said: "A strengthened currency commissioner could stand for greater confidence in the implementation of measures and greater confidence in the euro zone itself" (Euractiv 2012g). Also the German Chancellor presented the proposal as a chance to increase the markets' confidence in the common currency and thus to provide for financial stability in the Eurozone. In line with this argumentation, she expressed incomprehension about the other MS' reluctance when reporting to the German Parliament on this: "This is not how we build a credible Europe" (BBC 2012). A political official in the Treasury even described the proposal as a guarantee for the other MS, that also at a later point in time when powerful MS like Germany might have incentives not to comply anymore with the SGP, there would be an apolitical supranational body to enforce the common rules. Moreover, he named stability in the Eurozone and the consolidation of national budgets as expected consequences of a super-commissioner from which every MS would profit in the long run (Interview 27). Finally, EU officials working for the Council and the Council Secretariat confirmed that Schäuble raised the issue in several Eurogroup meetings as a further step towards a solution to the crisis (Interviews 8, 13) and that discussion have taken place at the level of the President of the European Council and in the context of the 'Four Presidents report' (Interview 10; Böll 2012). Instead, no evidence could be found that the German government would actually have preferred the *status quo* or that it would have stated (or even believed) that the super-commissioner increased the aggregate costs for the Eurozone as a whole.

With regard to the demand for leadership, instead, we should find evidence that the potential followers of Germany have not only perceived the German proposal, but also that at least some of them objected to it. This evidence was given by the German Chancellor herself when she complained in front of the German Parliament that "some EU member states were not ready for such a step" (BBC 2012). When the French President Hollande was interviewed ahead of the European Council in October 2012, he was well aware of the German proposal, but he directly rejected it as a "topic [which] is not on the agenda" (BBC 2012, also Euractiv 2012c). Also the Italian Prime Minister Mario Monti rejected the idea, saying that by proposing always new proofs of fiscal discipline, one would leave the impression to the markets that the already existing instruments do not work (Euractiv

2012a). The Spanish Prime Minister Rajoy said that he was personally against the proposal and that it would only have a chance if it were part of a larger package deal on a closer Eurozone union (Euractiv 2012d). After a pre-summit lunch of leaders affiliated to the European Socialists (PES), including among others the Prime Ministers of France, Denmark, and Slovakia, the leader of the EP group of Socialists and Democrats, Hannes Swoboda, explicitly said that they were united against the German proposal of a super-commissioner (Euractiv 2012c). As already described in Chapter 5.3.4, also the Commission rejected Schäuble's proposal publically (Spiegel 2012b; Interviews 7, 27). However, a few actors also understood the German proposal as a step towards the common goal of stabilizing the Eurozone. Most prominently the ECB President Mario Draghi backed Schäuble's proposal by saying: "I am certain: if we want to restore confidence in the eurozone, countries will have to transfer part of their sovereignty to the European level" (Telegraph 2012).

In sum, the first analytical model accounting for the emergence of political leadership appears plausible in the case of the super-commissioner proposal. First, there is perfect congruence between the values of the variables. Second, as regards the causal mechanism connecting the variables, both hypotheses 'passed' a hoop test: the fact that evidence could be found, which needs to be given if the hypotheses apply, increases our confidence in the validity of the model.

With regard to the second analytical step accounting for a leader's impact we find perfect congruence for two of the three hypotheses: the distribution of preferences and the institutional constraint provide plausible explanations as to why Germany could not achieve the desired institutional change of establishing a European super-commissioner. Although there is no perfect congruence in the case of the first hypothesis regarding a leader's power resources (if considered isolated), the model entails an endogenous explanation as to why Germany's leadership was unsuccessful nevertheless.

Germany's power resources have been assessed as relatively high, but they were not overwhelming with regard to the other actors. Thus, the value of the variable is located in the upper range of variation, but not at its upper extreme. According to the analytical model, we would therefore expect that compared to other cases, in which the leader has less resources and the preference distribution as well as the institutional constraint are the same, Germany's had a stronger impact on the outcome. As regards the within-case analysis, however, we would expect a strong impact only if the preference distribution and the institutional constraint are favourable from the leader's point of view. This was not the case with the super-commissioner, though. Moreover, given that the score on the independent variable was not unambiguously high or low, we expect that the decisive impact

derives from the other two variables. In sum, while the confidence in the hypothesis on power resources cannot be increased by means of the congruence method or process tracing in this case (because the value on the independent variable is not perfectly congruent with the outcome), it does not diminish the plausibility of the causal model either.⁸¹

As opposed to the hypothesis on power resources, there is full congruence given as regards the preference distribution among the actors. The preferences converged on an outcome different from that preferred by the leader. Indeed, most of the other actors preferred no super-commissioner or the *status quo*. Thus, according to the hypothesis, we expect a weak or no impact on the outcomes, which was actually the case. The confidence in this hypothesis can be further increased by tracing its causal mechanism: if the preferences of the followers are different from that of the leader, the leader either needs to compensate those who have other preferences or propose a solution from which everyone profits (Ch. 3.3.3). This implies that if the preference distribution really prevented Germany from reaching its goal, we need to find evidence that Germany was either not willing or not able to compensate the others or to find a win-win solution (high certainty). *Vice versa*, if we find that Germany could not or did not want to compensate the others or find a win-win solution, this necessarily implies that (i) the others did not want the super-commissioner as a solution (-> independent variable)⁸² and (ii) Germany was not able or not willing to convince them and thus did not reach its goal (-> dependent variable). In other words, Germany's incapacity or unwillingness to compensate or propose a pareto-improving solution is a sufficient condition for the hypothesis to be true (high uniqueness). Thus, given that this test provides high degrees of certainty and uniqueness, it is a 'doubly decisive test': if we find the evidence, it confirms the hypothesis and eliminates alternative explanation (Collier 2011).

The available evidence indicates that Germany was not willing to compensate the reluctant MS, which indeed asked for a counter-price to be paid for the super-commissioner (Interview 10; Euractiv 2012d). However, there was "no real discussion" (Interview 10) on possible compensating measures Germany could offer. The most concrete counter demand raised by the other MS was the introduction of Eurobonds (Interviews 25, 27). However, only a few months earlier, Merkel had unmistakably declared that there would be no joint liability like Eurobonds "as long as I live"⁸³ (Spiegel 2012a). When the topic came up again in connection with Schäuble's super-commissioner proposal, his spokesman thus clearly reiterated that "Germany's opposition to euro bonds remains

⁸¹ However, other cases might allow for a test of this hypothesis.

⁸² Otherwise no compensation or other solution would have been necessary.

⁸³ Translated by the author from the original: "solange ich lebe".

clear and has not changed” (Euractiv 2012g). Hence, Germany’s unwillingness to offer a compensation, which due to the unfavourable preference distribution was as costly as Eurobonds, further confirms the hypothesis and the presumed causal mechanism. When a leading official in the German Ministry of Finance was asked in spring 2015 why the idea of a super-commissioner has never been realised, he answered that, among others, the counter claim of Eurobonds was simply too high (Interview 27). Finally, no disconfirming evidence indicating that Germany would have been willing and capable to compensate the other actors or to propose a win-win solution could be found. In sum, the hypothesis that the preference distribution influences a leader’s impact on the outcomes appears as very plausible in the case of the super-commissioner.

The same is true with regard to the last hypothesis on institutional constraint. The realisation of a super-commissioner as proposed by Schäuble would have implied treaty change and thus the highest institutional constraint possible apart from the complete legal prohibition of making such a decision. Given that Germany indeed was not able to realise its goal, there is perfect congruence between the values of the dependent and independent variables. As regards the presumed causal mechanism that a high institutional constraint makes it more difficult to obtain the critical mass of followers (Ch. 3.3.3), we need to find the same evidence as for the hypothesis on the preference distribution: If the institutional constraint really prevented Germany from reaching its goal, we need to find evidence that Germany was either not willing or not able to compensate enough of the reluctant followers or to find a win-win solution instead. This evidence is necessary to affirm causal inference (high certainty). However, if we find such evidence, this does not necessarily imply that Germany would have been willing or able to convince its follower had the institutional constraint been lower. Therefore, the evidence is not sufficient to affirm causal inference (low uniqueness). Hence, as opposed to the previous hypothesis, this is not a doubly decisive, but only a hoop test (Collier 2011).

As demonstrated above, Germany was indeed not willing to compensate the followers. Given that the decision would have taken place under unanimity, only a very high price such as Eurobonds would have sufficed to convince even the most reluctant ones like France. The hypothesis is further strengthened by the answers of the two German government officials who were asked why the super-commissioner had not been realised. Both referred first to the difficult requirement of treaty change by unanimity before they mentioned further reasons.

In sum, also the second analytical model accounting for a leader’s impact passes the empirical plausibility test. Two of the three hypotheses pass the congruency test and provide an endogenous explanation as to why the third hypothesis (power resources) does not apply when only considered

isolated. Moreover, process-tracing on the two applicable hypothesis has further increased the plausibility of the model. The hypothesis on institutional constraint passed a hoop test, while that on the actors' preference distribution even passed a doubly decisive test.

Finally, the case study bears further interesting implications with regard to a theory of political leadership. It shows that political leadership as dependent variable of the first analytical step might be more appropriately conceptualized as a continuum than as a binary variable. A leader can decide how many resources she employs and thus to what extent leading convenes. In the case of the super-commissioner, Germany provided only a 'light version' of leadership and confined itself to the provision of common knowledge (instead of employing actual negotiation strategies). Pushing the issue further would have implied much bigger costs and, given that the German Finance Minister could easily anticipate these costs, the German government abandoned its leadership ambitions very quickly in this case.

5.4 Germany and the Fiscal Compact

In shaping the Fiscal Compact, Germany emerged as a leader and successfully influenced the outcomes. Given that at the time there was a high demand for leadership, which was based on the unprecedented spreads in government bonds and the looming collapse of the Eurozone, the German government's benefits of sending an effective signal to the financial markets and its domestic voters outweighed the low costs of leading. As regards the impact of leadership, the favourable strategic preferences of the other actors facilitated the efforts of the German government, which managed to overcome the high institutional constraint (treaty change) by translating its power resources into classic leadership strategies. While Chapter 5.4.1 is devoted to the case description, Chapter 5.4.2 assesses the value of both dependent variables, which are a leader's emergence and its impact on the outcomes. After that, Chapters 5.4.3 and 5.4.4 determine the values of the two steps' independent variables, respectively. Finally, Chapter 5.4.5 traces the presumed causal mechanisms and draws the conclusions of this case study.

5.4.1 Case Description

The Fiscal Compact (formally: 'Treaty on Stability, Coordination and Governance in the Economic and Monetary Union' (TSCG)) is an international treaty which was agreed upon at the European Council of 8/9 December, finalised and endorsed at the informal European Council of 30 January 2012, and formally signed on 2 March 2012 by all EU MS except the UK and the Czech Republic. Judged by EU standards, this is a case of extremely quick decision-making (Tsebelis/Hahm: 1388) and thus very well suited for the analysis of political leadership. The Fiscal Compact entered into force on 1 January 2013 and has been ratified by all 25 contracting parties since 1 April 2014.

The signatories commit themselves to a balanced budget, defined by a lower limit of their structural deficit of 0.5% of GDP. In order to reach that goal they agreed on an automatic correction mechanism established by their national law at a constitutional or equivalent level, which shall be triggered if a signatory breaches the agreed benchmark figures. While the principles of this correction mechanism shall be proposed by the Commission, independent national institutions monitor the compliance with the rules. If a signatory fails to implement the treaty provisions into national law, any other contracting party may bring the case to the European Court of Justice, which can impose financial sanctions. Moreover, if a MS is in breach of the agreed deficit criterion, the Commission can issue recommendations which are compulsory unless a majority against them can be mobilized in the Council ('Reversed Qualified Majority Voting'). Those contracting parties already subject to an excessive deficit procedure shall put in place a 'budgetary and economic partnership programme' including structural reforms, which are to be endorsed and monitored by the Council and the Commission. Generally, signatories shall report their borrowing plans to Council and Commission. Finally, the granting of financial assistance by the European Stability Mechanism (ESM) has been made conditional on the ratification of the Fiscal Compact, which within five years after its entry into force is to be incorporated into EU law (Eurozone 2012).

As compared to the already existing rules of the reformed SGP, the novelty of the Fiscal Compact consists not so much in its substance as in the increase of "national ownership" (Interview 6; also 10) of the rules:

"The envisioned fiscal compact package would give these various provisions increased visibility and more teeth at national level. In particular, the fiscal compact asks for a direct transposition into national legislation, preferably at constitutional level, of the rules of the preventive arm of the SGP" (Buti/Carnot 2012: 907f).

With regard to the genesis of the Fiscal Compact, the interview data is contradictory regarding the question whether the idea originated with the ECB or the German Finance Ministry. However, there is a consensus that ECB President Mario Draghi publically coined the term ‘Fiscal Compact’ by presenting the concept in an EP plenary speech, while Germany, and in particular the Chancellery, put the issue on the political agenda and pushed it through in the decision-making phase (Interviews 6, 8, 14, 19, 21, 27).⁸⁴

Given that the Fiscal Compact was always conceived as a Treaty amendment or, alternatively, as an intergovernmental treaty under public international law, the central actors for the shaping of the agreement were the MS. Nevertheless, also the supranational institutions played a role as providers of expertise (ECB, Commission) and observers in the final negotiations (EP). In particular the EP, which was represented by three of its members, did not stick to its role as an observer, but participated actively in the negotiations. As a result, the EP obtained the so-called ‘repatriation clause’, according to which the Treaty shall be incorporated into EU law five years after its entry into force (Art. 16), the explicit right to regularly organize a conference on budgetary and related issues with national parliaments (Art. 13 TSCG), and the right for non-Eurozone countries to participate in Euro Summits under certain circumstances (Art. 12.3) (Héritier et al. 2015: 72; Interviews 1, 6).

The actors had diverging preferences over outcomes. While Germany, the ECB, and a few other MS preferred a Fiscal Compact as Treaty change or stand-alone treaty outside EU law, the Commission and EP preferred a Fiscal Compact as EU secondary law. A few MS, among them France and Italy, initially even rejected a Fiscal Compact in principle. However, once the issue had been put on the agenda (and linked to the ESM agreement), the strategic preferences did not diverge anymore with regard to the Fiscal Compact as such, but only as regards single treaty details (Kreiling 2012; Schoeller 2016: 13; Ch. 5.4.4).

5.4.2 Dependent Variables: German Leadership Success

The dependent variable of the first analytical step is the emergence of leadership. As outlined in Chapter 4.3, leadership is given if there is (1) an actor in a position of power, who guides a group towards (2) a common goal by (3) making appropriate use of its power resources. All these features

⁸⁴ The ECB also provided expertise as regards the technical details of the treaty (Interview 18).

apply to Germany's role in shaping the Fiscal Compact. As for instance Peter Ludlow put it with regard to role of the German chancellor in the treaty negotiations:

“The most striking feature of the discussions which preceded the January European Council was undoubtedly [...] the role played by the German Chancellor. This was her Council and Berlin became a focus of attention and activity on a scale which if not unprecedented was certainly unusual” (2012b: 7).

Germany's position of power in EMU has been assessed in detail in Chapter 5.3.4. Mainly due to its economic resources, Germany is the most powerful Eurozone MS and therefore the ideal candidate if it comes to the provision of leadership. As regards the common goal of preserving the euro and overcoming the crisis (Ch. 5.1.1), the Fiscal Compact was considered a way to “anchor market expectations regarding the sustainability of public finances in Europe (and narrow the [...] abnormally high government bond spreads)” (Drudi/Durré/Mongelli 2012: 894). Thus, although the Fiscal Compact was not the measure preferred by all signatories, it was generally regarded as a contribution to a common goal, which “was paramount to the different preferences of highly solvent and highly indebted member states” (Schimmelfennig 2014: 329). This is also reflected in a statement made by the European Council President, Herman Van Rompuy, during the negotiations of the European Council in December 2011: “26 leaders are in favour of joining this effort. They recognise the euro is a *common good*” (President of the European Council 2011b: 1, own emphasis).

With regard to the third criterion, namely the concrete employment of resources, Germany translated its resources into a multitude of classical negotiation strategies to realize the treaty (Schoeller 2015: 262). Most prominently, Germany managed to link financial assistance from the ESM to the signing of the Fiscal Compact (issue-linking) and it shifted the decision-making process to the level of the European Council and thus away from the more protracted and less salient community method (arena-shifting). Moreover, Germany engaged in strategic pre-negotiations with France and other crucial MS during the agenda-setting and the decision-making phase. Alongside such classical bargaining strategies, Germany framed the Fiscal Compact as an indispensable counter-weight to the mutualisation of risk at the European level. Thereby, it used its economic weight and significance for the survival of the Eurozone as a bargaining chip to worsen the other actors' anticipated no-agreement alternatives ('rule of anticipated reaction') (see Ch. 5.4.5 for details).

The dependent variable of the second analytical step is the impact of leadership. The criteria for the assessment of a leader's impact are (1) the presence of change, measured by the difference between the *ex-ante* and the *ex-post* situation, (2) its desirability, benchmarked against the leader's most preferred outcome, and (3) its initiation by the leader. In the case of the Fiscal Compact, the relevant

change is given by the treaty itself. As regards the desirability of this change, the Fiscal Compact largely represents German preferences: “As far as substance is concerned, the new Treaty reflects most if not quite all of Angela Merkel’s objectives” (Ludlow 2012c: 6) and, in particular, “the key provisions on fiscal discipline always fulfilled the demands of Germany” (Kreiling 2012: 6). The only significant deviations from the German preferences concern a weaker involvement of the ECJ⁸⁵ and the EC⁸⁶ (Interview 27).

As far as the third criterion is concerned, the shaping of the Fiscal Compact was clearly a German initiative. Already in May 2010 it became public that the German Finance Ministry was developing and promoting plans for a European debt brake to be implemented in national legislation, as this already existed at the time in the German constitution (Schäfer/Hall 2010). By August 2011, the German government had convinced France to write a joint letter to President Van Rompuy, in which the two governments define excessive public debt and a lack of competitiveness as the principal causes of the crisis, and propose a debt brake and regular Euro summits as solution to it (Bundesregierung 2011b). The Euro summit statement of October 26, 2011, whereby the Eurozone leaders formalized their meetings and committed themselves for the first time to the idea of a ‘debt brake’, is based on this initiative (European Council 2011a; Beach 2013: 117).⁸⁷ In the following months, Germany strongly promoted the idea of a debt brake and pushed for a quick realization of the treaty (Rinke 2011; Schoeller 2014: 15-7; Ch. 5.4.5 for further details). In sum, as a French government official in the Permanent Representation put it, “Germany was leading the project of this Fiscal Compact and I would say this was mostly a German demand” (Interview 5).

Hence, the observable outcome in this case is successful leadership: Germany not only emerged as a leader (first analytical step), but also influenced the outcomes in the desired way by bringing about institutional change (second analytical step).

⁸⁵ According to the final agreement, MS can bring each other before the court for not transposing the provisions into their national laws, but not for non-compliance with the rules, as was envisaged by Germany (Interview 27).

⁸⁶ While Germany wanted a strong role of the Commission, enabling it to bring MS before the ECJ in case of non-compliance with the rules, France succeeded in downgrading this to a reporting role (Kreiling 2012: 4; Interview 27).

⁸⁷ Even the structure of the final treaty, which in large part consists of one section providing the rules for the ‘debt brake’ (Title III) and another codifying Euro summits (Title IV), still mirrors the original proposal.

5.4.3 Independent Variables I: Germany's Leadership Surplus and *Status Quo* Costs

The first variable accounting for the emergence of political leadership is a candidate's expected surplus, which consists of the expected costs and benefits of leading. Table 19 gives an overview of Germany's costs and benefits of taking the lead in shaping the Fiscal Compact as reported by the interviewees. Those respondents who were particularly strongly involved in the shaping of the Fiscal Compact are printed in bold. Those representing the German government are italicised. At the first glance, three observations are striking. Firstly, all of the relevant interviewees said that the Fiscal Compact was a means for the German government to send out a signal in its favour, either to the financial markets or to its own voters. Most interviewees (7 out of 10) mentioned both targets, however. Secondly, none of the interviewees was able to name any costs of leading. Two interviewees even gave explicit reasons as to why there were no such costs. Thirdly, only 4 out of 10 relevant interviewees mentioned the achievement of substantial policy or institutional change through the Fiscal Compact as a potential leadership benefit expected by the German government.

By sending a signal to the financial markets, the German government ultimately aimed to reduce the fragmentation risk in the Eurozone, which at the time was extraordinarily high (see below) and carried unpredictable consequences for Germany. Amongst others, the German government feared that a breakdown of the Eurozone would result "in a steep appreciation of its currency, a concurrent slump in exports, and deep and long-lasting recession" (Schimmelfennig 2015: 181).⁸⁸ In order to avoid such a scenario, the credibility of the SGP should be regained by issuing a credible commitment to fiscal discipline in the Eurozone. This credible commitment consisted in the incorporation of austerity into national constitutional law, which is considered to weigh more than community law because it is more enforceable and thus less likely to be breached (Interviews 6, 27). Hence, the 'debt brake' as centrepiece of the Fiscal Compact was supposed to generate credibility in the financial markets, thus reducing uncertainty and narrowing the "abnormally high government bond spreads" (Drudi/Durré/Mongelli 2012: 894), which reflected the fragmentation risk in the Eurozone.⁸⁹ While this was not only a credible, but (in the case of compliance) also a costly commitment for the highly indebted MS in the South of the Eurozone, it did not bring about any costs for Germany, which at the time already had a debt brake implemented in its constitutional law (*Grundgesetz*) and a government

⁸⁸ For a more detailed account of the expected economic and political consequences of a Eurozone breakdown or the exit of single MS, see Chapter 5.1.2.

⁸⁹ As the German Chancellor herself put it after the crucial December summit, the Fiscal Compact is part of "a step-by-step process that will re-establish confidence in our common currency" (Euractiv 2011b).

deficit of only 1.0% in 2011⁹⁰ (Interview 8). Therefore, sending a credible signal to the financial markets in order to reduce the fragmentation risk in the Eurozone was a ‘net benefit’ for Germany when it came to the shaping of the Fiscal Compact.

Table 19: Germany’s Costs and Benefits of Leading according to Interviewees (Fiscal Compact)

INTERVIEW	BENEFITS	COSTS
	SIGNAL TO...	
	Financial markets	
1	“sending messages to financial markets that we are doing something”	
6	Signal that fiscal discipline is actually implemented	
8	Regain credibility	
13	Visibility (<i>vis-à-vis</i> markets)	
15	Keeping the credibility of SGP through stronger consolidation power	
24	“Element of seeking to reassure the markets”	
25	<i>Credible commitment to fiscal consolidation</i>	
26	<i>Signalling as secondary purpose</i>	
27	Signal to financial markets	
	German voters	
4	Compensation of German voters for ESM approval	
6	Signal that German government protects taxpayer money from moral hazard in Eurozone	
8	Public opinion in favour	
13	Visibility (<i>vis-à-vis</i> voters)	
15	“something has to be given in return” [for financial assistance through ESM]	
25	<i>Primarily a signal to voters and Bundestag deputies</i>	<i>No political resistance; “Debtor states showed their gratitude”</i>
26	<i>Signalling as secondary purpose</i>	
27	Secondarily also a signal to voters	
	INCREASE OF NATIONAL OWNERSHIP	
6	Commitment of other MS through their own legislation, thereby reducing competitive disadvantage	
8	Extension of own regulation on other MS	None: German debt brake already implemented; ESM already <i>de facto</i> decided
26	<i>Primary purpose: effective enhancement of rules due to substantial institutional change</i>	
27	Enhancement of institutional framework and implementation of rules	

Source: Own Illustration

⁹⁰ <http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=teina200&plugin=1> rev. 2015-11-03.

However, the Fiscal Compact not only allowed the German government to send a signal to the financial markets, but also to its voters at home. After it became clear that German participation in a permanent rescue fund (i.e. the ESM) would be inevitable if a collapse of the Eurozone was to be avoided, the German government needed to assure its increasingly sceptical voters that taxpayers' money would be protected from moral hazard in the Eurozone (Interview 6). In other words, the German government felt that "something has to be given in return" (Interview 15) for the financial assistance granted by the rescue funds:

"German political elites [...] began to acknowledge behind closed doors that they would have to accept some transfer mechanisms [...] in order to avoid the collapse of the Euro. Therefore, to enable Germany to adopt more conciliatory positions on the domestically unpopular issue of transfers, the German government suggested the introduction of a national debt brake at the EU level in order to convince German taxpayers that any form of assistance to other member states would not involve throwing German tax Euros down the drain, but would be linked with very strict rules for future fiscal behavior in peripheral states to ensure that once they pulled themselves out of the crisis they would not just sink back down into a new debt crisis" (Beach 2013: 116).

In line with this, the Chancellor made sure to establish a visible linkage between the German participation in the ESM and the adoption of a Fiscal Compact. The first time she presented the idea of treaty amendments to the public, for instance, was just two days after the German Constitutional Court rendered a positive verdict regarding Germany's participation in the Eurozone rescue funds (Rinke 2011; Bundesverfassungsgericht 2011; Erdmann/dapd/Reuters 2011). Thus, as soon as it was publicly clear that the German government was legally authorized (and therefore likely) to participate in the ESM, the Chancellor suggested treaty amendments to create more "reliability" in the Eurozone (Erdmann/dapd/Reuters 2011). Moreover, the German government insisted to link the ESM and the Fiscal Compact institutionally by granting financial assistance only to those MS that subscribed to the Fiscal Compact.⁹¹ After the December summit, the German Chancellor even suggested to put the Fiscal Compact and the ESM treaty into one single document (Miller 2012: 9). To keep the linkage between the two treaties visible, the ESM treaty was finally put on the agenda of the same European Council at which the Fiscal Compact was adopted (30 January 2012), although the ESM negotiations had already been completed at the time (Ludlow 2012c: 6). Finally, taking the lead in shaping the Fiscal Compact was particularly beneficial for the German government at a time when there was a rising domestic demand for treaty change and further decisive steps towards more

⁹¹ One could argue that the German government introduced this linkage not so much to send a signal to its voters, but because it actually considered the Fiscal Compact to be an effective guarantee for the financial assistance granted by the ESM. This, however, is not plausible given the substantially small differences of the Fiscal Compact to the revised SGP, the lack of clear definitions as regards the measurement of the agreed targets, the absence of a central institution to monitor and enforce the content of the treaty, as well as the lack of a third-party dispute resolution in case of breach (see below).

integration, which was put forward not only by the opposition parties, but also by public persons such as the former Chancellors Kohl and Schröder (Rinke 2011; Erdmann/dapd/Reuters 2011).

While all interviews mentioned the signal effect of the Fiscal Compact as a benefit of leading for Germany, only 4 out of 10 relevant respondents referred also to the expected changes in substance the treaty could bring about. According to these interviewees, the Fiscal Compact served to increase the national ownership of the rules which were supposed to ensure fiscal discipline and thus to prevent moral hazard in the Eurozone. Before the Fiscal Compact, MS were committed only through EU law, which was perceived to weigh less, to be less enforceable, and thus more likely to be breached (Interviews 6, 27):

“The envisioned fiscal compact package would give these various provisions increased visibility and more teeth at national level. In particular, the fiscal compact asks for a direct transposition into national legislation [...] It also requests the application of automatic corrective mechanisms in the event of observed departure from these provisions, with independent [national] institutions monitoring the proper implementation of these rules” (Buti/Carnot 2012: 907f).

Germany’s benefits of such an increase in national ownership would be twofold. First, as outlined in the beginning of Chapter 5.3.3, the increase of national ownership would allow Germany to shift the adjustment costs to preserve the common currency to the national level. Instead of mutualizing these costs at the European level and thereby having to bear a considerable share of them (e.g. through Eurobonds), an institutionalization of fiscal restraint in the national constitutions would make the highly indebted MS pay the bulk of the costs (see Schimmelfennig 2015). Second, by committing all other Eurozone MS to incorporating a debt brake into their constitutional law, Germany would extend the own regulation on the entire Eurozone and thus get rid of a competitive disadvantage (Interviews 6, 8, 26): The German debt brake, which had already been decided upon in 2009 by changing the federal constitution (*Grundgesetz*), inevitably entered into force as of 2011. Thus, whereas Germany had unilaterally committed itself to austerity through constitutional law, the other MS were committed only by the weaker SGP.⁹² With regard to moral hazard in the Eurozone, this credible commitment tied Germany’s hands, whereby the incentives to ‘fiscal free-riding’ had been even increased for other MS. But also with regard economic recovery from the crisis (e.g. by economic stimulus packages and countercyclical deficit spending), the German debt brake constituted a competitive disadvantage. By extending its regulation to the other MS, Germany could thus rebuild a level playing field.

⁹² During the transposition of the Fiscal Compact into national law, it turned out that some MS already had a debt brake in their national law, but not at a constitutional (or equivalent) level (Interview 4).

However, it is questionable whether the German government really expected an actual enhancement of fiscal discipline in the Eurozone by adopting the Fiscal Compact, as this was the case with the super-commissioner (Ch. 5.3.3). First of all, “the concept of ‘structural budget’, which is central in this framework, is at best uncertain” and “there is no single universally agreed method for adjusting fiscal balances” (Gros/Alcidi 2014: 2). Apart from this lack of clear definitions, the Fiscal Compact creates further ambiguity by introducing targets which conflict with those of the revised SGP. Would the German government have accepted these vague and ambiguous rules if it had not only wanted to send an effective signal, but also bring about substantial policy change? Indeed, as a Commission administrator confirmed, the treaty was signed under great pressure, time-constraints, and uncertainty regarding its actual contents and significance. Consequently, the Commission was extensively consulted when it came to the transposition of the provisions into national law (Interview 4). Moreover, the facts that (1) the German government insisted on a treaty change although the contents do not differ significantly from the already existing community law, (2) the transposition into national law functions like in the case of a directive anyways (i.e. with the Commission reviewing the implementation), and (3) many MS already had a debt brake in their national law (though not at the constitutional level), corroborate the interpretation that sending a signal to the financial markets and German voters – instead of actual policy change – were the primary benefits of leading in the case of the Fiscal Compact (Interview 4, 5, 11).⁹³ This is also confirmed by a research on the negotiations of the Fiscal Compact which was conducted for the UK’s House of Commons:

“Guy Verhofstadt had suggested to the Council Legal Service that everything in the proposed treaty could be introduced by secondary legislation using Articles 136 and 333-334 TFEU, and Protocol 12. The Council conceded that this was correct but said *the treaty was necessary for political and symbolic reasons*” (Miller 2012: 51, own emphasis).

As regard Germany’s costs of leading, in contrast, there was a consensus among the interviewees that there were no relevant costs of leading involved. The debt brake provided for by the treaty had already been implemented in Germany and the ESM had also already been decided upon. Therefore, no significant concessions were needed to realize the Fiscal Compact, which was largely perceived as the legitimate counter price for Germany participating in the ESM (Interview 8). As one German government official put it pretty bluntly: “The debtor states showed their gratitude”⁹⁴ (Interview 25). Another reason for the lack of resistance by the other Eurozone MS might have been the perceived pressure for action caused by the financial markets: “there was certainly no resistance against the

⁹³ Nevertheless one ECB official mentioned that the German government might have believed more in an actual policy change through the Fiscal Compact than other MS, although European Council meetings made clear that reassuring the markets of the MS’ commitment to a solid fiscal policy was more important than any change in substance (Interview 24).

⁹⁴ Translated by the author from the original: “Die Nehmerländer zeigten sich erkenntlich.“

principle [of the Fiscal Compact] because that is what you want to sell to the markets” (Interview 8). What has not been mentioned as a cost of leading, but demonstrates the importance Germany gave to the Fiscal Compact, are the transaction costs the German government accepted when shaping the Fiscal Compact. As shown in Chapter 5.4.5, the German government invested considerable human and time resources to promote the Fiscal Compact in the other EU MS: German ambassadors approached the respective governments in the other MS, bilateral meetings took place at the level of heads of unit and between state secretaries, all possible fora were used to promote the idea of a debt brake, including even the IMF and the G7, and the Chancellor herself met her colleagues to promote the Fiscal Compact (Interviews 15, 26; Rinke 2011).

However, putting these transactional costs aside because despite their relative significance they can never amount to the costs of a Eurozone collapse (signal to financial markets), a lost electoral campaign (signal to voters), or the adjustment costs of the Eurozone crisis (increase of national ownership), there were no costs of leading in shaping the Fiscal Compact. Thus, a cost-benefit analysis remains simple: if the costs are insignificant, the benefits necessarily prevail. Hence, Germany’s benefits of leading clearly outweighed the costs, and thus there was a leadership surplus. According to hypothesis 1, we therefore expect that Germany offered leadership and, under the condition that there was also a general demand for leadership, that it emerged as a leader.

The second variable accounting for a leader’s emergence are the aggregate *status quo* costs. As opposed to the costs of leading, they do not appear in the case of action, but are already present or imminent in the case of *status quo*. The assessment of these costs relies mainly on the interviewees’ perceptions and their expressions about the ‘perceived pressure for action’. As a less subjective proxy, the MS’ government bond spreads are also taken into consideration since they reflect the gravity of the crisis and the effective fragmentation risk of the Eurozone (Ch. 4.3). Of 19 interviewees who answered the question of when the perceived pressure for action was highest during the crisis, 7 (36.8%) referred to autumn and winter 2011, which is the time when Germany put the Fiscal Compact on the agenda (Interviews 6, 8, 10, 12, 13, 16, 26). Another 3 interviewees assessed the pressure for action as very high at the time, although they did not perceive it as the most critical moment in the crisis (Interviews 1, 4, 5). A major reason for this assessment is that the actors perceived a high risk of having big MS like Italy or Spain entering the sovereign debt crisis at the time, which was considered to be a potential cause of a Eurozone breakdown (Interviews 6, 13).⁹⁵

⁹⁵ For a more detailed account of the expected economic and political consequences of a Eurozone breakdown or the exit of single MS, see Chapter 5.1.2.

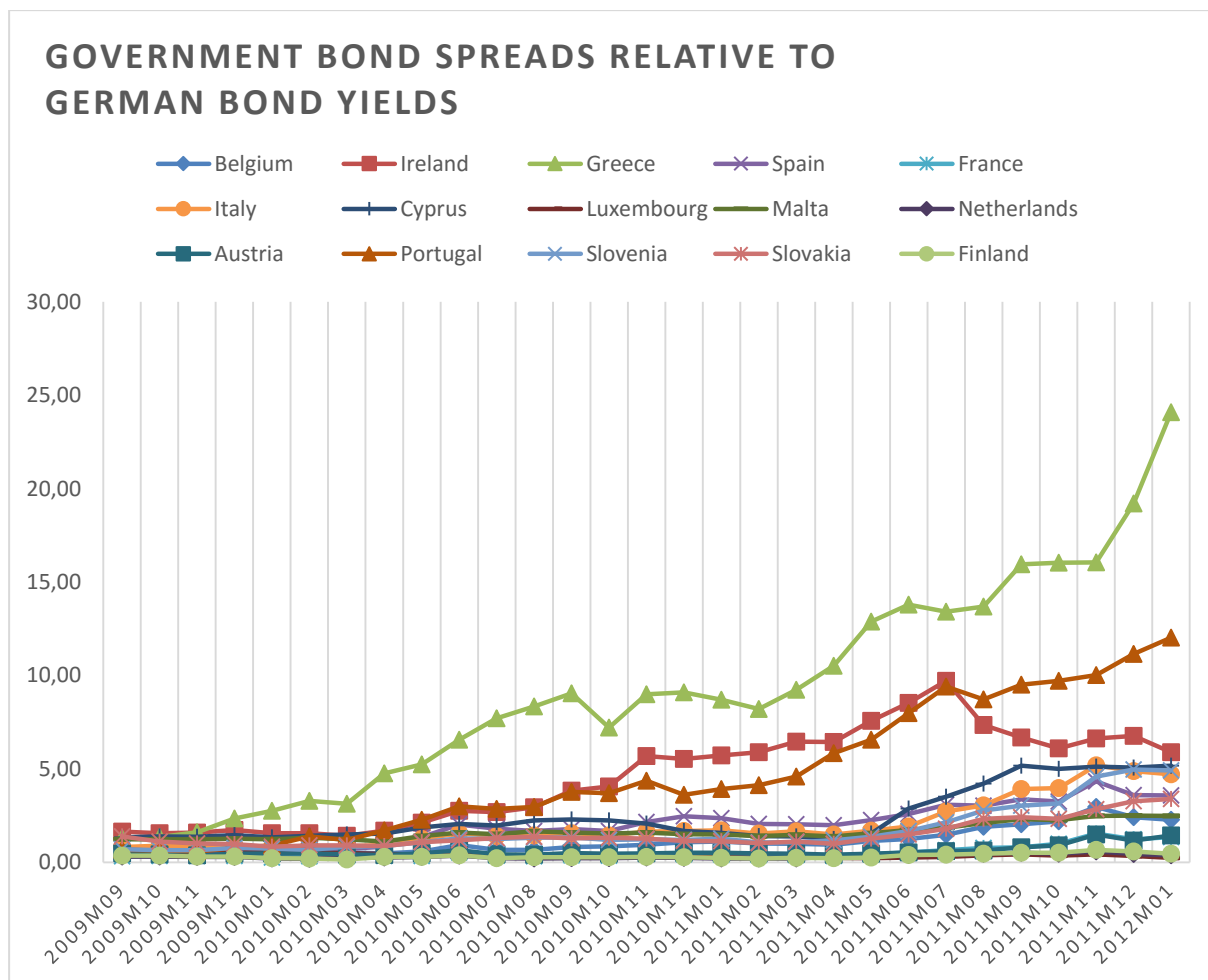


Figure 14: Government Bond Spreads Relative to German Bond Yields September 2009 – January 2012

Source: Eurostat (own illustration)

The assessment of the interviewees is corroborated by the development of the government bond spreads in the Eurozone. As can be seen from Figure 14, the Euro crisis had reached a temporary peak by the end of 2011 when the Fiscal Compact was shaped – and no one knew how the situation would develop further. Therefore, all actors involved felt that an urgent reaction was needed to calm the financial markets (Interviews 1, 6, 8). It was especially alarming that not only the interests on Spanish government bonds were constantly rising, but also that Italian bonds had reached an unprecedented peak of 7,06% in November 2011. It was not clear how big economies like Italy or Spain should be rescued were they to actually lose their refinancing ability. Moreover, following the G20 summit at Cannes in November 2011, the markets began to put pressure even on supposedly solid MS like France and Austria (Ludlow 2012a: 7). Thus, given that the *status quo* costs were extremely high in autumn and winter 2011, we expect according to hypothesis 2 that there was a

high demand for leadership and that Germany, under the condition that it was the most powerful actor offering leadership⁹⁶, emerged as leader.

5.4.4 Independent Variables II: Germany's Resources, Preference Distribution, and Institutional Constraint

The first variable that accounts for a leader's impact are her power resources. Germany's power resources have been extensively assessed in Chapter 5.3.4. With regards to its economic resources, Germany is extremely powerful. Only the ECB has more material capacities, but often lacks the institutional resources to employ them. As regards the latter, Germany enjoys a *de jure* or *de facto* veto (depending on the institutional setting), but no formal institutional powers to shape policy or institutional change that would significantly exceed those of the other actors. Finally, Germany's ideational resources, which are partly informed by its economic advantage, exceed those of the other MS, but are smaller than those of the EU's institutional actors. In sum, Germany's power resources exceed those of the other actors, but are not overwhelming. With regard to the analytical model, this high, but relatively undistinguished, value should have the effect that Germany's impact on the outcomes is principally likely (H3), but that the other two variables' impact on the outcome is more decisive. In other words, given that Germany's power resources are not so high that strategic and institutional obstacles to policy or institutional change could easily be wiped away, we expect that the distribution of preferences among the actors and/or the institutional constraint on the leader make a substantial difference with regard to the outcome.⁹⁷

The second variable that accounts for a leader's impact on the outcomes is the distribution of preferences among the actors involved. The values of this variable can range from a strong convergence on the leader's preferred outcome to a strong convergence on an outcome different from the one preferred by the leader. The unit of interest are the actors' strategic preferences at the beginning of the case study (see Ch. 4.3). In the case of the Fiscal Compact, the dominant conflict of interest was once again that between so-called 'creditor states' and 'debtor states':

"Relative economic positions as 'Euro-winners' (Germany) and 'Euro-losers' (France, Italy, Spain) push countries to take certain positions, with Euro-winners supporting strengthened

⁹⁶ Cf. the role of the President of the European Council, Herman Van Rompuy, who turned up as a rival candidate for leadership in shaping the Fiscal Compact, but finally lost the 'struggle for leadership' against the German government (Ch. 5.4.5).

⁹⁷ For the causal mechanism connecting Germany's power resources to the outcome, see Chapter 5.4.5.

discipline, whereas Euro-losers support reforms that create mechanisms to assist them in their domestic restructuring” (Beach 2013: 116f; see also Schimmelfennig 2015: 181).

Yet, against the background of strong market pressures in autumn 2011 ‘there was a collective recognition’ that the Fiscal Compact was needed as a signal to calm the markets and stabilize the Eurozone despite the diverging interests of creditor and debtor states (Interview 15; also 1, 5, 7, 8, 10, 25, 27). Therefore, except for the UK there was no resistance against the Fiscal Compact *per se*.⁹⁸ If there were concerns, these were mainly raised against the institutional set-up or related to specific details (see below; Interviews 7, 10, 25, 27). As President Van Rompuy confirmed in a speech to the EP after the crucial December summit: “As I said, there was a broad agreement on the substance. As regards the form, everybody agreed that these new commitments should be made binding, but they there were different views as to how this could be done” (President of the European Council 2011a: 2).

This strategic preference constellation is represented by the so-called ‘battle of the sexes’. Both creditor and debtor states prefer a Fiscal Compact to no agreement at all. Their preferences differ only with regard to the concrete design of the agreement. This is precisely where the function of a leader comes in: a leader serves as a focal point on the Pareto frontier or, in less technical terms, guides a group with diverging preferences towards a common goal by deciding for one possible outcome among many. With regard to the distribution of strategic preferences, this meant that the “Fiscal Compact [as such] was supported by 26 of the 27 EU Member States – all the Eurozone States and all the non-Eurozone States except the UK” (Miller 2012: 1; also Ludlow 2012a: 23). However, their level of support differed according to their national situation and depended on questions of how to deal with their debt level, how to set up the independent national institutions for monitoring, and how to reach a majority for ratification in the national parliaments (Interview 10). Therefore, the debates and negotiations turned on the form of the agreement (EU secondary law vs. intergovernmental treaty) and technical details such as the concrete role of the ECJ and the Commission as well the legal status of the ‘debt brake’ (constitutional vs. non-constitutional law), but not on the substance of the treaty itself (Interview 7, 27). Accordingly, there were only minor changes from the first of five drafts to the final version of the treaty (Kreiling 2012; Beach 2013: 119-23). The reported concerns of some non-Eurozone countries (Denmark, the Czech Republic, Hungary, and Sweden) regarded rather their parliamentary approval than the content of the treaty (Miller 2012: 8; Ludlow 2012a: 23).

⁹⁸ “There was certainly no resistance against the principle because that is what you want to sell to the markets” (Interview 8).

France was initially the most sceptical state. The government's main concern regarded the restriction of national budgetary competences. Only after Germany offered to include the so-called 'Euro-summits' in the treaty, which met the French demand for a more discretionary and intergovernmental economic governance in the Euro area, did France give up its resistance (background talk with advisor for French government; Interviews 5, 8; Beach 2013: 117, 126). During the negotiations, France pushed for a weaker role for the Commission: the right to bring non-compliance to the ECJ, as suggested by Germany, was downgraded to a mere reporting role as regards the transposition of the agreement into national legislation (Interviews 5, 27; Kreilinger 2012: 4). Besides France, Italy was also initially very sceptical and succeeded during the negotiations restricting the scope of the reversed qualified majority voting (RQMV) to the issue of national deficits, thereby excluding national debts (Kreilinger 2012: 3). The Netherlands was one of those MS that was fine with the contents as proposed by Germany, but – like many others – would have preferred a solution within community law (Interview 11).

The only MS that from the very beginning on seemed to be unwilling to subscribe to the German initiative was the UK. The UK's reluctance was due to domestic reasons and concerned primarily the integrity of the City of London as a financial centre. Instead of announcing a veto already early in the process, however, the British government engaged in bilateral meetings with the German government and presented a list of demands for concessions, which proved unacceptable to the other MS. Given that these bilateral pre-negotiations did not bring about any operational outcome, both the German and British governments came to the conclusion well ahead of the crucial December summit that a final agreement including the UK would not be feasible. Consequently, when the British Prime Minister David Cameron presented his demands at the summit, the German Chancellor was very quick to suggest going on without the UK (Miller 2012: 4-14; Ludlow 2012a: 11-5, 21-3, 32).

As regards the supranational institutions, the Commission was in favour of the treaty contents as proposed by the German government, but clearly preferred a solution within community law (Interviews 8, 10, 12). Thus, apart from minor details, the Commission's objections were not directed against the principle of the Fiscal Compact itself, but against its institutional set-up: "The Commission as an institution is a strong believer in the Community method and less of a believer in intergovernmental conference methods. [...] We prefer to work in the Community way and not in a voluntary between-states way. That's why we have the EU" (Interview 12). The Commission found a natural ally in the EP. While the latter had no issues with the Fiscal Compact as such, it also pursued the goal to integrate it into EU law, or, should this not be possible, to shape it as similar as possible to

existing community law (= revised SGP), so that it could be integrated at a later point in time. Both institutions were invited to the negotiations although they have no formal rights to participate in the shaping of intergovernmental agreements. In the negotiations, the EP actually succeeded in introducing the so-called 'repatriation clause' into the treaty, according to which the Fiscal Compact shall be incorporated into the legal framework of the EU within 5 years after its entry into force (Interviews 16, 28, 30, 33; Héritier et al. 2015: 71f; Miller 2012: 49-53).

The ECB, finally, was Germany's strongest supporter (Interviews 6-8, 12, 14, 15, 18-20, 23-27). Not only is ECB President Mario Draghi reported to have coined the name 'Fiscal Compact' in a plenary speech at the EP earlier in 2011 (Interviews 6, 7, 19, 21), the ECB was also strongly involved in the shaping of the treaty through background discussions, workshops, studies and working papers, and even trips of their officials at a 'technical level' (head of division) to EU capitals for 'exchange of views' on the topic (Interviews 6, 8, 14, 18, 19, 21, 24, 27). The reason for the ECB's preferences is its understanding of the Fiscal Compact as a "supporting tool for the effectiveness of its monetary policy" (Interview 21). From the ECB's point of view, the Fiscal Compact was a means to cover a future programme of government bonds purchases from highly indebted Eurozone MS (the later OMT) and to make sure that the actual activation of this programme would never become necessary. Thus, the ECB found itself in a position very similar to that of Germany: if it should assume the role of a 'lender of last resort', it needed the security that this would not result in a permanent mutualisation of common debt (Interview 6).

The distribution of preferences has been conceptualized as an ordinal variable with the values (1) complete convergence on the leader's preferred outcome (= homogeneity of preference), (2) weak convergence on the leader's preferred outcome, (3) divergence in the preference space (= heterogeneity of preferences), (4) weak convergence elsewhere, and (5) complete convergence elsewhere. In the case of the Fiscal Compact, none of the actors was really against the treaty, except for the UK. To be sure, France and Italy especially were sceptical at the beginning. However, against the background of strong market pressures, there was a general agreement that such a signal was needed to calm the markets and stabilize the Eurozone. Although the Commission and EP would have preferred a solution within EU law, they had no major objections against the contents of the Fiscal Compact as such. The ECB was once again Germany's strongest supporter. Hence, as can be

seen from Figure 15, the preference distribution in the case of the Fiscal Compact represents the second possible value: a weak converge of preferences on the outcome preferred by Germany.⁹⁹

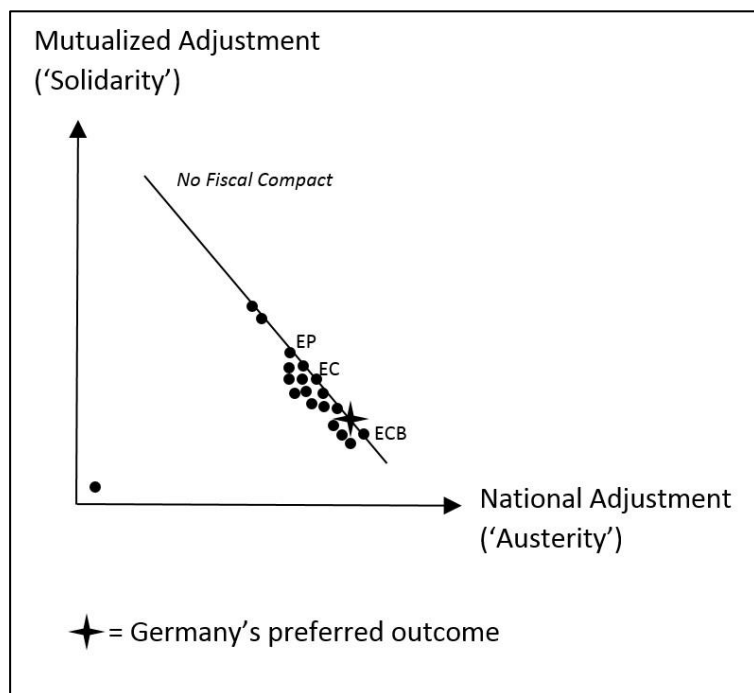


Figure 15: Preference Distribution Regarding Fiscal Compact

Source: Own Illustration

The last variable that accounts for a leader's impact is the institutional constraint on the leader. It ranges from complete discretion by the leader (= no institutional constraint) to the interdiction of making certain decisions (= maximal institutional constraint). In the case of the Fiscal Compact, which originally was supposed to be a treaty change and therefore required unanimity, the institutional constraint turned out to be too high even despite the convergence of preferences, as a veto by the UK would have sufficed to frustrate the German plans. This, however, had been anticipated by the German government, which slightly lowered the institutional constraint by switching to an intergovernmental agreement outside EU law, thereby excluding the UK. Nevertheless, in order to achieve the desired outcome of sending an effective signal to the markets, the support from almost all of the 17 Eurozone countries was necessary, which corresponds to *de facto* unanimity (Tsebelis/Hahm: 1389). Hence, the institutional constraint in the case of the Fiscal Compact corresponds to decision-making by participation under *de facto* unanimity. This is slightly lower than

⁹⁹ The figure only represents the preference distribution with regard to the distributional impact of the Fiscal Compact between mutualized adjustment ('solidarity') and national adjustment ('austerity'). It does not represent the diverging preferences with regard to the institutional set-up of the agreement (intergovernmental treaty or treaty change vs. EU secondary law). The non-labelled dots represent the single preferences of the 16 EU MS, for which information could be gathered.

in the case of the super-commissioner, which would have required *de jure* unanimity, but still represents the highest institutional constraint possible apart from the legal interdiction against making a certain decision (Ch. 4.3).

5.4.5 Results and Causal Mechanisms

Both hypotheses explaining the emergence of leadership pass the congruence test. First, an effective signal to the financial markets and domestic voters in conjunction with the further institutionalization of fiscal discipline in the Eurozone outweighed the virtually non-existing costs of leading (hypothesis 1). These costs were particularly low because except for the UK there was no noteworthy resistance from the other MS, and Germany itself had already implemented a debt brake in its constitution. Second, the *status quo* costs, which consisted in a looming collapse of the Eurozone in case Spanish and Italian bonds would have risen further, were extremely high at the time and thus created a high demand for leadership (hypothesis 2). Thus, as expected by the theoretical model, Germany emerged as a leader in shaping the Fiscal Compact because the rising sovereign bond yields created a high demand for leadership and Germany's expected benefits of leading clearly outweighed the costs of it.

Confidence in the hypotheses of this first analytical step can be increased by tracing the presumed causal mechanism. With regard to Germany's supply of leadership, we would need to find evidence that Germany proposed the Fiscal Compact as a measure to reduce the Eurozone's *status quo* costs and to contribute to the common goal of preserving the common currency and overcoming the crisis. With regard to the other MS and the institutional actors, there must be evidence that they took notice of this proposal and that at least some of them objected to it (Ch. 3.3.2). The search for such evidence constitute a so-called 'hoop test', as this is necessary but not sufficient to affirm causal interference (Collier 2011). In other words, while the finding of this evidence strengthens the confidence in the hypotheses, it does not exclude alternative explanations. If we do not find this evidence, however, the presumed causal mechanism would be disproved.

Germany's leadership offer is most explicitly expressed by two public letters sent to President Van Rompuy. Although these letters were written together with France, they primarily served to promote the German initiative of a debt brake. Already the earlier letter of August 2011 identifies the alleged causes of the crisis, namely "principally excessive public debt and a lack of competitiveness"

(Bundesregierung 2011b: 1), and proposes the codification of Euro summits and the introduction of a balanced budget rule as solutions. The claim to leadership related to this proposal and its alleged contribution to the common goal is most prominently stated in the first paragraph of the letter: “Germany and France, consider it their historic mission and stand united to protect and strengthen the economic and monetary union and thus the stability of the single currency” (Bundesregierung 2011b: 1).

One day before the decisive European Council of 8-9 December 2011, Germany and France circulated a second public letter, which later became the template for the first draft of the treaty text (Table 3 in Schoeller/Guidi/Karagiannis under review). Also this second letter starts out with general remarks emphasizing the common goal:

“To overcome the current crisis, all necessary measures to stabilize the euro are as a whole will have to be taken. We are confident that we will succeed. [...] We consider this as a matter of necessity, credibility and confidence in the future of Economic and Monetary Union” (Bundesregierung 2011a: 1).

However, in particular the German proposal of a common debt brake is presented as a measure to the advantage of all MS:

“It is undoubtedly in the interest of all members of the Stability and Growth Union to detect and correct departures from sound economic and fiscal policies long before they become a threat to the stability of the Euro area as a whole” (Bundesregierung 2011a: 2, own emphasis).

As regards the demand-side, it is not only evident that the other MS and the EU institutions took notice of the German proposal, but also that at least some of them objected to it or at least expressed doubts about its feasibility (Euractiv 2011b; Wittrock 2011). Nevertheless, “[a]ll EU member states – except for Britain – expressed their interest in joining” (Euractiv 2011b) the German initiative. As President Van Rompuy reported to the EP after the decisive December summit:

“An intergovernmental treaty [as proposed by Germany] was not my first preference, nor that of most Member States. However, it will make the Fiscal Compact binding. [...] In fact, 26 leaders indicated their interest in this effort. The recognise the euro is a common good” (President of the European Council 2011a: 3).

The fact that the Fiscal Compact was perceived as a contribution to preserving the common currency is also shown by a quotation of the Irish Finance Minister regarding a possible referendum about the treaty ratification: “It really comes down on this occasion to a very simple issue: do you want to continue in the euro or not?” (Euractiv 2011b).

Next to the causal mechanism linking leadership supply and demand, the theoretical model also predicts that in the case of a competition for leadership, the most powerful candidate emerges as a

leader. Thus, two further questions must be answered: Was there another leadership candidate besides Germany? If yes, was Germany the most powerful candidate in shaping the Fiscal Compact? In December 2011, the President Van Rompuy indeed made an attempt to assume a leading role in shaping the course of action. Within his mandate to prepare a report as basis for discussion on treaty amendments, received from the Euro Summit on 26 October 2011 (European Council 2011a), Van Rompuy presented a proposal which included the already overruled Eurobonds, a banking license for the ESM, and an alternative legal path instead of Treaty amendments (Euractiv 2011e; Ludlow 2012a: 7-9; Wittrock 2011). Yet, with regard to the second question, the power resources of the European Council President are very limited. Rather than a leader, Van Rompuy could emerge as a “political manager, [...] responsible for identifying the bases of consensus, fostering the latter and articulating it in the Conclusions” (Ludlow 2012a: 31). He lacks important powers such as the formal right of initiative, possibilities of coalition building, or material resources for side-payments. As a result, his attempt to take over leadership was not only harshly rejected by the German government, but also substituted by the Franco-German proposal which was circulated only one day after Van Rompuy’s report (Euractiv 2011c; Ludlow 2012a: 9-11; Wittrock 2011). Hence, by striking a deal with France, Germany managed to side-line the European Council President, thereby imposing itself as a leader.

With regard to the second analytical step explaining the impact of leadership, only one hypothesis (preference distribution) passes the congruence test directly. Given that Germany’s power resources alone do not suffice to explain its impact in shaping the Fiscal Compact and the high institutional constraint makes it even less likely, we need to find evidence that Germany made extensive use of its power resources to overcome the institutional constraint. Only by obtaining the approval of (almost) all followers through the translation of its resources into leadership strategies under the condition of a favourable *ex-ante* distribution of preferences, can Germany’s impact be explained according to the model.

While there are no observable implications of the causal mechanism underlying hypothesis 4 (preference distribution),¹⁰⁰ evidence for the effect of German power resources (hypothesis 3) is at the same time necessary and sufficient to affirm causal interference. Searching for such evidence thus constitutes a ‘double-decisive test’ (Collier 2011). In Chapter 3.3.3 two different causal

¹⁰⁰ The hypothesis posits that if followers’ preferences diverge from the leader’s preferred outcome, the leader needs to employ resources to make the followers accept the outcome, compensate them, or create a win-win situation, which all makes its success less likely (Ch. 3.3.3). If the preferences do not diverge from the leader’s preferred outcome, however, the leader does not need to do any of the above, which is why there are no observable implications of the causal mechanism.

mechanisms connecting resources and outcomes are suggested: (1) the translation of power resources into strategies, and (2) the 'rule of anticipated reaction'.

In shaping the Fiscal Compact, Germany used a multitude of leadership strategies¹⁰¹. Most notably, the shaping of the Fiscal Compact was an instance of arena-shifting by the German Chancellor. First, Angela Merkel shifted the issue, which in large part could have been realized through secondary legislation (Miller 2012: 3f), to the highest level of the heads of state and government. In this way, the Commission and the European Parliament could not participate in the decision-making under their formal rights of the OLP. Moreover, the signal effect of the legal provisions was considerably strengthened: "Merkel's primary objective was to send a political signal from the top, not to engage in turf war with the Commission or with any other institution" (Ludlow 2012b: 3). Second, when it turned out that the UK would veto a Treaty change, Merkel pushed for another arena-shift, namely the endorsement of an international treaty outside EU law (see below).

A second subset of strategies used by the German government is agenda-managing, understood as the placement of certain issues on the agenda, their linkage, or their exclusion from the agenda. Germany made extensive use of these strategies. Most prominently, by making the financial assistance of the ESM conditional on the ratification of the Fiscal Compact, Germany ensured the signature of peripheral countries that otherwise might have been reluctant regarding the implementation of further budgetary restrictions (Interview 10; Miller 2012: 55). This purposeful linkage of the two treaties, which represent austerity (Fiscal Compact) and solidarity (ESM) respectively, was made visible by putting both of them on the agenda of the European Council of 30 January 2012 despite the fact that the ESM negotiations had already been concluded at the time (Ludlow 2012c: 6). Another instance of issue-linkage regarded France, which initially rejected the idea of a constitutional debt brake. However, for supporting the idea of a balanced budget rule, it obtained the inclusion of 'Euro summits' in the treaty, which met its wish for a discretionary and intergovernmental economic governance in the Euro area (Beach 2013: 117, 126). Finally, at the crucial December Council, Germany also engaged in agenda-exclusion by vetoing two further proposals related to the Fiscal Compact: "one to allow the ESM and European Financial Stability Facility (EFSF) to exist together after 2012 with a joint lending power of €940 billion; and another to allow the ECB to print money to underwrite ESM and EFSF debt" (Miller 2012: 9).

¹⁰¹ See Chapter 3.3.1 for an overview of the single strategies.

A third important subset of strategies used by Germany regards coalition building. Most importantly this concerns the exclusion of the UK. The German government never really tried to include the UK's demands. When it became clear that the UK would not depart from its demands either, the Chancellor and her diplomats tried to convince the other member states of a new treaty without the UK (Beach 2013: 118f). Already one week before the decisive European Council in December 2011, Merkel clearly signalled that she would prefer an agreement among the 17 Euro area members to a treaty change by all 27 EU members if the latter meant making concessions to the UK (Crossland 2011; Hawley 2011). This became most obvious when she interrupted David Cameron who was presenting the UK's demands in the European Council negotiations, saying that she would have preferred a treaty change with all 27 states, but that she wanted a decision the same night. Van Rompuy drew the immediate conclusion that the member states could not go ahead at 27. Strictly speaking, the UK did thus not exercise a veto, but was excluded by the other MS under the lead of Germany (Ludlow 2012a: 23; 2012b: 30, footnote 21). Hence, by excluding the UK through an intergovernmental treaty outside EU law, coalition-building was combined with arena-shifting.

Another way of combining coalition-building with arena-shifting are strategic pre-negotiations. During the crisis management, Germany regularly practiced the strategy of striking a deal with one or a few crucial actors ahead of the multilateral negotiations by joining forces with France (Schild 2013). In the case of the Fiscal Compact, already the first step of problem-definition and agenda-setting was made together by publishing a joint letter to Van Rompuy, which later became the template for the Euro summit statement of October 26, 2011, in which the Eurozone leaders committed themselves for the first time to the idea of a common debt brake (European Council 2011a; Beach 2013: 117).

Before the decisive December summit, the German Chancellor adopted the same strategy again. Three days before the summit, on 5 December 2011, she met the French President in Paris (Crossland 2011). This time the aim was different, however. Firstly, it became evident at the time that the UK would not accept any kind of treaty amendment. Thus, Germany needed French support to bring about a new treaty without the UK. Secondly, the President of the European Council, Herman Van Rompuy, was working on own plans on how to achieve a final agreement in parallel (see above). Thus, Germany also needed to secure French support against Van Rompuy's charge. When the President of the European Council finally presented his proposal only two days ahead of the summit, Germany and France replied within only one day by releasing a joint letter rejecting Van Rompuy's ideas and outlining very clearly their own common position (Bundesregierung 2011a). This letter already anticipated the crucial elements, partly even word for word, of the ensuing Euro Area Statement (European Council 2011c) and the first negotiation draft of the Fiscal Compact (European

Council 2011b) (Table 3 in Schoeller/Guidi/Karagiannis under review). The proposals of Van Rompuy, instead, did not appear anymore in these two documents. Thus, the Franco-German letter replaced the Van Rompuy proposal as negotiation agenda. As regards preference attainment, all proposals of the joint letter except for the codification of Euro summits reflected the original preferences of Germany. While the details of the treaty content were negotiated throughout the month of January, the German Chancellor and French President met several times to discuss the concrete content in parallel to the negotiations. However, Merkel not only met Sarkozy in this time, but also her Italian, Austrian, Portuguese, Swedish, Belgian, and Spanish colleagues for the same purpose (Ludlow 2012b: 7f).

Finally, a fourth set of leadership strategies employed by Germany is the provision of common knowledge, understood as the definition of problems and the presentation and promotion of solutions to them. Most evidently this happened through the joint letter with France in August 2011, where the two governments define excessive public debt and a lack of competitiveness as the principal causes of the crisis and propose regular Euro summits and a common debt brake as solution to it (Bundesregierung 2011b). When it eventually came to the promotion of these ideas, Germany made use of all its diplomatic weight. German ambassadors approached the respective governments in the MS, bilateral meetings took place at all levels from the heads of units in the ministries up to the ministers themselves, all possible fora were used to promote the idea, including even the IMF and the G7 summits, and the Chancellor arranged many bi- and trilateral meetings with her colleagues: “on her agenda was always the Fiscal Compact at that time” (Interview 15; also Interview 26; Ludlow 2012a: 7-9; Rinke 2011). Thus, in the words of Rinke (2011), the German government worked like a clandestine EU Presidency for that purpose.¹⁰²

The second causal mechanism describing the translation of German power resources into outcomes is subtler. Here, the other actors simply anticipate that if they do not have special regard to the German preferences, the reaction of Germany can be harmful to them. This is what Carl Friedrich named the “rule of anticipated reaction(s)” (1963: 199-215). Although this second causal mechanism is much more difficult to observe, several interviewees stated that many MS agreed on the Fiscal Compact because they feared that Germany would otherwise abandon its support for risk-sharing measures in the Eurozone such as the rescue funds (Interviews 5, 10, 15, 25). As a closely involved EU official put it:

“If you want an ESM, a permanent firewall, a certain firepower of the ESM, it needs to go hand in hand with commitments on the fiscal side. It was always clear to everybody

¹⁰² “Längst funktioniert der deutsche Regierungsapparat wie eine heimliche EU-Präsidentschaft” (Rinke 2011).

negotiating the ESM treaty that this is subject to progress on the Fiscal Compact side. Things were always somehow linked” (Interview 10).

However, the Fiscal Compact was not just signed in the concrete context of the ESM agreement, but also in the shadow of further steps to be taken in the future because “everybody knew: if the Germans are not on board, the whole thing collapses” (Interview 15).

In sum, both analytical steps pass the empirical plausibility test. As regards the first step, a potential leader’s individual benefits and the followers’ high *status quo* costs can indeed explain the emergence of leadership. Both hypotheses pass the congruence test and are corroborated by further process-tracing evidence. Moreover, as predicted by the model, it could be shown that in case of a competition for leadership, it is indeed the most powerful actor that emerges as leader. As regards the second step, ample evidence for Germany’s extensive use of strategies corroborates the model’s explanation of a leader’s impact: given that most of the strategic preferences already converged on the outcome preferred by Germany, the German government managed to overcome the high institutional constraint (unanimity) by translating its power resources into leadership strategies (linkage to ESM; exclusion of veto player (UK) through arena-shifting). This shows that the model’s hypotheses are to be understood *ceteris paribus*. The outcomes cannot be explained by just focusing on one explanatory factor alone, but by taking into account its interplay with the other independent variables provided for by the model.

5.5 The European Commission and Eurobonds

The issue of Eurobonds is particularly interesting from a leadership perspective, but it is also enlightening with regard to Eurozone politics in general, and EU inter-institutional relations in particular. While the Commission did not emerge at all as leader in the case of Eurobonds, the EP did so, but remained unsuccessful. The *status quo* costs in the first analytical step are the same in both cases. Therefore, as far as the emergence of leadership is concerned, the difference between the EP and the Commission must be the respective leader’s surplus. But why would the EP expect a surplus of leading in the case of Eurobonds while the Commission did not? This is even more puzzling given the fact that the Commission should have at least the same interest in such an integrationist step as the EP,¹⁰³ but is in possession of considerably more material, institutional, and ideational resources

¹⁰³ The most basic interests of collective actors have been defined as survival, autonomy, and growth (Ch. 3.2.1). Eurobonds would provide all three to the Commission.

to take the lead on it. To put it bluntly, the Commission could have taken the lead (but elected not to), while the EP could not, but actually did take the lead.

While Chapter 5.5 focuses on the Commission's non-emergence as a leader, Chapter 5.6 analyses the EP's failed leadership on the issue of Eurobonds. This chapter, which deals with the Commission's role, starts out with a brief description of the Eurobonds case and introduces the relevant actors and their preferences (Ch. 5.5.1). After that, the value of the dependent variable (emergence of leadership) is determined (5.5.2), which is followed by the assessment of the independent variables in Chapter 5.5.3. Finally, Chapter 5.5.4 traces the presumed causal mechanism and summarizes the results of this first case study focusing on the Commission.

5.5.1 Case Description

The Commission's standing in economic governance is debated. While most academics agree that the Eurozone crisis has weakened the Commission's role as an agenda-setter, much of the literature also suggests that the Commission has been strengthened as guardian of the EU's rules, and for some authors it is even the "unexpected winner of the crisis" (Bauer/Becker 2014: 213; Savage/Verdun 2016: 102f for an overview). While this case study cannot answer the question concerning the Commission's general evolution and influence in EMU, it can unveil new insights regarding the Commission's role as a policy-initiator as it asks why the Commission has not emerged as a leader in the issue of Eurobonds.¹⁰⁴ After all, Eurobonds are a pro-integrationist proposal that should not only be in the interest of the Commission, but also contribute to the common good of the Eurozone as a whole (Ch. 5.5.2).

There are manifold proposals of how Eurobonds (i.e. the issuance of common Eurozone debt) could be designed. The Commission's green paper on Eurobonds (European Commission 2011) distinguishes three broad approaches: (1) the full substitution of Eurobonds for national bonds, with joint and several guarantees; (2) the partial substitution of Eurobonds for national bonds, with joint and several guarantees; and (3) the partial substitution of Eurobonds for national bonds, with several (but not joint) guarantees¹⁰⁵. Moreover, also the proposed options of how to contain the related risk

¹⁰⁴ See Chapter 5.5.2 for the Commission's leadership potential in the EU.

¹⁰⁵ Eurobonds with several (but not joint) guarantees could simply be issued alongside national debt or they could be granted seniority over national bonds and collaterals (such as cash, gold, a special tax, part of the VAT or any other income stream) (Interview 24; European Commission 2011: 9).

of moral hazard vary significantly (e.g. De Grauwe 2013: 28; Schelkle 2012: 31-3). Without going into these technical details, in this work the term Eurobonds denotes all types of common debt issuance under joint guarantees at the European level. This means that it includes also 'Eurobills' (short-term bonds) and the so-called 'Redemption Fund' (German Council of Economic Experts 2012; European Commission 2014). All kind of debt issuance without joint guarantees is excluded, however, as this would not contribute to a common goal¹⁰⁶ and face a different institutional constraint (European Commission 2011: 18f).

The idea of Eurobonds (or EU bonds) is older than the Eurozone crisis. Commission Presidents Delors and Prodi suggested the issuance of common debt in order to finance the EU budget already long way before the crisis. In November 2008, Jean-Claude Juncker, at the time Eurogroup chairman and Prime Minister of Luxembourg, proposed the idea as a measure against the EU's economic crisis in an interview with the German tabloid *Bild* (Kleine/Juncker/Steinmeier 2008). In December 2010, Juncker proposed Eurobonds again as a measure against the Eurozone sovereign-debt crisis in a *Financial Times* article co-authored with the Italian Economy and Finance Minister, Giulio Tremonti (Juncker/Tremonti 2010).

However, the first time the issue entered the agenda of EU crisis management was in January 2011, when the MEP Sylvie Goulard tabled a draft report for the negotiations of the so-called 'Sixpack' legislation, in which she demanded the introduction of Eurobonds (European Parliament 2011a: 22f). Since then the EP kept the issue on the political agenda at least until summer 2012 when the launch of the OMT suspended the crisis (Ch. 5.6.2). In November 2011, the Commission issued a green paper on the feasibility of Eurobonds (European Commission 2011) as a result of a package deal with the EP in the context of the 'Sixpack' negotiations (Ch. 5.5.2). At the same time, however, it made clear that it would not go on with a legislative proposal in the near future (Euractiv 2011a). In 2013, the Commission set up an expert group investigating on a redemption fund and eurobills, which was a condition imposed by the EP for its agreement on the so-called 'Twopack' regulations (Héritier et al. 2015: 68-70). The last time Eurobonds received public attention in the context of the crisis

¹⁰⁶ For the question as to why Eurobonds with joint guarantees would contribute to a common goal, see Chapter 5.2.2. Eurobonds *without* joint guarantees, instead, would not contribute to a common goal because in the simple version, they would not obtain an AAA rating, but at best the weighted average of the MS ratings and at worst that of the lowest-rated MS (European Commission 2011: 18). In both cases they would not contribute to a common goal. In the 'enhanced' version, Eurobonds without joint guarantees could be granted seniority over national bonds and collateral to obtain an AAA rating. However, given that this would allow only for a partial issuance alongside national bonds, it would have detrimental effects on the credit quality of the 'weaker' MS' government bonds. Thus, also in this latter case, Eurobonds without joint guarantees could at best be a short-term solution and would thus not contribute to a common goal.

management was in December 2012, when they were mentioned in the Commission's "Blueprint for a Deep and Genuine Economic and Monetary Union" (European Commission 2012a: 12f, 29-31, 49-51) and in the so-called 'Four-Presidents-Report' (President of the European Council 2012: 12).

The central actors for any decision about Eurobonds are once again the MS because the issuance of common debt under joint guarantees would require treaty change (European Commission 2011: 11; Ch. 5.6.4). However, also the Commission and the ECB play a crucial role as these are the two institutions with the necessary expertise to make concrete proposals as regards the design of Eurobonds. Moreover, both institutions could become the issuing authority of common Eurozone debt. Finally, also the EP plays an important role because Eurobonds could only be decided on with its consent.¹⁰⁷ These actors' preferences diverge significantly, however. While a group of Southern MS, together with France and the EP, were clearly in favour of Eurobonds, another group of Northern MS around Germany rejected the proposal. Although the Commission might internally be in favour of Eurobonds, its strategic preferences were neutral, if not unfavourable. The ECB, finally, favours the introduction of Eurobonds in the long run, but for the time being it is against them as they would not be backed by a real fiscal union with a proper system of conditionality (Ch. 5.6.4).

5.5.2 Dependent Variable: No Leadership by the Commission

According to this work's operationalization of leadership, a leader has emerged if there is (1) an actor in a position of power, who guides a group towards (2) a common goal by (3) making appropriate use of its power resources (Ch. 4.3). While two of these indicators, namely the position of power and the common goal, are given in the case of the Commission's role in the Eurobonds saga, the third one is missing. As the Commission has not used its resources in such a way as to guide the Eurozone towards the introduction of common bonds, it has not emerged as a leader in this case.

Already in its seminal work of 1970, David Coombes described the function of the Commission as twofold:

"Roughly speaking in some aspects the Commission is expected to act as a bureaucracy and to have the essential characteristics of an implementative, 'goal-seeking' organization, while in others it must behave as if it constituted the *political leadership of the Community, acting*

¹⁰⁷ Eurobonds could either be set up intergovernmentally through the simplified revision procedure (Art. 48.6 TFEU) or under EU law using the ordinary treaty change procedure in conjunction with the so-called 'flexibility clause' (Art. 352 TFEU). Both the simplified revision procedure and the use of the flexibility clause require the EP's consent.

as an initiating, 'goal-setting' body. We shall suggest here that the Commission has in practice attempted to meet both these broad criteria and that its organization reflects both political and bureaucratic characteristics" (234; own emphasis).

However, Coombes also pointed out that there is an inherent tension, if not incompatibility, between the Commission's political and bureaucratic function (Coombes 1970: 240). Indeed, the above-mentioned debate about the Commission's role in the Eurozone crisis management is characterized by the implicit differentiation between the two functions and the question which of the two has actually been fulfilled by the Commission (Ch. 5.5.1). Still, while it can be debated whether the Commission has exercised a leading role in crisis management (see Chang/Monar 2013), it is much less controversial that the Commission has the resources to do so (Nugent 1995). Using this work's distinction of power resources (Ch. 3.3.1), it is mainly the Commission's institutional resources – and in particular its formal right of initiative – which put it in a position of authority. In the particular issue of Eurobonds, however, the Commission's ideational resources (expertise and legitimacy) play an even bigger role since the Commission would have to act as an informal agenda-setter and provider of common knowledge. At any rate,

"leadership capacity it not the same as leadership exercised. Acting within a framework of varying constraints and rapidly changing circumstances the Commission must, if it is to operationalize its leadership capacity effectively, mobilize the resources at its disposal and take advantage of the opportunities presented within its operating contexts" (Nugent 1995: 621).

Thus, next to a position of power, the Commission needs to employ its resources in a certain way. Before it is shown that in the issue of Eurobonds this has not been the case, the question needs to be clarified whether Eurobonds would actually contribute to the common goal of preserving the common currency and overcoming the crisis.

Although Eurobonds would at least in the short run be undoubtedly to the disadvantage of single MS like Germany,¹⁰⁸ they are generally regarded as a Pareto-improving solution to the crisis because they would provide stability to the Eurozone and correct some of its inbuilt design failures (De Grauwe 2013: 28; European Commission 2011: 4-7; Schelkle 2012: 31-3). As Buti and Carnot argued in 2012: "Common debt issuance would be a natural complement to the new fiscal contract among Member States" (910). As outlined in Chapter 5.1.1, a non-optimal currency area not only needs institutions to prevent moral hazard (austerity), but also ways of organizing the inevitable mutualisation of risk (solidarity), which are two sides of the same coin. Eurobonds are such a way. In order to qualify as a common goal, however, Eurobonds would need to fulfil some requirements to prevent moral hazard

¹⁰⁸ Common debt based on joint and several liability would not only imply risk-sharing in the sense that fiscally solid countries would guarantee for the debt of 'fiscal sinners'. It would also redistribute the interest burden since those with supposedly sound budgets would lose their low interest rates in favour of those paying high interests.

and uneven risk sharing in the Eurozone. They would need to be partial and to be accompanied by adequate mechanisms providing a compensation to the fiscally more solid countries and an effective control over national budgets (De Grauwe 2013: 28). Furthermore, Eurobonds would require rules prescribing how the financial means raised at the markets will be distributed and employed in the Eurozone.

Equipped with such provisions, Eurobonds would fulfil a number of functions for the Eurozone. To begin, they would allow to overcome the current crisis and prevent future sovereign debt crises by lowering the funding costs for highly indebted MS. Second, they would reinforce financial stability in the Eurozone by providing a source of robust collateral for the Eurozone banking system. They would, moreover, facilitate the transmission of ECB monetary policy into the real economy and improve the efficiency of the Eurozone's financial markets by providing low benchmark yields based on high liquidity and credit quality. Finally, Eurobonds would enhance the role of the euro as an international reserve currency due to the larger issuance volumes and higher liquidity as compared to current national bond markets (European Commission 2011: 4-7).

In sum, Eurobonds would contribute to the common goal of preserving the single currency and would thus make the Eurozone as a whole better off. However, as with the Fiscal Compact, this does not mean that Eurobonds are the solution preferred by all actors involved. While all actors share the goal of overcoming the crisis and preserving the euro, their preferences over the ways to reach that goal diverge. This applies also to the case of Eurobonds, which is but one possible solution.

However, as regards the third indicator for leadership emergence, there is no evidence that the Commission ever used its resources to guide the other actors towards the introduction of Eurobonds. Instead of taking the lead, the Commission rather acted as a manager¹⁰⁹ defending the *status quo* (Hodson 2013: 305, 310). The Commission even tried to avoid using the word 'Eurobonds' or making public statements on the topic (Interview 29). Apart from its 'Blueprint for a Deep and Genuine Economic and Monetary Union' (European Commission 2012a), where Eurobonds are cautiously mentioned as a possible long-term measure, the Commission only issued a 'Green Paper on the feasibility of introducing Stability Bonds' (European Commission 2011). This, however, was not the Commission's own initiative, but the consequence of a deal with the EP on the adoption of the Sixpack legislation: the Commission offered to present a report on the feasibility of Eurobonds if the EP in return would give up its resistance in the triilogue negotiations (Interviews 13, 16; Euractiv

¹⁰⁹ The defining criterion distinguishing a manager from a leader is that the former aims at maintaining the *status quo* whereas the latter strives for innovation (Ch. 2.2.3 and 2.4).

2011d). Although most of the accounts converge on the fact that the Commission was principally – that is, unofficially and regardless of the situational circumstances – in favour of Eurobonds, they unanimously agree that the Commission has not pushed the issue at all (Interviews 1-3, 6, 10, 13, 16, 25).¹¹⁰

In sum, despite the fact that the Commission is in the position to provide leadership in the EU and that Eurobonds would contribute to a common goal in the Eurozone, the Commission did not employ its resources in such a way as to guide the other actors towards the realization of the common bond issuance. With regard to the value of the dependent variable, this means that the Commission did not emerge as a leader in the case of Eurobonds.

5.5.3 Independent Variables: The Commission’s Leadership Surplus and *Status Quo* Costs

The first variable that accounts for a leader’s emergence is her surplus, which results from the expected costs and benefits of leading. Table 20 summarizes the interviewees’ answers as regards the Commission’s leadership surplus in the case of Eurobonds. Those who were directly involved in the issue of Eurobonds are printed in bold. Those representing the Commission are italicised.

As can be seen at first glance from Table 20, the Commission’s expected costs of leading by far exceeded its benefits. All but one respondent (Interview 6) immediately referred to the high costs the Commission would have had to bear in case of leading. These costs derive from the low chances of success that were given to the issue by the decision-makers. The main reason for this assessment is the fierce resistance of Germany and, to a lesser extent, of other ‘creditor states’. According to a closely involved senior official of the Commission, taking the lead on Eurobonds “would end up in a big disappointment” as “you cannot embark in such an operation with just a few number of MS committed. The strength of the tool is meaningless if you [...] don’t have the main players involved in it” (Interview 2).

The two most frequently mentioned types of costs, each brought up by all three of the directly involved respondents, are the Commission’s expected loss of credibility and legitimacy.

¹¹⁰ For further evidence for the Commission’s non-leadership see Ch. 5.5.4.

Table 20: The Commission's Costs and Benefits of Leading according to Interviewees (Eurobonds)

INTERVIEW	BENEFITS	COSTS
		CREDIBILITY
2		<i>"Pursuing this controversial debate without prospects of reaching a satisfactory agreement would put even more at risk the fragile confidence that the EU was building up a response to the crisis"</i>
9	<i>None, no chance of success</i>	<i>Loss of reputation</i>
13	<i>None, no chance of success</i>	<i>Loss of prestige and accusation of bad judgement</i>
17		<i>Loss of neutrality as agenda-setter and deal-maker</i>
25		Association with 'loser topic' ¹¹¹
		LEGITIMACY
2		<i>Telling Dutch and German citizens to share reputational risk (ratings) which translates into redistribution of interest rates</i>
3		<i>Commission is not measured against the promotion of good or bad ideas, but against what it can realize</i>
9	<i>See above</i>	<i>Loss of reputation (because of eventual failure)</i>
13	<i>See above</i>	<i>Loss of prestige and accusation of bad judgement</i>
17		<i>Loss of neutrality as agenda-setter and deal-maker</i>
		'KILLING THE IDEA'
9	<i>See above</i>	<i>"There is no point to initiate if you know that [...] [the issue] will be killed right away"</i>
15		pushing more strongly for Eurobonds would have killed the whole thing; instead Commission postpones it now
		BUREAUCRATIC RESOURCES
1	If any: uncertain because not realizable in short or medium term anyways	Other priorities: first 6+2pack, then Banking Union
		BARGAINING POSITION
3		<i>Worsening of Commission's bargaining position towards Germany in more important issues (even if Germany accepted Eurobonds, they would not have agreed on ESM, which was more important at the time)</i>
		INSTITUTIONAL POWER?
6	<i>Possible increase of institutional power</i>	
9	<i>Potential benefits of Eurobonds (= increase of institutional power) are no benefits of leading because there is no chance of success</i>	

Source: Own Illustration

¹¹¹ Translated by the author from the original: "Negativthema".

First, the Commission feared that taking the lead on Eurobonds would result in a considerable loss of credibility because it would either not be able to achieve Eurobonds at all, or only by making painful concessions. On the one hand, this regarded the credibility of the Commission as a competent agenda-setter and honest broker. If the Commission had lost the battle on Eurobonds, it would have been accused of “bad judgement” (Interview 13) and it would have lost the trust of the MS in its qualities as ‘neutral’ negotiation manager (Interview 17). On the other hand, the expected defeat in a battle on Eurobonds would have damaged the credibility of the Eurozone and its crisis-management *vis-à-vis* the financial markets. As a high ranking Commission official put it: “pursuing this controversial debate without prospects of reaching a satisfactory agreement would put even more at risk the fragile confidence that the EU was building up a response to the crisis” (Interview 2). In sum, the Commission feared a loss of confidence in the Eurozone’s capability of fighting the crisis in general, and in its own capabilities as agenda-setter, honest broker, and crisis-manager in particular.

Second, the Commission was concerned with its (output) legitimacy. On the one hand, taking the lead on Eurobonds would have resulted in a loss of perceived legitimacy among the citizens in financially more solid MS such as Germany and the Netherlands because of its negative distributional consequences for these countries (Interviews 2, 9). On the other hand, the Commission feared a general loss of legitimacy as regards its function as the EU’s executive. As one interviewee put it: unlike the EP, the Commission is not measured against the promotion of good or bad ideas, but against what it manages to realize (Interview 3).

A third type of expected costs was not primarily related to the damage the Commission would suffer, but to the project itself.¹¹² The Commission feared that by pushing for Eurobonds without any realistic chance of success, the idea and any chance of a later realisation would have been eliminated once for all. Therefore, the Commission, which in principle would be in favour of Eurobonds, opted not to address the topic directly, but to postpone it to a more favourable moment in the future (Interviews 15). As a directly involved Commission official said: “There is no point to initiate if you know that there will be even no discussion, that it [= Eurobonds] will be killed right away. [...] You need to be realistic of what you are pushing for or not” (Interview 9).

Finally, two further types of costs, which were mentioned by only one interviewee each, regarded the Commission’s bureaucratic resources and its bargaining position *vis-à-vis* Germany. With regard to the former, it was expected that by taking the lead on Eurobonds, the Commission would lose

¹¹² Of course, any damage to the project of Eurobonds would indirectly also be to the disadvantage of the Commission.

important bureaucratic resources (in terms of time and staff) which could be used for other projects with a higher chance of success, such the Six- and Twopack legislation and the Banking Union (Interview 1; also Hodson 2013: 309f). Indeed, when the interviews were conducted (November 2014), the Commission's staff, who before had worked on the Green Paper on Eurobonds and in the Expert Group on the Redemption Fund, already dealt with other issues such as the planned Capital Markets Union (Interview 9). With regard to the Commission's bargaining position, one Commission official argued that even if the Commission had managed to realize Eurobonds, this would have weakened its position towards Germany in other issues that were considered more important at the time. For instance, if Germany had accepted Eurobonds, the Commission was sure it would not have agreed on the ESM as well, which, however, was considered a more pressing issue in that particular moment (Interview 3).

If the interviewees provided an answer to the question about the Commission's potential benefits of taking the lead on Eurobonds, they replied that there were no benefits because there was no chance of success (Interviews 1, 9, 13). Only one interviewee, abstracting from the unfavourable situational circumstances, saw a hypothetical increase of power for the Commission as a possible benefit of leading: if Eurobonds did not mean the pooling of already existing debt, which is perceived as completely unrealistic, but the issuance of new debt by a common agency, and if this agency were the Commission, then this would enhance the Commission's institutional power (Interview 6). Another Commission official, however, objected that although an increase of institutional power may be a benefit of Eurobonds, it would certainly not be a benefit of taking the lead on the issue, given that the latter would fail anyways (Interview 9). Thus, we can conclude that contrary to all the perceived costs of leading, there were no benefits expected by the Commission.

As outlined in Chapter 4.3., a cost-benefits analysis can be conducted if (1) there is a 'common currency' to balance cost and benefits against each other, (2) one of the two elements is insignificant or non-existent, (3) either the costs consist in the institutional death or the benefits consist in the institutional survival of the respective actor. In the case of Eurobonds, the second option applies: given that from the Commission's point of view there were no benefits of taking the lead, the costs clearly prevailed.¹¹³ According to hypothesis 1, we therefore expect no supply of leadership by the Commission and thus no emergence of leadership.

¹¹³ Even if we considered a potential increase in the Commission's institutional power through the introduction of Eurobonds as a benefit of leading, the result would be the same. In this case, we would need to use 'institutional power' as 'common currency' to weigh costs against benefits. As demonstrated above, the Commission's possible gain in power through Eurobonds would be counterbalanced by its loss of other power resources; namely, its credibility, legitimacy, bureaucratic resources, and bargaining position in more important

The second variable that accounts for a leader's emergence are the group's perceived *status quo* costs. As was pointed out in Chapter 5.1, these costs were generally high throughout the entire Eurozone crisis. Not surprisingly, the issue of Eurobonds (re)appeared¹¹⁴ at the same moment as crisis management began. At the European Council summit of 9-10 May 2010, where the temporary bailout fund ESFS was established, the Commission explicitly argued in support of Eurobonds (Interview 25). A majority of the interviewees (68.4%) singled out this point as the most critical moment in the crisis, when the perceived pressure for action (as proxy for *status quo* costs) was highest (Ch. 5.2.3). After that, however, the Commission refrained from further promoting the issue. At this point, the EP stepped in to keep the topic in the discourse. Among other instances, the EP introduced the issue to the negotiations on the so-called Sixpack (January – September 2011) and Twopack legislation (February 2012 – March 2013), and to the debate evolving around the Commission's blueprint and the Four Presidents' roadmap towards a genuine EMU (November-December 2012) (Ch. 5.6.2).

Hence, the issue of Eurobonds has been present throughout the entire period of crisis management covered by this work. Given that the *status quo* costs during the crisis were constantly high, we expect a generally high demand for leadership to solve the (re-)financing problem in the Euro area. Under the condition that there is also supply of leadership by the Commission – e.g. in the form of pushing for Eurobonds – hypothesis 2 would predict the emergence of the Commission as a leader in the issue. However, since the Commission did not offer any leadership as regards Eurobonds, this hypothesis does not apply here.

5.5.4 Results and Causal Mechanisms

The first hypothesis accounting for the emergence of political leadership predicts that if the expected benefits of leading exceed the perceived costs of it, leadership is offered and – under the condition that there is also a demand – emerges. According to the congruence method (Ch. 4.1), this hypothesis is plausible: given that the Commission's expected costs of leading clearly exceeded the

issues. Yet, while the loss in power would occur with or without the eventual introduction of Eurobonds, the gain would only materialize in the unlikely case of leadership success. Hence, from an *ex-ante* perspective, the costs would still exceed the benefits of leading.

¹¹⁴ The idea of Eurobonds dates back to a plan by Jacques Delors in 1993 and has resurfaced several times since then (Euractiv 2011a; European Commission 2011: 2). However, as regards the management of the Eurozone sovereign debt crisis, the idea was discussed for the first time during the summit of 9-10 May 2010 when the EFSF was established.

potential benefits, the Commission did *not* offer leadership and did thus not emerge as a leader in the case of Eurobonds.

Confidence in this hypothesis can be further strengthened by tracing its underlying causal mechanism. If we find evidence that the Commission clearly expressed its preferences in favour of Eurobonds, thereby presenting them as a contribution to a common goal, the hypothesis would be disconfirmed. If, in contrast, we find evidence that the Commission openly declined Eurobonds, thereby preferring the *status quo*, this would be sufficient for affirming causal inference and thus qualify as a 'smoking-gun' test (Collier 2011: 827). However, the Commission could also simply refrain from expressing its preferences if it did not want to lead. This seems to be an appropriate communication strategy if the actual preferences (pro Eurobonds) diverge from the strategic preferences (against Eurobonds for the time being). Thus, if we find evidence that the Commission avoided expressing itself in favour of Eurobonds where it could have done so, this would increase our confidence in the hypothesis as it would equal the refusal of leadership. Still, this evidence would be neither necessary nor sufficient for affirming causal interference, which is why it qualifies only as a so-called 'straw-in-the-wind' test (Collier 2011: 826).

There is one piece of information in the interview data, which at first glance seems to disconfirm the presumed causal mechanism. At the European Council summit of 9-10 May 2010, which brought about the establishment of the temporary bailout fund EFSF, the Commission behind closed doors pronounced itself in favour of Eurobonds (Interview 25). However, a closer look reveals that the Commission neither made any serious effort to convince the opponents of Eurobonds by using its resources, thereby assuming leadership, nor did it ever declare itself in favour of Eurobonds in public. This suggests that the Commission's onetime expression in favour of Eurobonds is to be considered rather a test in order to estimate the chances for success – and thus the costs and benefits of taking the lead – than an actual offer of leadership. The same can be said with regard to the Commission's 'Blueprint for a Deep and Genuine Economic and Monetary Union'. While short-term Eurobills and a Redemption Fund are at least described as possible medium-term steps, Eurobonds are mentioned in not more than two sentences as a very last step of EMU integration, but they are not described – let alone advocated – in any way (European Commission 2012a: 12f, 28-30).

In contrast, the interview material converges on the fact that although the Commission would principally be in favour of common debt, it consistently avoided pushing the issue (Interviews 1-3, 13) or taking an official stand on it (Interview 25). This becomes especially evident with regard to the Commission's way of handling the expert group on a redemption fund, which it had to set up as a

concession to the EP in exchange for adopting the so-called Two-Pack regulations (Héritier et al. 2015: 70). Although this would have been the chance for the Commission to promote the issue of common debt without formally taking the initiative on it, the working group “was kept very low-key” (Interview 10) and presented a relatively reserved and neutral position in its final report (European Commission 2014). Thus, the Commission not only refrained from pushing the issue of Eurobonds, but it even actively avoided giving it any public salience. The Commission’s attitude towards Eurobonds was most explicitly described by a MEP who was very closely involved in the issue: “He [Olli Rehn] was himself convinced but Barroso and the rest of the Commission, under the pressure of some member states, were doing everything at this time for not even tackling the issue or pronouncing the word. So [...] the battle was to make them say publically that the issue was something you can discuss” (Interview 29). This behaviour is obviously targeted at maintaining the *status quo* and thus equals a refusal to lead.

Hence, hypothesis 1 is further corroborated by tracing its causal mechanism. The fact that the Commission not only avoided pronouncing itself in favour of Eurobonds, but actively prevented the topic from gaining public attention, increases the plausibility of the hypothesis and its underlying causal mechanism.

As opposed to hypothesis 1, the second hypothesis accounting for a leader’s emergence could not be assessed on the basis of this case study. This hypothesis predicts that if the aggregate costs caused by the *status quo* are high, there is a high demand for leadership, and – given that there is a leadership offer – leadership emerges. However, although the *status quo* costs were high throughout the whole Eurozone crisis, there was no leadership offer by the Commission as regards the issue of Eurobonds. Thus, the hypothesis does not apply to this case.

In sum, although only one of the two hypotheses could be assessed, the theoretical model appears plausible since it can deliver an explanation as to why the Commission did not emerge as a leader in the case of Eurobonds. In the light of the low chances for success, the Commission had to expect more harm from taking the lead than it could have benefitted from it. Thus, this case also shows once again that leadership is not a sacrifice of particular actors, but inextricably linked with these actors’ individual benefits. From a normative point of view, the Commission as the EU’s executive should push for the common good of the entire Eurozone, even if its realization is highly unlikely or the eventual lack of success might entail more costs than benefits for the Commission as an institutional actor. This is also true if the collectively better outcome would entail individual losses for single MS like Germany. As this case shows, however, no such normative considerations, but rather a

rational cost-benefit analysis determined the Commission's behaviour when it came to the question of leadership.

5.6 The European Parliament and Eurobonds

In the case of Eurobonds, the EP emerged as a leader, but failed to guide the Eurozone to the realization of the idea. Although the EP is a relatively weak actor in terms of power resources, it could emerge as a leader because there was a leadership vacuum with regard to a solution for the refinancing problems of single Eurozone MS. The EP, in turn, expected to benefit from taking the lead by stimulating a public debate and increasing its perceived legitimacy. Unsurprisingly, however, the EP failed to change the *status quo* because of its scarce power resources, the heterogeneity of preferences, and the high institutional constraint, which consisted in treaty change. In Chapter 5.6.2 the value of the two dependent variables – emergence and impact of leadership – are assessed. The following two chapters (5.6.3 and 5.6.4) then shift the focus on the assessment of the independent variables of the two steps, respectively. Finally, Chapter 5.6.5 examines the presumed causal mechanisms and draws the conclusions of this case study.

5.6.1 Case Description

The case of Eurobonds, here broadly understood as topic dealing with the issuance of common debt, has been presented in Chapter 5.5.1. While the preceding chapter focuses on the Commission's attitude towards Eurobonds, this chapter analyses the very different role of the EP. In doing so, the EP is treated as a unitary institutional actor which in its strategic interaction with the other institutions and MS is able to adopt a homogenous position despite internal divides and disagreements.¹¹⁵

The issue of Eurobonds highlights the EP's capability to influence the public debate and thereby to set the political agenda. In doing so, the EP not only ensures the input legitimacy of EU economic governance, but it also attempts to enhance its output legitimacy. In the concrete case of Eurobonds,

¹¹⁵ For empirical evidence that the EP acted as a unitary actor in promoting Eurobonds, see Chapter 5.6.2. In general, O'Keefe, Salines, and Wieczorek have demonstrated with regard to EU economic and financial reform that "the degree of *internal* cohesion had a very limited impact on the EP's *external* bargaining strategy in the trilogues" (2016: 217).

the EP thus goes beyond its competences as co-legislator in the field of multilateral surveillance. It even goes beyond a parliament's traditional role of holding the executive accountable. Instead, it enters the stage of problem-definition and agenda-setting, where it holds few competences.

5.6.2 Dependent Variables: The Parliament's Leadership Failure

The dependent variable of the first analytical step is the emergence of leadership, which is given if there is (1) a common goal and (2) an actor in a position of power that (3) uses its resources to guide a group towards the achievement of that common goal.

The value-added of Eurobonds for the common goal of overcoming the crisis and preserving the single currency was explicated in Chapter 5.5.2. The EP's position of authority, instead, is mainly based on its legitimacy as the EU's only directly elected institution (Ch. 5.6.4). Thus, while its economic resources are almost insignificant as compared to the other actors, and its institutional power does not reach that of the Commission or the MS, the EP's power builds on its ideational resources.¹¹⁶ Although the EP is therefore a relatively weak actor and not an ideal leadership candidate in EMU, it can fill a leadership vacuum by employing its ideational resources through the instrumental use of the public discourse, and by extending its restricted institutional resources through the skilful employment of informal bargaining strategies (Héritier et al. 2015: 75-8).

Thus, as regards the third indicator for the emergence of leadership, the EP employed its resources by promoting Eurobonds through the stimulation of a public debate and the use of bargaining strategies *vis-à-vis* the Commission and the MS. Under the lead of Sixpack rapporteur Sylvie Goulard, the EP (re-)introduced the idea through the trilogue negotiations at the beginning of 2011. While the draft report demanded the actual establishment of Eurobonds (European Parliament 2011a: 13, 22f), the final report by the EP asked the Commission "to present a report, [...] accompanied, where appropriate, by legislative proposals and, if necessary, a Treaty change to set up a system of common issuance of European sovereign bonds (eurosecurities) under joint and several liability" (European Parliament 2011c: Art. 8a.5) before the end of the year. Since then, the EP kept on promoting Eurobonds and pushing the issue in negotiations.

¹¹⁶ See Chapter 5.6.4 for a detailed analysis of the EP's power resources.

In a non-binding resolution of 6 July 2011 on the financial, economic and social crisis, the EP proposes Eurobonds as a possible measure to overcome the crisis and “calls on the Commission to carry out an investigation into a future system of Eurobonds” (European Parliament 2011b: 4). By linking this demand to the approval of the Sixpack legislation, where the EP had a veto right under the OLP, the EP indeed obtained the Commission’s promise to present a report on Eurobonds (Euractiv 2011d). Following up the Commission’s green paper on Eurobonds, which was issued on 23 November 2011, the EP launched an own-initiative procedure on the feasibility of introducing stability bonds, which even contained a roadmap leading from the immediate establishment of a redemption fund, via the issuance of Eurobills and partial Eurobonds, through to the introduction of genuine European debt (European Parliament 2012c; 2013).

Moreover, the EP promoted Eurobonds in several resolutions. For instance, in its resolution on the informal European Council of 30 January 2012, the EP called “for the establishment of project bonds [and] a roadmap for stability bonds” (European Parliament 2012a: 2). Furthermore, in the ‘topical subject’ resolution of 15 February 2012 on the feasibility of introducing stability bonds, the EP stated that “stability bonds could be an additional means of incentivising compliance with the stability and growth pact” and that “further work needs to be undertaken as regards the options presented in the Green Paper” (European Parliament 2012b: 2). Additionally, in its legislative initiative resolution ‘Towards a genuine Economic and Monetary Union’, the EP considered Eurobonds as “a possible way to supplement EMU” in the longer run (European Parliament 2012e). Moreover, EP President Martin Schulz promoted Eurobonds in the exchange of views with the heads of state and government which takes place at the beginning of European Council meetings (Ludlow 2012b: 22). Finally, when negotiating the so-called Twopack regulations, the EP delayed a final agreement until it obtained the establishment of a Commission expert group investigating on Eurobills and a Redemption Fund (Héritier et al. 2015: 68-70; Interview 33).

Because of these actions, the EP is generally perceived as a promoter of Eurobonds, although there are a considerable number of MEPs who have been against the issuance of common debt (Interviews 2, 31). The proponents of Eurobonds within the EP can be divided into federalists, who consider Eurobonds a further unavoidable step towards a genuine EMU and an instrument to lower average interests for sovereign bonds in the long term, and socialists, who primarily regard Eurobonds as a tool to lower interest rates in the Southern member states in the short term. In line with this, only the former propose Eurobonds in conjunction with a strong conditionality (Interview 32). Nevertheless, during the 7th legislative term 2009-14, the two political camps were able to build an influential block in favour of Eurobonds. The short-term strategic target of this block, and especially

of the federalists, was not the immediate introduction of Eurobonds, but the evocation of a public debate on common debt (Interviews 29, 32, 33). This was clearly against the preferences of the Commission and the Council, which both tried to avoid any public engagement with the topic (Ch. 5.5; Interview 29).

The battle about how to reach this goal started within the EP during the Sixpack negotiations. In order to obtain a majority for this legislation, the European People's Party (EPP) needed the Alliance of Liberals and Democrats for Europe (ALDE), which gave its vote only in exchange for the inclusion of Eurobonds into the legislative package. Although the original amendments of the draft report, which would have provided for the actual introduction of Eurobonds (European Parliament 2011a: Amendment 37), were deleted during the trilogue negotiations, a small but operative review clause, which commits the Commission to "present a report [...] on the possibility of introducing euro-securities" (European Parliament/Council 2011: Art. 13.4) remained. From the EP's point of view, this – and the fact that the Commissioner for Economic and Monetary Affairs Olli Rehn had to declare in front of the plenary to present not only a report but, if appropriate, even a legislative proposal – is considered a first victory in the battle for Eurobonds (Interview 29).

Given that there is a strong faction in the EP against Eurobonds, some practitioners and observers avoid talking of the EP as a promotor of Eurobonds. However, first, the EP has been perceived as a promoter of Eurobonds by the Commission and the MS (Interview 1, 2, 33). Second, in its draft reports, final reports, and resolutions, the EP *de facto* not only asks for feasibility studies, but also for a roadmap towards the common issuance of public debt or the actual establishment of Eurobonds (e.g. European Parliament 2012d; 2012e; 2011a). Third, even if one opens the 'black box' and looks into the EP's internal divisions of the 7th legislative term, one finds a broad cross-factional and cross-ideological basis in support of Eurobonds, which includes even the majority of the naturally more sceptical EPP. A survey, which was conducted with 100 MEPs¹¹⁷ between 16 October and 11 December 2012, shows that approximately 58% of the MEPs supported Eurobonds. This majority included 54% of EPP members (34% against), 80% of S&D members,¹¹⁸ and 87% of ALDE members (ComRes 2013). Fourth, as O'Keefe et al. have shown, the EP's internal divisions in the field of EU economic governance during the crisis have no significant influence on its external behaviour as a unitary actor in the negotiations with the Commission and the Council (O'Keefe/Salines/Wieczorek 2016). In sum, although the preferences of the EP as an institutional actor never coincide with those

¹¹⁷ The data are weighted by party group and region to be representative of the entire EP (ComRes 2013: 8).

¹¹⁸ S&D = Progressive Alliance of Socialists and Democrats.

of all its members, it had been perceived and has acted as a unitary actor when it comes to the promotion of Eurobonds *vis-à-vis* the MS and the other European institutions.

In sum, based on its legitimacy as the EU's only directly elected institution and its co-decision rights in multilateral fiscal surveillance, the EP emerged as an actor in a position of authority and employed its resources in such a way as to guide the Eurozone members towards a common goal, namely the preservation of the common currency through the issuance of common debt. Thus, the EP emerged as a leader in the case of Eurobonds.

As regards the second analytical step, the EP's leadership turned out to be unsuccessful, however. This does not mean that the EP had no achievements to celebrate. Not only did it make the reluctant Commission publish a Green Paper on Eurobonds (European Commission 2011), but it also managed to get a declaration on Eurobonds by the Economic and Monetary Commissioner Olli Rehn in front of the plenary (including the promise to table legislative proposal if appropriate), which was important as regards the creation of a public debate (Euractiv 2011d). Given that the Commission had to that point successfully avoided any public engagement with the topic, the proponents of Eurobonds in the EP considered this as a real victory (Interview 29). Nevertheless, Eurobonds have not materialized and no other policy or institutional change implying the issuance of common debt has been achieved by the EP. Moreover, Eurobonds have never made it to the agenda of any formal meeting of the Eurogroup, the ECOFIN Council, or any of its preparatory bodies (Interview 8). From the other institutions' point of view, the furthest that could have been achieved were the provisions in the Six- and Twopack legislation that obliged the Commission to come up with a green paper and to set up an expert group on a Redemption Fund and Eurobills (Interviews 8, 33). Hence, the value of the second step's dependent variable is the absence of policy or institutional change – and thus leadership failure.

5.6.3 Independent Variables I: The Parliament's Leadership Surplus and *Status Quo* Costs

The first hypothesis accounting for the emergence of leadership concerns the expected costs and benefits of the potential leader (leader's surplus). Like the Commission, the EP must have been aware of the resistance by some MS and could thus not hope for successful leadership in the sense of an actual introduction of Eurobonds. Therefore, if the hypothesis is correct, there must have been

benefits of leading for the EP which are not linked to the successful introduction of Eurobonds. Table 21 summarizes the interviewees' answers as regards the EP's leadership surplus in the case of Eurobonds. Those who were directly involved in the issue of Eurobonds are printed in bold. Those representing the EP are italicised.

Table 21: The Parliament's Costs and Benefits of Leading according to Interviewees (Eurobonds)

INTERVIEW	BENEFITS	COSTS
	PUBLIC DEBATE	
16	<i>Federalists (ALDE) realize their political programme by keeping the idea of a more federal Union in the public debate</i>	
29	<i>Creating public debate on a more federal Europe</i>	
32	<i>Creating public debate</i>	
	LEGITIMACY	
3	Being perceived as the EU's (Eurozone's) promoter of the common good	Insignificant because EP is assessed according to whether the idea is good, not whether it is realizable
15	'selling a nice idea to the public'	None because EP is not held responsible for realization
17		None because EP can push issue "without having the consequences in mind"
	INSTITUTIONAL POWER?	
25	More institutional power since EP might obtain quasi-budgetary competences	

Source: Own Illustration

At a first glance, it is striking that all three respondents affiliated to the EP mentioned exclusively the creation of a public debate about Eurobonds – and thus about a more federal EU – as benefits of leading for the EP, whereas this has not been mentioned by any of the other four (non-EP) respondents. The reason for this remarkable distribution of answers might be seen in the fact that the creation of a public debate is a principally desirable goal in a liberal democracy and part of a parliament's functions. Increasing one's own legitimacy or institutional power, by contrast, may be perceived as opportunistic.

Strictly speaking, the creation of a public debate on Eurobonds and a more federal Union is not a benefit for the EP as such, but rather for those MEPs driving the case for Eurobonds (namely the federalist members of ALDE) who thereby keep their own political agenda in the public sphere (Interview 16). However, given that in the case of Eurobonds the EP represented the goals of ALDE, which had been able to build a majority on the topic, this distinction does not make any difference as

regards the explanation of the EP's external behaviour. At any rate, what matters is that by taking the lead on Eurobonds, the EP could reach the goal of causing the desired public debate even if there was no chance to actually realize the issuance of common debt (Interviews 16, 29, 32). Therefore, this is indeed a benefit of leading for the EP.

Moreover, by advocating Eurobonds as a solution to the Eurozone crisis, the EP could present itself as promoter of the EU's and Eurozone's common good and thereby increase its perceived legitimacy without being held responsible for the implementation of the idea. Especially for the EP, as the EU's only directly elected institution, legitimacy is a crucial power resource on which it has regularly based its demands for an expansion of its legislative powers (Rittberger 2014: 1175f). However, whereas the Commission refrained from taking the lead because of its low chances for success, the EP could benefit precisely because the actual introduction of Eurobonds was unrealistic. Were Eurobonds to become a realistic option, the EP might not even be able anymore to mobilize a majority in favour of them given the negative distributional consequences for the financially more solid MS. However, as long as Eurobonds are only an idea which in theory contributes to the common good of overcoming the crisis, but in practice is not implementable, the EP can only profit by "selling a nice idea to the public" (Interview 15) without being responsible for its realization. This strategy is similar to what has been called 'blame-shifting' in the literature. The EP not only presents itself as the Eurozone's actual promoter of the common good, it can even accuse the MS of being those exacerbating the crisis due to their national egoisms. In this way the blame for the crisis (or its poor management) is shifted from the European level and its institutions to the national level.

Finally, one interviewee mentioned the EP's potential gains in institutional power as a further benefit of leading. In the case of an introduction of Eurobonds, the EP would be likely to become the institution controlling the issuance and appropriation of the common debt and thus gain new scrutiny powers (Interview 25). However, like the Commission, also the EP could never realistically expect to successfully introduce Eurobonds. Therefore, this cannot be considered a benefit of leading expected by the EP.

With regard to the costs of leading, the interviewees agreed that there were no significant costs to be feared by the EP. As one interviewee emphasized: being the EU's legislative body, the EP is assessed according to whether its initiatives can contribute to the common good, but not whether it manages to realize them (which is primarily the task of the executive) (Interview 3). In other words, the Commission can push for an issue "without having the consequences in mind" (Interview 17). This is especially true as long as the issue is not on the negotiation table. If this were the case, the EP

would also need to invest its resources into costlier negotiation strategies such as agenda-managing, coalition-building, or unilateral action (Ch. 3.3.1).

Hence, given that there were no significant costs of leading for the EP, the mentioned benefits necessarily prevail. Thus, the EP's leadership surplus consisted in the creation of a public debate on a more federal EU and in an increase of its perceived legitimacy. According to hypothesis 1, we therefore expect that the EP offered leadership in the case of Eurobonds and, under the conditions that there was also a demand for it and no other leadership candidate more powerful than the EP, emerged as a leader on the issue.

Hypothesis 2 posits that if the aggregate *status quo* costs are high, there will be a high demand for leadership. As elaborated in Chapters 5.1 and 5.5.3, the *status quo* costs were constantly high throughout the crisis and the issue of Eurobonds was permanently present in the discourse on how to preserve the common currency. Thus, according to hypothesis 2, we expect that there was a high demand for leadership supposed to solve the (re-)financing problem in the Eurozone. Under the conditions that the EP offered such leadership in the form of Eurobonds and that there was no other leadership candidate promoting the issuance of common debt, we further expect that the EP emerged as a leader.

5.6.4 Independent Variables II: The Parliament's Resources, Preference Distribution, and Institutional Constraint

Once an actor has emerged as a leader, it uses its power resources in order to bring about the desired institutional or policy change. Thus the first hypothesis accounting for a leader's impact posits: If a leader possesses many power resources (in relation to the resources of the followers), she will *ceteris paribus* have a strong impact on the outcomes. Power resources are disaggregated into material, institutional, and ideational resources (Ch. 3.3.1; 4.3).

In the case of non-state actors, material power resources are measured by those budgetary capacities which they can deploy to influence the EU economic and fiscal governance. The EP has almost no material power resources because it has neither budgetary capacities to influence the Eurozone's crisis management, nor does it have any control over the funds provided by the MS. The EP's score on this indicator is thus considerably lower than that of the other institutional actors. As

outlined in Chapter 5.3.4, the Commission can raise 60bn euro through the EFSM in order to lend assistance to Eurozone MS in financial difficulties (European Commission 2015). The ECB's material capacity, by contrast, is theoretically even unlimited given that it is the Eurozone's issuing authority.¹¹⁹

The assessment of the EP's institutional resources is more complex, however.¹²⁰ Since the entry into force of the Lisbon Treaty in December 2009, the EP's competences in the field of economic governance have primarily been based on Article 121.6 TFEU. It grants the EP co-decision rights for multilateral surveillance "to ensure closer coordination of economic policies and sustained convergence of the economic performances of the Member States" (Art. 121.3 TFEU). Based on Art. 136, the same applies to provisions relating specifically to members of the Eurozone (Fasone 2014: 171).¹²¹ Further legislative powers regard the EP's involvement in the simplified treaty revision procedure, for which it has to give its initial consent (Art. 48.6 TFEU), and the possibility to conclude inter-institutional agreements in areas where no competences are provided for by the Treaties. Finally, the President of the EP can represent its institution in the beginning of European Council meetings and Euro Summits. However, it is unlikely that the President can exert any substantial influence in these meetings going beyond a recital in the Conclusions or a favourable press release (Interview 34).

On the one hand, the EP has been able to informally extend these institutional powers – and especially its co-decision rights in multilateral surveillance – to legislation for which it formally did not have any competences, such as Regulation 1177/2011 in the Sixpack legislation or the shaping of the intergovernmental Fiscal Compact. On the other hand, the EP still remains excluded from all areas which concern the actual use of MS budgetary means. This regards most prominently the permanent rescue fund ESM.

As regards formal agenda-setting, the EP can adopt legislative initiative resolutions, by which it can ask the Commission to submit a legislative proposal within a set period of time. However, the Commission can refuse to submit the requested proposal. In general, own-initiative reports by the EP are a very weak tool to directly influence legislation. One interviewee observed that in the Council they are not even read due to their non-binding nature (Interview 34).

¹¹⁹ For the limitation of the ECB's material capacity through its mandate, see Ch. 5.7.4.

¹²⁰ The following elaboration on the EP's institutional resources is largely based on Héritier et al. 2015: 63, 76-8.

¹²¹ As regards monetary policy, Art. 284.3 makes the European Central Bank (ECB) accountable to the EP. First, the ECB must present an annual report on its activities and monetary policy to the EP. Second, the President of the ECB and the other members of the Executive Board may be heard by the competent committees of the EP.

Finally, the EP has obtained some scrutiny powers to hold Council, Eurogroup, and the other supranational institutions accountable. This regards mainly the so-called Economic Dialogues whereby the competent committee can invite the Presidents of the Council, Commission, and, where appropriate, the Presidents of the European Council or the Eurogroup as well as the national Finance Ministers to discuss relevant aspects of the EU's economic governance and the European Semester. However, also the Economic Dialogue is a relatively weak tool, given that it does not allow for any binding commitments or enforcement powers on the side of the EP. Moreover, participation to the Dialogue takes place on a voluntary basis. This institutional weakness has been notably demonstrated by the former President of the European Council, Herman Van Rompuy, who has never appeared in front of the committee (Interview 28).

In sum, as far as institutional power resources are concerned, the EP is also a very weak actor as compared to the Commission and the MS. First of all, its co-decision rights apply only to the area of multilateral surveillance. All other aspects of the EU's and Eurozone's economic governance are purely intergovernmental and governed through the Eurogroup, the ECOFIN Council, and the European Council. This is reflected by the fact that in none of the cases treated by this work, did the EP have any formal rights of agenda-management, decision-making, or implementation. In the small but important field of multilateral surveillance, where the EP is formally on equal footing with the Council, it can hardly shape the legislation according to its actual preferences, but needs to restrict itself to relatively marginal amendments to the Commission proposal. As an MEP put it in the interviews:

“We receive a proposal drafted by the Commission [...], but very often the public [...] does not realize that we do not have a total liberty of redrafting a text. So we work on this basis. Of course, in theory we can redraft completely, but the Council is also working on the same basis and it will not be always very clever to reorganize everything” (Interview 29).

Thus, as in the case of the MS in the Council, the EP's co-decision power is rather a negative decision-making right ('non-decision-making'), as it can withhold its final approval of a proposed legislative act, than the prerogative of actively shaping legislation. This permits the EP to avoid unpleasant decisions, but as regards policy or institutional innovation, it often enables little more than agreements on the lowest common denominator. Second, the mentioned agenda-setting and scrutiny powers are both very weak due to their non-binding nature: neither can the EP force the Commission or the MS to initiate legislation, nor does it have any enforcement powers – let alone sanctions – if it comes to the monitoring of the implementation. Finally, as opposed to the Commission and the MS, the EP naturally does not have any executive competences.

Ideational resources, finally, comprise information (including expertise), credibility, and legitimacy. Information and expertise are measured by taking the institution's or state's administrative staff who work primarily and specifically in the area of European economic (and fiscal) governance as proxy. As elaborated in detail in Chapter 5.3.4, while in July 2015, the ECB employed 523 staff, the Commission's DG ECFIN 391, and the German government still 117, the EP has only about 40 staff members whose core task are matters of EU economic governance. Thus, although the EP has increased its administrative staff in the area of economic governance since the beginning of the crisis – not least by setting up a specialised Economic Governance Support Unit (Interview 28) – it has still less informational resources than the ECB, the Commission, or the single MS. As emphasized by some interviewees, being a legislative body, the EP cannot compete with the EU or MS executives in this regard (Interview 16).

The EP's credibility, in contrast, is higher than that of the MS. Being a supranational institution, the EP is naturally a more credible candidate for the promotion of the EU's common good than single nation states. However, the EP still consists of elected MEPs who arguably want to be re-elected, pursue individual agendas, and are presumably more exposed to national (party) politics than the Commission (let alone the politically independent ECB). Hence, while the EP's credibility is higher than that of the MS, it lags behind the other supranational institutions.

Thus, the biggest power resource of the EP is its legitimacy:

“To compensate for the lack of institutional bargaining resources, the EP takes recourse to non-material bargaining resources by exerting normative pressure, which is most effective, when opponents of more supranational parliamentarism cannot credibly deny the claim that integration undermines the EU's standard of legitimacy” (Rittberger 2014).

Being the EU's only directly elected supranational institution, the EP seems best placed to promote the common interest of its citizens (Alcidi/Giovannini/Piedrafita 2014: 42f). The channel it uses to deploy this power resource is the public debate which it can stimulate through press releases and conferences, interviews and public appearances of MEPs (and most effectively of its President), debates in the plenary, non-binding resolutions and own-initiative reports, as well as through the publication of studies and briefings. In this way, the EP can attempt to exert peer pressure on Commission and MS and thus influence their political agenda (Interviews 16, 26).

Nevertheless, as opposed to the other actors in EU economic governance, the EP possesses very few power resources. Its material resources are equal to zero, its institutional resources are less than those of MS and the Commission, it has less information and expertise than all the others, and although it is more credible than the MS, it does not reach the credibility of the Commission or even

the ECB. As one of the EP's experts for economic governance, who among others assists the EP in its relations with MS and other institutions, put it when asked for the EP's power in EU economic governance: "The Eurogroup is the most important body for economic policy, and then Commission is second by doing proposals, and then ECB is important – Parliament is beyond this [...] we are not an executive body, so we cannot compare ourselves in that sense" (Interview 16).

Hence, according to the underlying hypothesis, we would expect no or only a very weak influence on the outcomes, as long as the preference distribution and the institutional constraint are not extraordinarily favourable from the EP's point of view.

The second hypothesis that accounts for a leader's impact on the outcomes is the distribution of preferences – the more these preferences converge on the outcome preferred by the leader, the stronger is *ceteris paribus* her impact on the outcomes. Broadly speaking, the distribution of preferences among the MS reflected once again the cleavage between the typically Northern 'creditor states' and the typically Southern 'debtor-states' (Schimmelfennig 2015: 182f). The firmest opponent of Eurobonds has been Germany. Although Germany has not ruled out Eurobonds once for all, but rather considered them the very last step of a fiscal union which would include strong conditionality for debtor states, more supranational control, and effective enforcement of fiscal discipline (Interviews 2, 25; Kade et al. 2011), it presented itself in public as well as in the committees and preparatory bodies as "most violently against it" (Interview 10). Thus, chancellor Merkel's statement of June 2012 that "there won't be Eurobonds as long as I live"¹²² (Spiegel 2012a; also Euractiv 2012e) has become emblematic for Germany's stand in the issue. Germany has been supported by the Netherlands, Finland, Austria, and Estonia (Interviews 1, 10, 11; Schimmelfennig 2015: 182; Spiegel/Schulz 2012).

On the other side, a group of Southern MS, Luxembourg, and France openly advocated Eurobonds. Although France most of the time abstained from strongly pushing the issue due to strategic compromises it had struck with Germany, especially as long as Sarkozy was President (Schild 2013), it never concealed that it was clearly in favour of Eurobonds (Interview 5). Luxembourg's position is exceptional in the sense that despite its low interest rates, it took a pro-integrationist stance in favour of Eurobonds (Interview 1). This might be mainly attributed to the political agenda of its then Prime Minister and Finance Minister Jean-Claude Juncker, who, together with the then Italian Minister of Economy and Finance Tremonti, wrote a much-noticed article in the *Financial Times* to

¹²² Translated by the author from the original: "Keine Euro-Bonds, solange ich lebe".

promote Eurobonds as a solution to the Eurozone crisis (Juncker/Tremonti 2010; Interview 29). Further identifiable proponents of Eurobonds were Italy, Spain, Belgium, Greece, Cyprus, and Portugal (Interviews 1, 2, 3, 10; Euractiv 2012e; Schimmelfennig 2015: 183).

With regard to the supranational institutions, it has been shown in Chapter 5.5 that the Commission avoided to take a clear stance as regards Eurobonds. Although we can assume that the Commission would principally be in favour of Eurobonds, its strategic preferences have been neutral (if not adverse). The ECB's position is even more differentiated. On the one hand, the issuance of common debt would considerably facilitate the ECB's monetary policy, since, as one ECB official explained, intervention in one single market would be easier than intervention in 19 national markets (Interview 19). Moreover, Eurobonds would make the controversial mutualisation of debt at the ECB (e.g. through its OMT programme) less necessary (Interview 22). Finally, Eurobonds would stabilize the Eurozone as a whole and thus be in the ECB's natural self-interest. On the other hand, the ECB is "relatively sceptical [...] if not against" (Interview 18) Eurobonds because of their negative implications on the MS's incentives to pursue solid fiscal policies. In other words, the ECB regards Eurobonds as provoking moral hazard in the Euro area. Thus, similar to the German position, it would support Eurobonds only on the condition of a further pooling of fiscal responsibility (Interviews 19-21, 23). Given that this degree of fiscal union is considered unrealistic by the ECB for the time being, it prefers no Eurobonds to the issuance of common debt without a proper system of conditionality behind them. The ECB's strategic preferences over Eurobonds are reflected by Mario Draghi's answer to MEPs, who interviewed him as candidate for the office of the ECB President: "[Eurobonds] would introduce an implicit subsidy from fiscally sound to fiscally less sound member states [...] This might unduly reward unsound policies and impair incentives for fiscal prudence in the future. At the same time, fiscally sound member states would see part of the benefits of their prudence transferred to other states" (Euractiv 2011d).

The distribution of preferences has been conceptualized as an ordinal variable with the values (1) complete convergence on the leader's preferred outcome (= homogeneity of preference), (2) weak convergence on the leader's preferred outcome, (3) divergence in the preference space (= heterogeneity of preferences), (4) weak convergence elsewhere, and (5) complete convergence elsewhere. As can be seen from Figure 16,¹²³ the distribution of strategic preferences in the case of Eurobonds represents the third possible value: heterogeneity of preferences, which is the median

¹²³ The figure only represents the preference distribution with regard to the proposal of Eurobonds, not necessarily the actors' general preferences as regards the allocation of adjustment costs in the Eurozone crisis. The non-labelled dots represent the single preferences of the 13 MS, on which information could be gathered.

value of the variable. With regard to the analytical model, this relatively undistinguished value should have the effect that the other two variables' impact on the outcome is more decisive. In other words, given that the distribution of preferences is neither extraordinarily favourable nor completely detrimental to the EP's success of leading, we expect that the EP's power resources and/or the institutional constraint make the substantial difference with regard to the outcome.

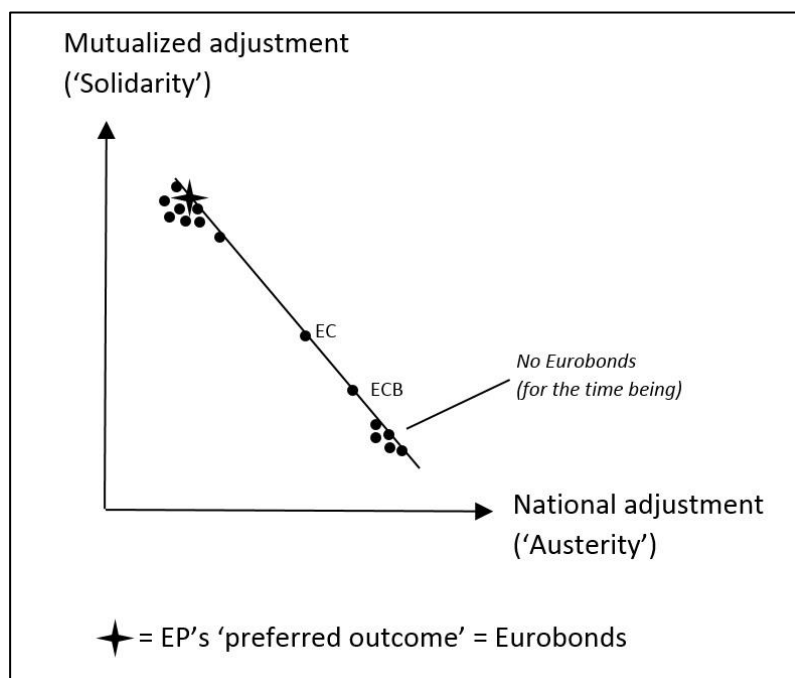


Figure 16: Preference Distribution Regarding Eurobonds¹²⁴

Source: Own Illustration

The last variable accounting for a leader's impact on the outcomes is institutional constraint, which ranges from complete discretion by the leader via decision-making by consent or by participation, each by majority or unanimity, through to the interdiction of making certain decisions (Ch. 4.3, Table 12). The higher the institutional constraint on the leader, the weaker is *ceteris paribus* her influence on the outcomes. The institutional constraint for the introduction of Eurobonds depends on the concrete type of common debt issuance. However, given that in this work only common debt issuance under joint and several guarantees is considered (Ch. 5.5.1), a Treaty change would be the only way to avoid a breach of the so-called 'no-bailout clause' (Article 125 TFEU). As elaborated in the Commission's Green Paper on Eurobonds:

¹²⁴ 'Preferred outcome' is put in quotation marks because, as elaborated in Chapter 5.6.3, the EP's goal was not primarily the actual introduction of Eurobonds, but the stimulation of a public debate and the increase of its legitimacy. However, given that the EP still promoted the introduction of Eurobonds, this is represented as its preferred outcome.

“Issuance of Stability Bonds under joint and several guarantees would a priori lead to a situation where the prohibition on bailing out would be breached. In such a situation, a Member State would indeed be held liable irrespective of its 'regular' contributing key, should another Member State be unable to honour its financial commitments” (European Commission 2011: 11)

The concrete legal procedure for the necessary Treaty amendment would depend on whether a purely intergovernmental framework like the ESM would be established, or if the issuance of common debt would be placed under EU law. While in the former case the simplified revision procedure could be used (Art. 48.6 TFEU), an establishment under EU law would require the ordinary procedure together with the use of the so-called ‘flexibility clause’ (Art. 352 TFEU) (European Commission 2011: 11). In both cases, not only unanimity among the MS, but also the EP’s consent would be necessary. However, given that in this case the EP itself would be the leader, this latter formal requirement would not have any consequences for the institutional constraint faced by the EP, of course.

According to the operationalization of ‘institutional constraint’, EU treaty amendments qualify as decision-making by participation under unanimity. This is the highest institutional constraint apart from the complete interdiction of making the respective decision. Thus, based on hypothesis 5, we expect that due to the high institutional constraint, the EP has only a weak (or even no) influence on the outcomes.

5.6.5 Results and Causal Mechanisms

The first analytical step of this work’s theoretical framework provides a plausible explanation as to why the EP emerged as a leader in the case of Eurobonds. For both hypotheses, the values of the independent variables are congruent with the outcome. As regards the first hypothesis, the EP benefits of leading – namely the stimulation of a public debate and the increase of its legitimacy – outweighed the (virtually not existent) costs. Thus, we expect that the EP offered leadership, and, provided that there was also a demand, emerged as a leader. With regard to the second hypothesis, there were high *status quo* costs throughout the crisis which resulted in a high demand for leadership supposed to solve the ‘debtor’ states’ (re-)financing problems and thus the related economic and political consequences of the entire Eurozone. In sum, given that there was both a demand for and a supply of leadership, the hypotheses predict the actual outcome; namely, the emergence of leadership.

Confidence in the two hypotheses can be further strengthened by tracing their underlying causal mechanisms. In the case of the first hypothesis, we should thus find expressions by the EP which emphasize its preferences regarding a change of the *status quo* targeted at removing the aggregate costs of the entire group. In other words, there should be evidence that the EP framed the proposed Eurobonds as something all parties involved would ultimately profit from, thereby invoking the notion of a common goal. As regards the second hypothesis, instead, we should find evidence that the potential followers have perceived the EP's leadership offer and at least some of them objected to it. Both the leader's offer and the followers' reaction provide so-called 'hoop tests' as this type of evidence is necessary, but not sufficient to affirm causal interference (Collier 2011). More precisely, if we find the above-described evidence, this increases our confidence in the underlying hypothesis, although it does not eliminate alternative explanations. By contrast, if we should find evidence that the EP openly preferred the *status quo* to the introduction of Eurobonds or that all potential followers agreed on its proposal, this would disconfirm the analytical model.

With regard to the EP's offer of leadership, there is evidence that the EP indeed framed Eurobonds as a common goal all parties would profit from. This happened mainly through its non-binding resolutions and own-initiative reports (European Parliament 2011b; 2012a; b; c; e). In its resolution on the measures and initiatives to be taken against the financial, economic and social crisis, for instance, the EP calls on the Commission to determine "the conditions under which such a system [of Eurobonds] would be *beneficial to all participating Member States and to the eurozone as a whole*" (European Parliament 2011b: 4, own emphasis). Furthermore, the EP

"points out that Eurobonds would offer a viable alternative to the US dollar bond market, and that they could foster integration of the European sovereign debt market, lower borrowing costs, increase liquidity, budgetary discipline and compliance with the Stability and Growth Pact (SGP), promote coordinated structural reforms, and make capital markets more stable, which will foster the idea of the euro as a global 'safe haven'" (European Parliament 2011b: 4f).

In addition to this, influential MEPs presented Eurobonds as the best solution to the Eurozone crisis via press statements (Euractiv 2012f). The same is true for the President of the EP, which shows that it was indeed the EP as a unitary actor that promoted Eurobonds. Answering the question about how to solve the ongoing crisis, EP President Schulz said: "We need to reduce the interest burden of the affected countries in southern Europe. *The best way* to accomplish that would be with euro bonds" (Spiegel/Schulz 2012, own emphasis). In turn, no evidence could be found that the EP, or a representative of the EP as a whole, preferred the *status quo* thereby rejecting Eurobonds.

With regard to the demand for leadership, evidence can be found that the EP's promotion of Eurobonds as a solution to the crisis was perceived by the other actors and that at least some of them objected to it. This becomes most evident in Olli Rehn's speech in front of the plenary, in which he promised that the Commission would present a report on Eurobonds and, if appropriate, a legislative proposal as this had been demanded by the EP. In his statement, Eurobonds are clearly described as a contribution to the Eurozone's common goal which would make everyone better off:

"You have got a commitment from the Commission to do a study on Eurosecurities [...] These eurosecurities would aim to strengthen fiscal discipline and increase stability in the euro area through markets, as well as, by taking advantage of the increase in liquidity, ensuring that the Member States enjoying the highest credit standards would not suffer from higher interest rates. The report will, if appropriate, be accompanied by legislative proposals" (European Commissioner for Economic and Monetary Affairs 2011: 2f).

Also the resulting green paper is explicit about the EP's initiative and its purpose to overcome the crisis and stabilize the Eurozone:

"The intensification of the euro-area sovereign debt crisis has triggered a wider debate on the feasibility of common issuance. [...] Against this background, the European Parliament requested the Commission to investigate the feasibility of common issuance in the context of adopting a legislative package on euro-area economic governance" (European Commission 2011: 2f).

The idea of Eurobonds was rejected by several MS, among them Germany, Finland, and the Netherlands (Interviews 1, 10, 11; Spiegel/Schulz 2012). The most explicit objection to Eurobonds came famously from the German government, with Chancellor Merkel stating that "there won't be Eurobonds as long as I live"¹²⁵ (Spiegel 2012a; also Euractiv 2012e).

Also as regards the second analytical step, which accounts for a leader's impact, the EP's leadership failure can be plausibly explained by the model: the EP remained unsuccessful because it lacks sufficient power resources, the preferences were heterogeneous and therefore not favourable, and the introduction of Eurobonds implies treaty change and thus a high institutional constraint. Hence, two of the three hypothesis, namely those on power resources and institutional constraint, directly pass the congruence test. In the case of preference distribution, the value of the independent variable (heterogeneous) is not perfectly congruent with the outcome. However, heterogeneity is the median value of the variable and as such undistinguished: it is neither particularly favourable nor extremely unfavourable to the EP's impact on the outcomes. Thus, while the confidence in this hypothesis cannot be increased by means of the congruence method or process tracing, it does not diminish the plausibility of the causal model either.

¹²⁵ Translated by the author from the original: "Keine Euro-Bonds, solange ich lebe".

In order to increase the confidence in the hypotheses of this second step, their presumed causal mechanisms can be tracked. However, as regards the first hypothesis on power resources, there are no directly observable implications. Given that the EP did *not* have the sufficient resources, the hypothesis predicts that there is no translation into strategies and no anticipated reaction by the followers, which results in the maintenance of the *status quo*. Nonetheless, expressions by Commission and Council officials can indirectly corroborate the causal mechanism if they indicate that the EP could not employ the necessary strategies, or that its reactions to being ignored were not feared due to its lack of power. Indeed, one Commission official explained that “the Commission stands at the sideline” (Interview 3) and can thus not influence legislation and crisis management in the same way as the Commission or the MS. This assessment was shared by another official who ascribed the EP’s lack of influence to its weak competences in agenda-setting and decision-making and to its lack of expertise (Interview 11). A Council official was even more explicit by stating that the EP’s strategies fail where it cannot build on formal decision-making rights:

“They [the EP] make huge conferences on economic governance [...] and they give the impression they have a say there. They write own-initiative reports on the European semester – to be honest – which here nobody reads [...] but, I mean, frankly, we don’t care [...] But, let’s say, apart from the noise created in the public sphere and in the press, this has no impact on our work whatsoever. No, none” (Interview 34).

This makes also clear that the ‘rule of anticipated reaction’, according to which the other actors accommodate the leader’s preferences because they fear the reaction in case they ignore them, does not apply to the EP in this case.

With regard to the third hypothesis, these interview expressions also illustrate that the EP did not have the resources to compensate the opponents of Eurobonds (or even to make them accept the proposal) in order to overcome the high institutional constraint of unanimity. However, as regards both hypotheses, this evidence qualifies only for a ‘Straw-in-the-Wind’ test as it is neither sufficient nor necessary to claim causal inference. Thus, the interview expressions slightly weaken alternative explanations and affirm the relevance of the hypotheses, but they do not confirm them (Collier 2011: 825f). Nevertheless, although the process-tracing evidence of the second analytical step is relatively weak, the analytical model can provide a plausible explanation as to why the EP failed as a leader in the issue of Eurobonds. Under conditions of heterogeneous preferences, the EP lacked the necessary power resources to obtain the approval of *all* MS, as this would have been required by the high institutional constraint of unanimity.

The case study entails further interesting results. If the most powerful actors are not willing or capable of providing leadership, less powerful actors might unexpectedly emerge as leaders. In the

case of Eurobonds, Germany was not willing to provide leadership. Moreover, neither the Commission nor other big MS like France, which actually would have been in favour, took the lead. This was the chance for the EP as an even less powerful actor to step in and fill the leadership vacuum. Although the EP does not have the resources to act as a 'strong' leader in the EU, it still found itself in a certain position of authority, translated its few resources into strategies and tried to guide the behaviour of others (Commission and MS) towards the common goal of stabilizing the Euro and overcoming the crisis. Hence, a leadership vacuum can be the reason as to why we sometimes observe surprisingly weak leaders, which, if the preference distribution and the institutional constraint is not to their advantage, unsurprisingly fail.

A second interesting result emerges from the comparison of the Commission's and EP's attitude towards Eurobonds. As soon as it became clear that Eurobonds would not have a realistic chance of being introduced, the Commission abandoned the issue and even avoided the use the word 'Eurobonds'. The Commission did so although it was principally in favour of the proposal. At the same time – and under identical circumstances – the EP started to strongly promote the issue although it was aware that Eurobonds could not be realized in the short term. This demonstrate that even if we assume the same basic interests for EP and Commission, namely the increase of their institutional power, they still face different payoff structures: while the Commission could only have lost by promoting Eurobonds, the EP could only win by doing so. Hence, the EU institutional actors' policy proposal not only depend on their resources and preferences, but are also constrained by their institutional roles.

5.7 The European Central Bank and the Outright Monetary Transactions

In the case of the OMT, the ECB emerged as a leader by default and guided the Eurozone to a decisive policy and institutional change. The ECB did so at a time when the fragmentation of the Eurozone seemed to be as close as never before and the realizable measures of the MS were largely exhausted. Although the ECB's costs of leading, which consisted in the creation of moral hazard and a loss of legitimacy and political independence, were very high, its benefits were even higher: the launch of the OMT safeguarded the ECB's own survival. As regards the impact of leadership, the ECB successfully influenced the outcomes and suspended the Eurozone crisis due to its paramount power resources, the favourable preference constellation, and the low institutional constraint. Chapter 5.7.1 introduces the relevant events, actors, and preferences in the case of the OMT. Chapter 5.7.2

then determines the value of both dependent variables, which are the emergence and the impact of leadership. After that, Chapters 5.7.3 and 5.7.4 examine the independent variables of the two steps, respectively. Finally, Chapter 5.7.5 investigates the causal mechanisms and draws the conclusions of what constitutes a leadership case *par excellence*.

5.7.1 Case Description

In July 2012, the government bond spreads in the Eurozone had reached an unprecedented height (see Figure 19.1 below). This happened despite the impressive amount of anti-crisis measures which had been decided on in the preceding months (agreements on ESM, banking supervision, and direct bank recapitalization), and it came along with new speculations about a collapse of the Eurozone (Ch. 5.7.3). In this situation, in which the crisis once again escalated and all realistic alternatives seemed to be exhausted, the ECB President Mario Draghi announced in a speech at the Global Investment Conference in London on 26 July 2012 that the ECB would definitely prevent a fragmentation of the Eurozone: “Within our mandate, the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough” (President of the European Central Bank 2012). Following this statement, the ECB announced on 2 August 2012 that it “may undertake outright open market operations of a size adequate to reach its objective. In this context, the concerns of private investors about seniority will be addressed. [...] Over the coming weeks, we will design the appropriate modalities for such policy measures” (European Central Bank 2012a).

As a direct consequence of these announcements, the government bond spreads collapsed (see Figure 19.1 below). This not only provided sudden stability to the Eurozone, but it actually suspended the Eurozone crisis as it removed its most immediate trigger (Altavilla/Giannone/Lenza 2014; De Grauwe/Ji 2015: 747f; Ch. 5.7.2). The plan to buy sovereign bonds on secondary markets without pre-defined limits existed already prior to Draghi’s announcement in London. However, apart from a very narrow circle of people around the ECB President, nobody had been informed about his intentions to actually trigger the launch of the OMT at that time. While the announcement was confirmed by the decision of the Governing Council, which had not been informed either, only a few days later, the technical details of the OMT still needed to be elaborated within the ECB in the following weeks (Interviews 13, 18, 20, 22).

On 6 September 2012, the Governing Council eventually delivered the technical features of the announced “outright transactions in secondary sovereign bond markets that aim at safeguarding an appropriate monetary policy transmission and the singleness of the monetary policy” (European Central Bank 2012b). There would be no *ex-ante* quantitative limits, eligible government bonds would have a maturity of one to three years and no seniority, and the purchases would be conditional on the existence of a macroeconomic adjustment programme with the ESM (Altavilla/Giannone/Lenza 2014: 2; Lombardi/Moschella 2016: 859).

Although the ECB is politically independent, it has to take the behaviour of other actors into account when it decides on its monetary policies. This regards mainly the Eurozone MS, which through their fiscal and economic policies functionally constrain or enable certain ECB decisions. Moreover, despite its political independence, the ECB ultimately relies on the normative backing of the MS since without their support it would lose its legitimacy and credibility, which are indispensable conditions for its effectiveness. In its concrete monetary policy decisions, however, the ECB decides alone and does not need the consent of the MS. While the Commission and the EP are less important than the MS, they still play a certain role in the ECB’s decisions as they can legitimize the ECB’s measures in public. This is especially true for the EP, which has the right to hold the ECB accountable on the basis of an annual report to be presented by the ECP President to the EP and through hearings with the Executive Board members by the competent committee. In the case of the OMT, these actors’ preferences diverged only slightly. Most MS as well as the Commission and EP welcomed the ECB’s decision. Only Germany, the Netherlands, and Austria were initially against the programme. However, once it had been announced, they publicly supported the ECB as everything else would have made them worse off (Ch. 5.7.4).

5.7.2 Dependent Variables: The ECB’s Leadership Success

The dependent variable of the first analytical step is the emergence of leadership. A leader has emerged if there is (1) an actor in a position of power that guides a group towards a (2) common goal by (3) making appropriate use of its resources.

As regards the first indicator, the ECB is an extremely powerful actor in the Eurozone. Much of its power is based on its political independence (e.g. Farrell 2012). Moreover, in the context of crisis management it has become clearly visible that also the ECB’s paramount material resources as well

as its expertise and credibility by far exceed those of the MS (see Ch. 5.7.4). Thus, with regard to all three types of power resources – material, institutional, ideational – MS turned out to be dependent on the ECB (see Beukers 2013: 1592f). This position of power was reinforced by the MS' reluctance to establish a fully integrated economic and fiscal union and the urgency to come up with quick responses to the crisis under tight institutional constraints (see Hall 2012: 366):

“Amid the rigidity of the pre-crisis EMU rules on the one hand, and the paralysis of the Member States on the other, the ECB was the only actor within EMU that had the capacity to respond quickly and effectively in order to prevent a collapse of the Eurozone” (Krampf 2016: 467).

With regard to the second indicator, the OMT directly aimed at preserving the common currency and overcoming the crisis by removing the high government bond spreads in the Eurozone, which prevented an effective monetary policy and threatened to drive single MS into default (European Central Bank 2012b; Ch. 5.7.3). Therefore, the announcement of the OMT undoubtedly contributed to the survival of the Eurozone and thus to its common goal. This was recognized by all actors involved, which does not mean, however, that it was also the measure preferred by each of them.

Finally, as the Eurozone's issuing authority and only decision-maker in monetary policy, the ECB could directly translate its unique material and institutional resources into the shaping of the desired policy and institutional change. The appropriate strategy was that of unilateral action, or, as one ECB official put it, “ad hoc fire-fighting” (Interview 23; see also Ch. 5.7.5). This strategy, combined with the ECB's institutional rights, provided it with the opportunity to exploit a first-mover advantage. By announcing ‘to do whatever it takes to preserve the euro’ without informing the MS governments beforehand, the best thing the latter could still do was to back the ECB's decision and to confirm that it acted within its mandate (Blackstone/Walker 2012). Any other reaction would have compromised the ECB's credibility, thereby fuelling speculation against single MS, and thus increased the risk that the ECB had to act on its promise and indeed buy government bonds.

In sum, by announcing the OMT, the ECB emerged as a leader in the management of the Eurozone crisis because it found itself in a position of power and used its resources to guide the other actors towards a common goal.

The criteria for the assessment of the second dependent variable, namely a leader's impact, are (1) the presence of a change, measured by the difference between the *ex-ante* and the *ex-post* situation, (2) its desirability, benchmarked against the leader's most preferred outcome, and (3) its initiation by the leader (Ch. 4.3).

The policy and institutional change in this case study consists in the announcement of the OMT by the ECB Governing Council on 2 August 2012, which confirmed Mario Draghi's earlier statement of July 26. On the one hand, this announcement represented a policy change because it enlarged the ECB's spectrum of policy instruments (Salines/Glückler/Truchlewski 2012: 668). More precisely, an ECB programme providing for the potentially unlimited purchase of government bonds had been unprecedented in the Eurozone. At the same time, this constituted a major institutional change as the ECB thereby became the Eurozone's *de facto* lender of last resort (De Grauwe/Ji 2015: 752). The institutional practice before the OMT announcement was that the ECB could only make limited purchases of government bonds to safeguard the transmission of its monetary policy. However, with "the announcement of the OMT program and given the success of this program, it has become clear [...] that the ECB is the ultimate guarantor of the sovereign debt in the Eurozone" (De Grauwe/Ji 2015: 748). Krampf is therefore right when he attests that the "behaviour of the ECB during the crisis was indeed inconsistent with pre-crisis EMU policy principles" (2016: 467).

The desirability of this change, which is the second criterion for a leader's impact, is proven by its effect. The announcement of the OMT led to a decline in government bond spreads and thus to the suspension – if not the end – of the Eurozone crisis. As Altavilla, Giannone, and Lenza have shown in a study focusing on the four biggest Eurozone economies, the announcement led to a decrease of 2% in Spanish and Italian 2-year bond yields and to positive effects for growth and credits in the two MS, without any negative effects for interests or growth in Germany and France (2014: 15). De Grauwe and Ji have tested whether the collapse of the spreads and thus the preservation of the common currency was really caused by the ECB's announcements rather than by any other economic developments. They found that

"the sharp decline of the spreads since OMT is totally dissociated from changes in fundamentals. The latter play no role at all in explaining this decline in the spreads. This result strongly suggests that the ECB's OMT announcement was quite effective in turning around market sentiments. These became very positive and corrected for the excessive pessimism that existed before the announcement" (2015: 747f).

It is important in this regard to emphasize that like in the case of the Fiscal Compact (Ch. 5.4.3), the OMT's primary purpose was not so much the change in substance as the sending of an effective signal. The announcement of the OMT did therefore not automatically imply the accumulation of sovereign debt at the ECB, as this was feared by the critics of the measure, but it signalled to the markets that the Eurozone had an inexhaustible backstop. From this point of view, the OMT are primarily a "dissuasion weapon" (Interview 2). Given that MS governments can block the OMT by denying the concerned MS an ESM program, which is a condition for their activation, the mere announcement of the OMT does not imply that they will also be used. In the words of Paul Krugman:

“the ECB’s efforts rely to an important extent on a bluff, in the sense that nobody knows what would happen if OMT were actually required” (2014).

The assessment of the last criterion, which is the initiation of the relevant change by the leader, is straightforward. The OMT were initiated exclusively by the ECB as this is the only decision-maker in the Eurozone’s monetary policy.¹²⁶

In sum, the launch of the OMT is a leadership case *par excellence*. By committing ‘to do whatever it takes to preserve the euro’ and through the ensuing announcement of the OMT, the ECB did precisely what according to this work’s definition a successful leader does: it used its power resources in such a way as to guide the other Eurozone actors towards a common goal, namely the suspension (if not the end) of the Eurozone crisis. Moreover, the announcement of the OMT not only represents a policy change, but also an informal institutional change as regards the ECB’s role as a potential ‘lender of last resort’.

5.7.3 Independent Variables I: The ECB’s Leadership Surplus and *Status Quo* Costs

According to the first hypothesis of this work, a leader emerges if the expected benefits outweigh the costs of leading. Figure 17 gives an overview of the ECB’s costs and benefits of leading in the case of the OMT as mentioned by the interviewees. As can be seen from this figure, there is one benefit of leading, namely the restoration of the ECB’s effectiveness in the transmission of its monetary policy and thus the preservation of the Eurozone (and consequently its own *raison d’être*), which already by the number of its mentions outweighs all the costs of leading.

¹²⁶ Like all other actors examined by this work, also the ECB is a heterogeneous organization whose decisions at the European level are always the result of prior internal decision-making rounds. In the case of the OMT, this regards the strategic interaction of the national central banks governors and the members of the Executive Board (including the ECB President) in the Governing Council. However, given that this takes place at a different analytical level, the question of who initiated the OMT *within* the ECB is irrelevant for this analysis.

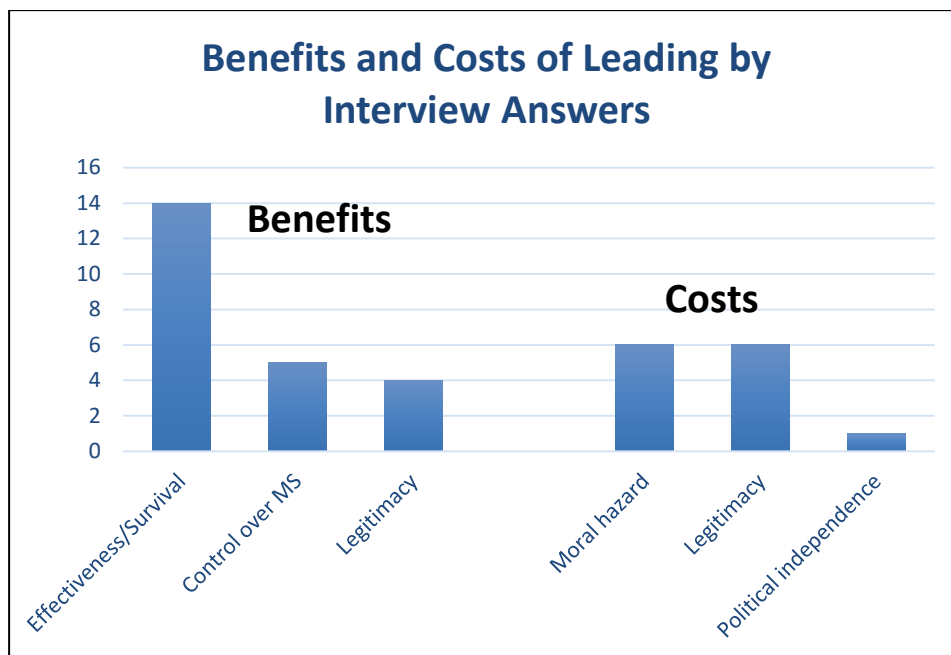


Figure 17: Costs and Benefits of Leading by Interview Answers

Source: Own Illustration

Table 22 gives a more detailed overview of the ECB's expected benefits of leading according to the individual interviewees. Answers by interviewees who were particularly strongly involved in the events surrounding the announcement of the OMT are printed in bold. Answers by ECB officials are italicised.

The most frequently mentioned benefit of leading is the signal that could be sent to the financial markets in order to stop over-reactions (self-fulfilling expectations) or even purposeful speculating against certain MS. By sending this signal, the ECB could not only restore the effectiveness of its monetary policy, but also prevent the Eurozone from falling apart. In this way, it ultimately ensured its own institutional survival.

The first aspect of this benefit is, at first glance, of rather technical nature. Given that the high interest rates for certain MS' government bonds were based on over-reactions of the financial markets and were thus not 'justified' by the real economy and the actual credit risk, the ECB's monetary policy was rendered ineffective. As long as state bonds are higher than it is economically justified, the ECB's lowering of the base rate is not passed on by the banks in the form of lower interests for their loans. This means that the ECB's monetary policy does not have any effect anymore on the real economy and on price stability. For instance, the ECB could not prevent deflation anymore by increasing the amount of money in the real economy through a lower base

rate. By announcing the OMT, however, the ECB signalled to the markets to better stop speculating against the euro because it would buy as many government bonds as necessary to lower the interest rates and – as opposed to the markets – its resources to do so are unlimited. Thus, if it came to an attrition war between the ECB and the markets about interest rates, the ECB would win it for sure, whereas the actors in the markets would lose a lot of money. Hence, by announcing the OMT, the ECB could first of all restore the effectiveness of its monetary policy.

Table 22: The ECB's Benefits of Leading according to Interviewees (OMT)

INTERVIEW	BENEFITS
	EFFECTIVENESS => SURVIVAL
2	Effective signal not to speculate against Euro ⇒ Preserving the euro (= preserving the ECB)
5	Ensuring effectiveness of own monetary policy and existence of Eurozone
11	ECB's <i>raison d'être</i> is to provide effective monetary policy for Eurozone
13	Saving the euro as 'lender of last resort'
14	<i>Saving the Euro; Restoring own credibility vis-à-vis financial markets due to</i> <i>a) conditionality (grip over MS' fiscal policy)</i> <i>b) unlimited capacity of OMT</i>
15	Own survival (euro was facing collapse)
18	Effective transmission of monetary policy
19	Restoration of the ECB's ability to fulfil its mandate of price-stability against the background of self-fulfilling expectations in the markets
20	Signal not to speculate against euro in order to maintain price-stability (even interests for Belgian or French bonds went beyond mere reflection of 'real' credit risk)
21	Signal against over-reaction in markets; preventing contagion; containing redenomination risk
22	Stopping speculation against euro in the context of rising interests for Italian and Spanish bonds => avoidance of Eurozone disintegration
23	<i>Avoidance of systemic risk and self-fulfilling equilibria</i>
24	Ensuring stability and avoiding redenomination risk
27	ECB found itself endangered in its existence; thus it took a unilateral decision which, if any, should have been taken in ECOFIN Council instead
	CONTROL OVER MS
3	Control over concerned MS' fiscal policy through conditionality
11	Getting grip on MS' fiscal policy through conditionality provided by MS
13	Gaining influence over politicians through conditionality
14	<i>Solution to problem of preceding SMP programme ("We had no control"): getting leverage on MS</i>
19	Enforceable conditionality against background of failed SMP
	LEGITIMACY
2	Increase of reputation (usefulness of ECB was challenged as compared to more successful Fed)
11	Increase of reputation in the EP
13	Increase of reputation
14	<i>Improving standing with EP</i>

Source: Own Illustration

Already this restoration of its effectiveness is obviously related to the ECB's *raison d'être* because only by having the possibility of effectively intervening on the markets, the ECB can fulfil its mandate (and primary objective) of ensuring price stability in the Euro Area (Art. 127.1 TFEU). Thus, in the words of an ECB official who was involved in drafting the original idea of OMT, their main benefit was

“restoring order in the monetary policy transmission [...] We wanted to get rid of certain variations or volatility. In this way we could concentrate more on the core of what we are actually trying to do, which is to make sure our monetary policy impulses are transmitted in a way that grants price stability in the Euro area” (Interview 18).

However, at the time the ECB's institutional survival was jeopardized in a much more concrete way, which consisted mainly in the rise of Italian and Spanish bond yields. For the Eurozone, this implied the concrete danger of fragmentation because bailing out Italy or Spain not only represented an economic problem, namely the lack of resources, but also a political problem which consisted in the lack of political feasibility or willingness (Interview 22). Therefore, calming the markets and stopping the speculation against the euro corresponded to the avoidance of monetary disintegration and thus to the preservation of the ECB's reason to exist. The actual gravity of the situation is shown by the fact that beside Italian and Spanish bond yields, even the interest rates of MS like France and Belgium went beyond the mere reflection of credit risk (Interview 20).

In this context it needs to be added that the ECB's unilateral action to preserve the Eurozone and thereby its own existence bears normative implications. The mutualisation of risk, for instance through the accumulation of MS debt at the ECB in case the OMT were activated, is a political decision, which therefore should have been made by the finance ministers or heads of state and government. Thus, it was arguable the MS inactivity which forced the ECB to make such a move if it wanted to avoid a Eurozone collapse (Ch. 5.7.5). As a senior ECB official and former Council to the ECB's Vice President put it:

“There were only two alternatives: either the ECB appearing as lender of last resort to governments or Germany moving on towards Eurobonds or Redemption Fund, or something to stop the crisis. [...] the action of Draghi provided a huge amount of relief to Merkel and Schäuble and enabled them again to put pressure in economic governance on the others without the German government being obliged to do something in order not to be hold responsible for the destruction of the Euro” (Interview 22).

This assessment has been unwittingly confirmed by a high-ranked official of the German Finance Ministry, who stated that the ECB found itself endangered in its existence and therefore made a unilateral decision, which actually ought to have been made in the ECOFIN Council (Interview 27). It goes without saying that a decision with such enormous distributional consequences bears implications for the ECB's perceived legitimacy (see below).

A further benefit of leading, which was mentioned less often, however, is the control the ECB could gain over the debtor states' fiscal policies by linking the OMT to an ESM consolidation programme ('memorandum of understanding'), which is supervised by the Troika and thus partly by the ECB itself. The lack of influence over MS' behaviour has been considered a major flaw of the relatively unsuccessful 'Securities Markets Programme' (SMP) which preceded the OMT (Interviews 14, 19). Firstly, the ECB needed to trust that MS, whose bonds it had purchased, would pursue a sustainable and disciplined fiscal policy. Given that the ECB did not have any leverage on these MS, however, it not only created a situation of moral hazard – as the MS could rely on the ECB as a lender of last resort – but it even risked violating its mandate since a default of a debtor state whose bonds have been purchased by the ECB would result in prohibited monetary financing. Secondly, the SMP did not function as a credible signal to the markets as MS did not change their behaviour. A striking example for this is the confidential letter, signed by the outgoing President Trichet and his designated successor Draghi, the ECB sent on 5 August 2011 to the Italian government asking it to implement tough austerity cuts. The leaking of this letter was politically charged not only because the ECB had denied any link between its bond purchases and government behaviour, but also because it provided a checklist to the markets of what austerity measures the Italian government must implement to consider its bonds safe (Dinmore/Atkins 2011). As regards the ECB's credibility as well as the effect on Italian bonds in case the government would fail to implement the measures demanded by the ECB, this situation constituted a disaster for the ECB. In the words of one ECB official, under the SMP "we had no control" (Interview 14).

Thus, against this background, the OMT brought the benefit that the ECB could now not only rely on a consolidation programme to be negotiated with the MS before the purchase of their bonds, but also control the compliance with that programme through its participation in the Troika. Through the link to the ESM, credible conditionality has been created as non-compliant MS would also lose the next disbursement tranche from the ESM. This is why "the ECB came out stronger as an institution" (Interview 11).

However, the actual benefits of this conditionality for the ECB are controversial. To be sure, on the one hand the link to the ESM would entail more control for the ECB and increase the effectiveness of its measures if the OMT really came into operation. On the other hand, however, this makes the ECB dependent on the approval of the MS and leads to a further politicization not least through its involvement in the Troika (Interviews 18, 22-24, 27). As for instance the German Finance Minister Wolfgang Schäuble has noted with regard to an ECB statement that it could actually start buying bonds under the OMT programme: "[the ECB] cannot make these decisions because it has bound

them to conditions that are beyond its control [...] ESM decisions are subject to a unanimous vote and we will not approve of such a programme as announced by the ECB"¹²⁷ (CESifo 2014).

Finally, the third and least frequently mentioned benefit of leading for the ECB is an increase of legitimacy.¹²⁸ While two of the four interviewees who mentioned this benefit referred to the ECB's reputation in public, where it could have expected to be acknowledged as the actor which saved the Eurozone (Interviews 2, 13), the other two referred to its standing with the EP, which was predominantly in favour of the OMT (Interviews 11, 14). It is noteworthy, however, that those referring to the public reputation were strongly involved in the events surrounding the announcement of the OMT (although no ECB officials), while those referring to the EP did not directly deal with the OMT themselves (Table 22).

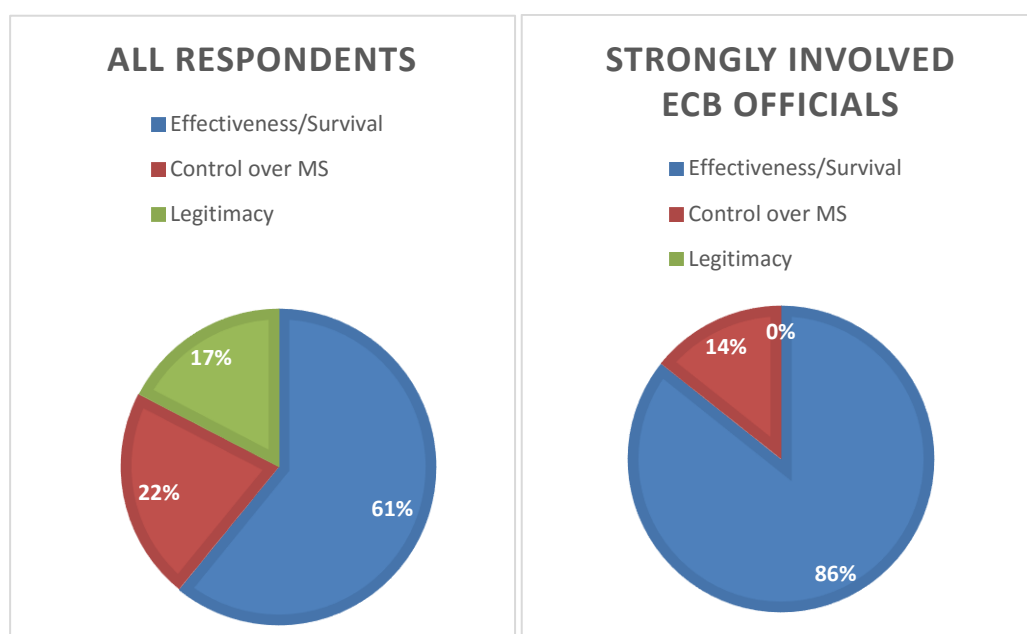


Figure 18: Mentioned Benefits of Leading by Group of Respondents

Source: Own Illustration

Figure 18 compares the distribution of answers of all respondents as regards the ECB's benefits of leading with that of the six strongly involved ECB officials, who among all interviewees should know best what the ECB's expected benefits were at the time. As can be clearly seen, while the effectiveness of the ECB's monetary policy and ultimately its institutional survival is clearly the most frequently mentioned benefit among all respondents (61%), it is almost about the only answer in the

¹²⁷ Schäuble's original statement in German can be listened to at <http://www.bloomberg.com/news/videos/b/8e23c8fc-e227-4444-b418-204a425bb91f> rev. 2016-01-28.

¹²⁸ As to the question why the EP as a politically independent institution cares about its legitimacy, see the section on the EP's costs of leading below.

‘expert group’ of strongly involved ECB officials (86%). Only one of these six respondents mentioned as a second benefit also the ECB’s gain of control over MS in the case of an actual employment of OMT. An expected increase of legitimacy, by contrast, was not mentioned by any of the strongly involved ECB officials. Hence, this increases our confidence that the preservation of its effectiveness and survival was the decisive benefit of leading expected by the ECB when it came to the announcement of the OMT.

The ECB’s expected costs of leading, in contrast, are listed in Table 23 according to the single interviewees. Answers by interviewees who were particularly strongly involved in the events surrounding the announcement of the OMT are printed in bold. Answers by ECB officials are italicised. Basically two types of costs were mentioned: the creation of moral hazard and a loss of legitimacy. Only one interviewee mentioned also the ECB’s loss of political independence as a cost of introducing the OMT.

Table 23: The ECB’s Costs of Leading according to Interviewees (OMT)

INTERVIEW	COSTS
	MORAL HAZARD
4	Moral hazard despite conditionality: OMT calmed the markets, thereby buying time for debtor states and strengthening their position in programme negotiations
15	Creation of moral hazard (although considerably reduced by link to programmes)
18	<i>Incentives for moral hazard (although mitigated by link to conditionality)</i>
21	<i>Moral hazard (although mitigated by link to consolidation programmes)</i>
22	<i>Endangering stability in the medium term by sending wrong signals to debtor states</i>
23	<i>No pressure for reform in MS</i>
	LEGITIMACY
3	Public opinion in Germany and, to a minor extent, in Finland and the Netherlands
8	Decrease of legitimacy in German public
14	<i>Court cases and public opinion in Germany, but no decrease of legitimacy Eurozone-wide or globally</i>
20	<i>Perceived legitimacy in public (but not a significant cost)</i>
22	<i>In case of failure: result of defaults would be A) prohibited monetary financing; B) loss of ECB’s credibility</i>
24	<i>Legal issue => loss of trust in ECB</i>
	POLITICAL INDEPENDENCE
24	<i>OMT make ECB’s actions dependent on MS’ policy decision (through link to programmes)</i>

Source: Own Illustration

As regards moral hazard, the ECB feared that by acting as a *de facto* ‘lender of last resort’, MS would lose the incentives to pursue fiscal discipline because they would know that in the end there would always be the ECB to bail them out. Although many interviewees acknowledged that this risk has

been considerably reduced by linking the OMT to the ESM consolidation programmes, thereby introducing conditionality, the problem could not be completely eradicated since there is no certainty that the MS, once a programme has been signed and the ECB has purchased their bonds, would actually comply and implement the agreed austerity measures and structural reforms.¹²⁹

More importantly, however, by announcing the OMT, the ECB took away the market pressure on the debtor states, which means that it restored their ability to refinance themselves on the markets – at least for the time being. This strengthened their position *vis-à-vis* the creditor states which could result in more lenient programmes, subsequent revisions in favour of the debtor states, or less compliance in the implementation. In other words, the debtor states got the chance to free-ride on the lower interest rates provided by the Eurozone. This is impressively shown by an account of a Commission official who was a member of the Troika delegation that negotiated a revision of the original consolidation programme to the advantage of Portugal¹³⁰ between 28 August and 11 September 2012 (European Commission 2012b): when the ECB announced the launch of the OMT on 6 September, the negotiations were “suddenly blocked” because Portugal’s access to the financial markets was secured again; thus, the announcement of the OMT strengthened considerably the bargaining power of the Portuguese government *vis-à-vis* the Institutions (Interview 4). In sum, a cost of leading for the ECB consisted in the creation of moral hazard in the MS despite the linked conditionality. This entails the additional risk that in case a MS defaults, the bonds purchased by the ECB lose their value, which results in prohibited monetary financing.

The second major cost mentioned by the interviewees regards a feared loss of legitimacy. In particular possible actions against the OMT at the German Constitutional Court – which happened indeed after the OMT announcement – were considered a source for a loss of trust in the ECB. This raises the question as to why the ECB as a politically independent institution would worry about its legitimacy anyways. As explicated by some interviewees, this is because in representative democracies it must be expected that a loss of the ECB’s legitimacy as perceived by the public would lead to a decrease in the support or acceptance by the MS governments. As a direct consequence, also the support for the euro as a common currency would decline. While in the short run this would damage the ECB’s credibility in the financial markets and thus its effectiveness, it would threaten its entire *raison d’être* in the long run (Interviews 8, 14). However, the interviewees also emphasized that the expected legitimacy costs were either not significant for the ECB’s decision (Interviews 20,

¹²⁹ See Gros 2011 for a similar argumentation as regards the introduction of Eurobonds, which, in the same way, would imply moral hazard despite conditionality.

¹³⁰ More precisely, a more lenient fiscal adjustment path was agreed.

21, 23), regarded only Germany and a few other MS like Finland and the Netherlands (Interviews 3, 8, 14), or would play a role only in case of an ultimate failure of the OMT, namely MS default (Interview 22).

A final cost of leading is strongly related to the loss of legitimacy. As elaborated above, the ECB linked the OMT to the ESM consolidation programmes and thus made its monetary decisions dependent on the MS' consent. Although it has been mentioned by only one interviewee, this nexus implies a loss of political independence for the ECB, and could thus ultimately damage its legitimacy and credibility (Interview 24).

As pointed out in Chapter 4.3, a cost-benefit analyses can be conducted if (1) there are no significant costs or benefits, (2) one of the two elements directly implies the institutional survival or death of the potential leader, or (3) we find a 'common currency' for the cost-benefits analysis. Option (1) does not apply here because neither the listed benefits nor the mentioned costs can arguably be considered insignificant. Also option (3) cannot be employed as the ECB's expected increase of effectiveness, for instance, can hardly be weighed against its feared loss of legitimacy. However, option (2) allows for a cost-benefit analysis since the OMT directly ensured the ECB's institutional survival and thus, in line with this work's basic theoretical assumptions, its benefits automatically outweighed all the related costs of leading. As elaborated above, there is strong evidence that the ECB realistically feared that the *status quo* would inevitably result in a fragmentation of the Eurozone and thus in the end of its institutional *raison d'être*. Therefore, the ECB's benefits of leading consisted in its institutional survival. Even if this had not been the case, the exaggeratedly high interests on Spanish and Italian bonds prevented an effective monetary policy transmission into the real economy. As long as these economically not justified interest rates were so high, the ECB's reduction of the base rate to avoid deflation and guarantee price stability had no effect. In both cases the ECB secured its own right to exist by taking the lead. This assessment is corroborated by the distribution of answers regarding the ECB's costs and benefits of leading: the preservation of its own effectiveness and ultimate survival clearly outweighed all the other mentioned costs and benefits (Figure 17).

Hence, according to hypothesis 1, which predicts that leadership emerges if its expected benefits exceed the related costs, we expect that the ECB would offer leadership and, under the condition that there was also a demand for it and no other candidate being more powerful, emerge as a leader.

The second hypothesis accounting for a leader's emergence are the aggregate *status quo* costs. It predicts that these costs create a demand for leadership which, under the condition that there is also an offer, leads to the actual emergence of leadership. In the case of the OMT, it could be objected that no demand is needed for the ECB's emergence as a leader because in theory it could have announced and even launched the OMT without any other actor perceiving a need for it. In practice, however, it is not only highly improbable that the ECB would do so; there would also be strong objections by the negatively affected MS which would most probably bring actions against the ECB in front of the ECJ and – most importantly – the ECB could not rely on its mandate to secure price stability in the Eurozone and would thus lack the legal basis for its measures.

The *status quo* costs have been high throughout the crisis. However, according to most interviewees, the perceived pressure for action has never been as high as in the beginning of the crisis in spring 2010 and in summer 2012. Of the 18 interviewees who comprehensively answered the question concerning the most critical moment during the crisis, 10 named summer 2012. Even 14 out of 18 respondents (77.8%) stated that in summer 2012, the perceived pressure for action was very high (10) or rather high (4) as compared to other periods of crisis management. The perceived costs, which were considered immediate in the case of *status quo*, consisted in the default of Italy and/or Spain and the ensuing fragmentation of the Eurozone (e.g. Interviews 6, 22). This assessment is partly reflected and corroborated by the development of government spreads at the time. For reasons of better distinctiveness, figure 19.1 shows the spreads without Greek bond yield, while figure 19.2 includes Greece.

What can be clearly seen from these figures (esp. figure 19.1) is that, alongside a second peak by the end of 2011, the spreads in the Eurozone – and thus the real fragmentation risk – have never been as high as in July 2012 when Mario Draghi committed publicly to do 'whatever it takes'. Especially Spanish bond yields were as high as never before during the crisis, and Italian bonds had almost reached the level they had in November 2011 when Prime Minister Silvio Berlusconi finally stepped down.

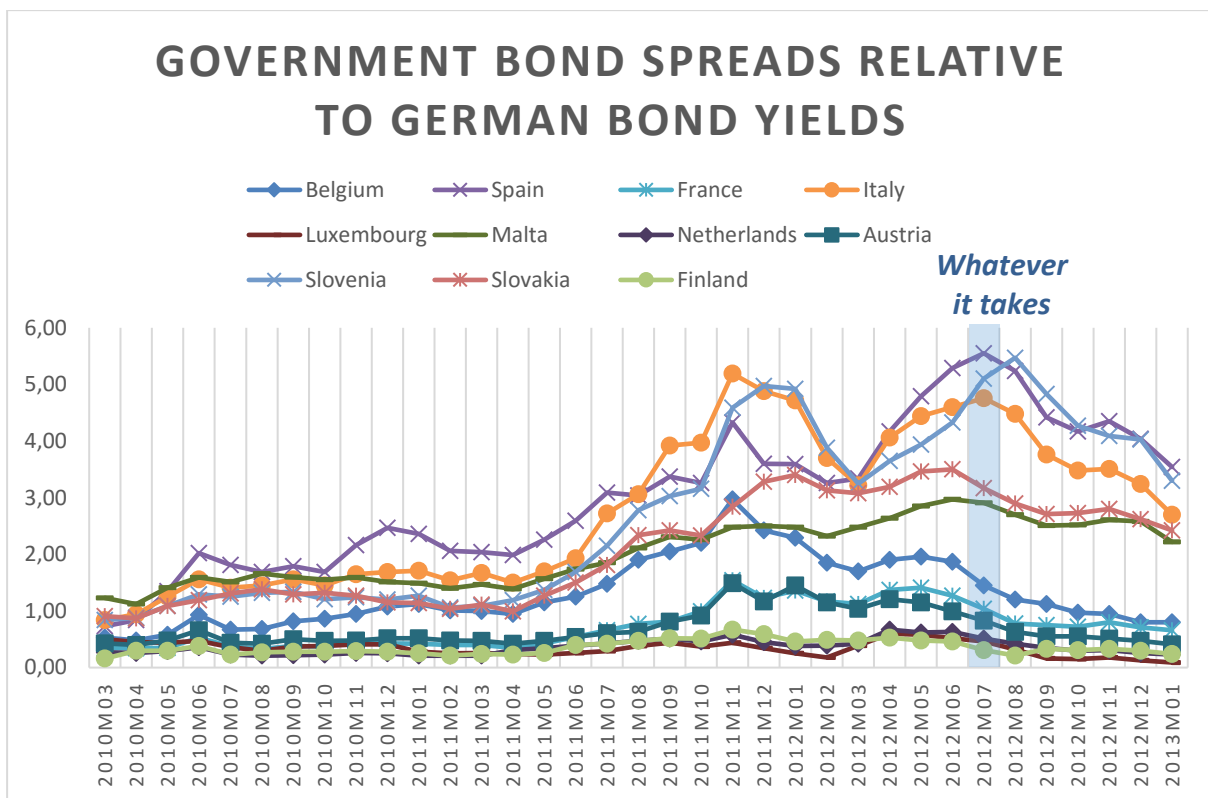


Figure 19.1: Government Bond Spreads Relative to German Bond Yields Mar 2010 – Jan 2013 (excl. Greece)

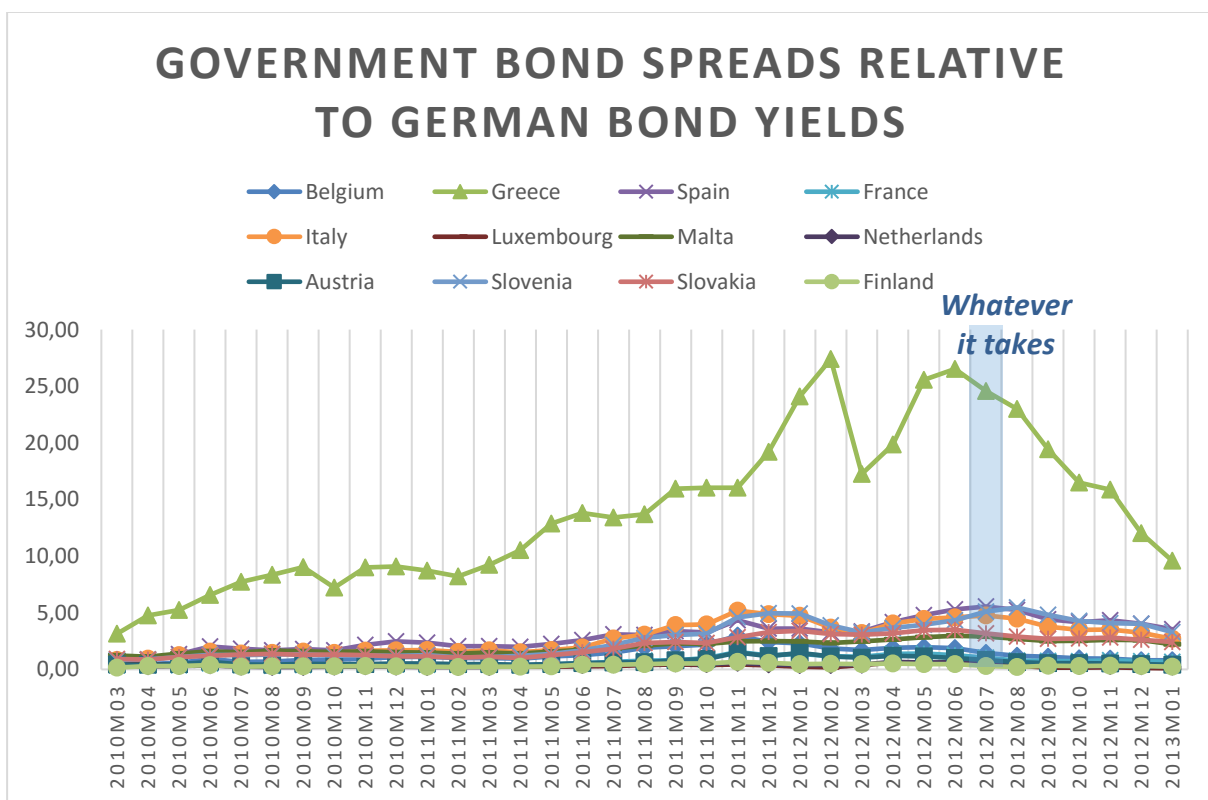


Figure 19.2: Government Bond Spreads Relative to German Bond Yields Mar 2010 – Jan 2013 (incl. Greece)

Source: Eurostat (own illustration)

According to hypothesis 2 we therefore expect an extraordinary high demand for leadership; not least because as opposed to former critical moments in the crisis, this time the politically feasible instruments (such as a permanent bailout fund) on the part of the MS seemed to be exhausted. In sum, given that there was both a demand for leadership due to high *status quo* costs and a supply of it by the ECB, whose benefits of leading exceeded the related costs, the first analytical model can plausibly explain the ECB's emergence as a leader.

5.7.4 Independent Variables II: The ECB's Resources, Preference Distribution, and Institutional Constraint

The first variable that accounts for a leader's impact are her power resources, which can be disaggregated into material, institutional, and ideational resources. In the case of non-state actors, material resources are measured by their financial capacities to influence the EU economic and fiscal governance. According to this measure, the ECB's material resources are bigger than those of all other actors and theoretically even unlimited, since it is the only actor that can actually create money. On the one hand, this capability regards the provision of liquidity to banks, which are crucial for economic stability and the refinancing of MS. On the other hand, this concerns directly the MS' finances as the ECB can influence their refinancing options by buying or selling their bonds. Of course, the ECB's firepower is limited by its mandate which prohibits monetary financing. However, firstly also the MS are limited in the appropriation of their financial capacities by the 'no-bailout clause', which prohibits state financing among Eurozone members (Art. 125 TFEU). Secondly, even within its mandate, the ECB's material capacities still exceed those of the MS by far. One example for this paramount material resources was the ECB's support to the Irish banking sector which before 2010, when the EU/IMF programme was agreed, amounted to 140bn euro (including ELA) or 85% of the Irish GDP at the time.¹³¹ As one ECB official put it, the single MS' contribution to the financial assistance for Ireland (Eurozone total: 67,5bn) were "peanuts" in comparison (Interview 14).

In order to assess the ECB's institutional resources, one needs to distinguish between monetary policy and economic (including fiscal and financial) policy. As regards the former, the ECB possesses all relevant resources because within its mandate, laid down by primary law, it is the only authorised actor. Thus, it holds all the rights ranging from agenda-setting via decision-making through to the implementation of its decisions. As regards economic policy, in contrast, the ECB's institutional

¹³¹ <http://www.ecb.europa.eu/press/html/irish-letters.en.html> rev. 2016-01-29.

resources do not include any formal right of decision-making. However, the ECB does have formal and informal participation, consultation, and monitoring powers.

First, the ECB participates in all relevant fora of agenda-setting or decision-making in the Eurozone.¹³² According to Article 284.2 of the TFEU, its President is to be invited to all Council meetings on matters which are related to the functions of the European System of Central Banks (ESCB)¹³³. More importantly, however, the ECB President is also a *de facto* full member of the Eurogroup which is the venue where he conveys the ECB's policy recommendations to the MS. As regards both Council and Eurogroup, the ECB not only participates through its President in the official summits, but also – and with regard to substance maybe more importantly – by having staff members in all preparatory bodies and committees.¹³⁴ The most important of these is the Eurogroup Working Group (EWG), which prepares the Eurogroup summits and where 'much of the substantive work' takes place (Interviews 21, 24). Since the outbreak of the Eurozone crisis, the ECB President also participates in the meetings of the Euro Area's heads of state and government ('Euro Summits'). Furthermore, the ECB is part of the so-called Macroeconomic Dialogue, which takes place twice a year between representatives of ECB, Commission, Council, and social partners. The ECB President may also be invited to the regular meetings which according to the Euro Summit Statement of 26 October 2011 are to be held between the Presidents of the European Council, the Eurogroup, and the Commission. Finally, as regards the Eurozone's rescue funds, the ECB can appoint observers, but more importantly, its President can participate as observer in the ESM's Board of Governors, where the crucial decision about financial assistance and consolidation programmes are made (Beukers 2013: 1583-6).

Second, the Treaties grant the ECB a right of consultation as regards primary and secondary legislation at the European *and* national level in its field of competence (Art. 127.4 TFEU). In the context of the crisis management, the ECB thus gave its opinion on the drafts of the Fiscal Compact (Kreilinger 2012: 3f) and on the proposal of the Sixpack- and Twopack legislation (Beukers 2013: 1587), for instance. Thirdly, as regards implementation, the ECB has monitoring rights through its role in the Troika. In the context of the revised SGP, the ECB can generally be invited by the Commission to join it on its surveillance and review missions in certain Eurozone MS. These missions may also include the renegotiation of the consolidation programmes, in which the ECB assumes a formal negotiator role (Beukers 2013: 1588-90).

¹³² The following outline of the ECB's institutional resources is largely based on Beukers 2013.

¹³³ The ESCB is composed of the ECB and the national central banks of all EU MS.

¹³⁴ These are the Economic and Financial Committee (EFC), the Economic Policy Committee (EPC), and the Eurogroup Working Group (EWG).

As regards the ECB's participation and consultation rights, one might object that these are very weak powers given that they are not binding. However, while it is true that the ECB has no formal means to commit the MS to follow its policy recommendations, the functional links between monetary policy and economic governance provide the ECB with a strong informal power base to give more weight to its opinions:

“Important links exist between banks being dependent on the ECB for liquidity on the one hand, and Member States being dependent on liquid banks (for the acquisition of sovereign bonds, for the stability of the financial system and for lending to the real economy in a fragmented European financial system) and Member States' interest in avoiding a need for their recapitalization support on the other hand. In other words, Member States need liquid banks and the ECB can provide this liquidity. Because of these close links between banks and Member States, the ECB can influence Member States by making central bank liquidity provision to credit institutions 'conditional' upon a specific course of action” (Beukers 2013: 1592).

In other words, due to its superior material resources and its exclusive institutional rights in monetary policy, the ECB's voice cannot simply be ignored by the MS. Therefore, also the ECB's 'soft' institutional resources in the EU economic governance should not be underestimated.

Ideational resources, finally, can be differentiated into information (expertise), credibility, and legitimacy. The ECB's expertise clearly exceeds those of the MS and the EP, and arguable also that of the Commission. As a proxy for expertise, the number of administrative staff who work primarily and specifically in the area of European economic and fiscal governance has been used. The ECB employs 523 staff members, followed by the Commission (391), Germany (117), and the EP with only 40 permanent staff (Ch. 5.3.4). These numbers are confirmed by the subjective assessments of the interviewees. Due to its high number of experts in the areas of monetary, economic, fiscal, and financial matters as well as its access to country-specific data through the national central banks (whose staff is not even considered in the figure reported above), the ECB is highly appreciated as a technical advisor in economic governance. This expertise constitutes a power resource to influence MS' policy decisions, including the suggestion of concrete amendments to legislative proposals (Interviews 14, 21, 22, 24).

Being a supranational institution, the ECB enjoys higher credibility to serve the EU's common good than the single MS. Moreover, the ECB's credibility exceeds also that of the EP and the Commission because it is political independent and thus free of political influences or constraints that could prevent it from exclusively pursuing the Eurozone's common interest. This high degree of credibility is further underpinned by the ECB's material resources to print unlimited amounts of money as well as its exclusive competences in the Eurozone's monetary policy.

With regard to its legitimacy, finally, the ECB's record is mixed. According to democratic standards, the ECB has almost no input legitimacy by definition as it is politically independent. Thus, apart from the legal bases laid down by the Treaties, the ECB's legitimacy can only be based on its output which is defined by its mandate to maintain price stability (Art. 127.1 TFEU). As long as the ECB achieves these goals without causing significant redistributive consequences, its legitimacy should be considered relatively high. However, as soon as the ECB's actions imply clear winners and losers and are not unambiguously backed by its mandate, it will lose legitimacy. Still, being a supranational institution, the ECB is more legitimated to act as a leader in the Eurozone than a single MS. Compared to Commission and EP, however, the ECB lacks input legitimacy and thus appears less appropriate to take the lead. This is especially true if it comes to (re)distributive issues.

In sum, the ECB possesses the most material resources of all relevant actors. Also as regards its ideational resources, especially expertise and credibility, the ECB is more powerful than the other actors. Only its legitimacy falls below that of the EP and the Commission, but still higher than that of the MS. Its institutional resources are most difficult to compare. Formally, the ECB is very powerful in the area of monetary policy because it is the sole decision-maker, but it is relatively weak in economic governance because it has no formal rights of decision-making. Informally, however, the ECB's weak competences in economic governance are backed by its material and ideational resources, which is why its influence in that field is arguably still bigger than that of the EP. The Commission and MS, however, have more institutional resource in economic governance. Hence, mainly based on its material and ideational resources, but also due to its exclusive competences in monetary policy, the ECB is an extremely powerful actor – if not the most powerful – in the Euro Area. Furthermore, like in the case of Germany, we can observe that power resources are interrelated. The ECB's capability to provide unlimited liquidity as well as its outstanding expertise, for instance, provide for its high credibility or its informal institutional power.

According to hypothesis 3, which predicts that a leader's impact on the outcomes increases with the amount of power resources at its disposal, we therefore expect that the ECB strongly influenced the outcomes in the desired way and thus acted as a successful leader in the case of the OMT.

Hypothesis 4 specifies the second condition as regards a leader's impact on the outcomes: the stronger the preferences converge around the outcome preferred by the leader, the stronger is her impact on the outcomes – and *vice versa*. According to the interview material, only three MS, namely Germany, and to a minor extent also Austria and the Netherlands, were initially against the announcement of the OMT (Interviews 1, 2, 13, 26). However, the surprising statement of Mario

Draghi and the ensuing effect in the markets changed their strategic preferences. If they had opposed the OMT, they would have damaged the credibility of the ECB and thus the OMT's welcome effect. In this case, they would still suffer the same *status quo* costs as before (Ch. 5.7.3), but additionally they would have reinforced the doubts in the markets whether the Eurozone would actually be able or willing to preserve the common currency and avoid MS default. In short, by opposing the OMT after Draghi's announcement, the sceptical MS would even have exacerbated the situation. Thus, they took a neutral position, or, in the words of one interviewee, "those who were sceptical decided not to be vocal" (Interview 2).

The most sceptical MS was certainly Germany (10, 11, 13, 26). Its strategic preferences were "mixed" (Interview 27), however. While it welcomed the signal effect of the announcement, which not least removed the pressure to take the lead itself by agreeing on any further form of risk mutualisation (Interview 22), it strongly fought against the activation of OMT or any design that would allow the ECB to do so without the MS' approval (Interviews 25-27). As one interviewee stated, after the Governing Council's decision of 2 August, the German government clearly conveyed in all fora that an activation of OMT "would not be welcome and that the ECB would be well advised not to go ahead" (Interview 10). In public, however, also the German government backed the ECB's decisions for the above-mentioned reasons (Blackstone/Walker 2012: 4f; Henning 2016: 189). Germany's resistance behind closed doors was directly opposed by France, Italy, and the Commission, which strongly pushed for an activation of OMT. With regard to the supranational institutions, not only the Commission, but also the EP clearly welcomed the ECB's decision on OMT (Interviews 14, 16, 17, 27).

In sum, apart from Austria, the Netherlands, and Germany, all actors¹³⁵ welcomed the ECB's unconventional measures. Therefore, as can be seen from figure 20, the preferences strongly converged on the ECB's preference. According to the operationalization of this variable (Ch. 4.3, Figure 5), this is the most favourable value with regard to a leader's success. Hence, based on hypothesis 4, and under the condition that the other two variables' (power resources and institutional constraint) values are not to the disadvantage of the ECB, we expect a strong impact and successful leadership in the case of the OMT announcement.

¹³⁵ Finland and Estonia are not represented in the figure. While they usually belong to the group of classical 'creditor states' surrounding Germany, no information could be obtained through the interviews that they were against the ECB's announcement or part of the group of sceptical actors. *Vice versa*, there has been no indication that they were in favour of the announcement either.

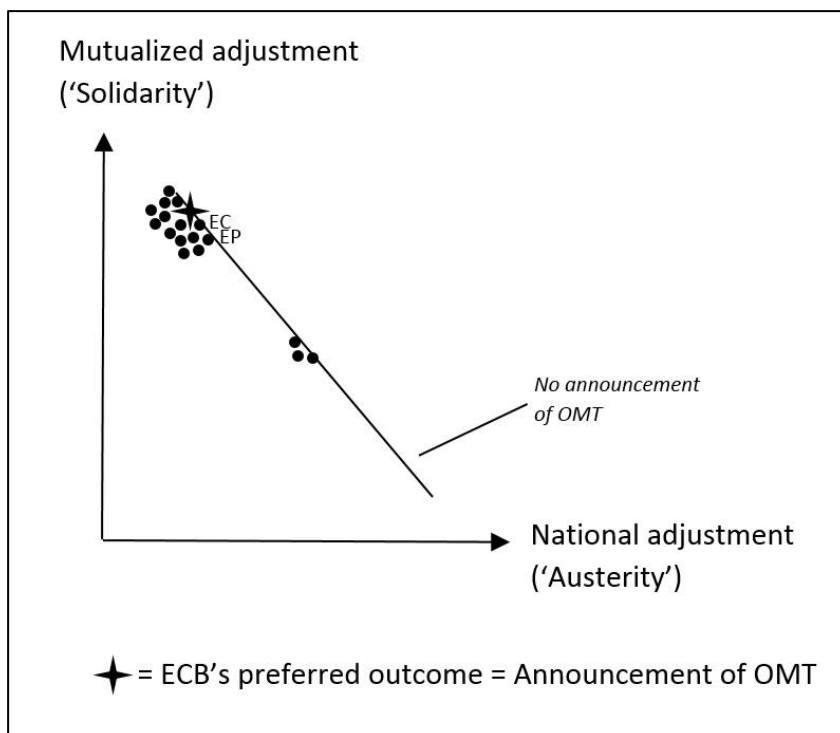


Figure 20: Preference Distribution Regarding the Announcement of OMT

Source: Own Illustration

The last hypothesis accounting for a leader’s impact is the institutional constraint that determines her latitude in decision-making. Based on Treaties, the ECB is “independent in the exercise of its powers [...] Union institutions, bodies, offices and agencies and the governments of the Member States shall respect that independence” (Art. 282.3 TFEU). According to the operationalization of institutional constraint, this means that as long as the ECB acts within its mandate, it faces the lowest possible degree of institutional constraint, which has been defined as full discretion in decision-making (Ch. 4.3, Table 12). However, two questions need to be clarified in order to make a final assessment of the ECB’s institutional constraint in the case of the OMT announcement. First, is the ECB also informally independent or does its political independence exist only on paper? Second, did the launch of the OMT fall within its mandate?

As regards the first point, all interviewees who have dealt with the ECB during the crisis or are responsible for its relations with other institutions, agreed that the ECB is not only formally, but also actually independent in its decision-making (Interviews 1, 2, 4, 5, 7, 10, 14, 25, 26). To be sure, there are steady consultations and exchanges of views with MS and other EU institutions at the technical and political level. In this way, the ECB prepares and explains its actions and takes the preferences of the other actors into account (Interviews 19-22, 26). However, there is no *ex-ante* coordination and no actor attempts to give instructions to the ECB – which cannot be said the other way around

(Interview 25). Before stating to ‘do whatever it takes’, Mario Draghi had not even informed the members of the ECB’s Governing Council, let alone anyone in the EU fora (Interviews 13, 15). There are only plausible presumptions about phone calls to Merkel and Schäuble, in which Draghi prepared them, explained the rationale for his measures, and made sure they would not undermine the ECB’s authority after the announcement (Blackstone/Walker 2012; Spiegel 2014). At any rate, as regards the concrete case of ‘whatever it takes’ and its timing, the German government was not informed beforehand either (Interviews 26, 27). In sum, the ECB is a formally and informally independent institution. The institutional constraint in the case of the OMT announcement can therefore only have two values: either ‘full discretion’, which is the lowest possible value, or ‘interdiction’ of making the decision, which is the highest possible value (Ch. 4.3, Table 12). The assessment of which of the two applies depends on the question whether the OMT fall within the ECB’s mandate.

This second question, as to whether the launch of the OMT is legal, is more controversial. Given that this is a subjective judicial decision, an ‘objective’ assessment is not possible. However, after the German Federal Constitutional Court had referred the issue to the ECJ, the latter declared it to be legal. Moreover, if the institutional constraint is objectively not assessable, it must be assessed as perceived by the relevant actor *before* making the decision. The ECB, which was definitely aware of the danger that the OMT could be taken to the Court (Ch. 5.7.3), decided to announce them nevertheless. This implies that the ECB must have considered them legal – not only in its public statements, but also internally – because any other decision by a court would do harm to the ECB and the entire Eurozone (see above).

In sum, given that the ECB is formally and in reality independent and that the OMT have been considered legal, the institutional constraint attains the lowest possible value, namely full discretion by the leader. This low institutional constraint allows for very efficient decision-making by the ECB, which is especially relevant in times of crisis (Interviews 18, 25):

“Comparatively, decision making by the ECB is much more straightforward and fast. No parliamentary approval is required of decisions of the Governing Council, and unanimity is not required. [...] Moreover, the ECB does not have to respond to voters through elections, and its measures cause less immediate – or less visible – damage to voters. The ECB is therefore seen as the only institution that can act quickly – a characteristic that fits the dynamics of the financial markets better than slow, democratic procedures” (Beukers 2013: 1608f).

According to hypothesis 5, and under the condition that the other two variables (power resources and preference distribution) are not to the disadvantage of the ECB, we therefore expect a strong impact and successful leadership in the case of the OMT announcement.

Given this low institutional constraint, it must finally be discussed whether the preference distribution assessed above played any role at all for the announcement of the OMT. One could argue that the ECB could have launched the OMT even if all the MS had been against it. While it is true that the ECB in theory could have done so, it is highly improbable in practice, however. In the concrete case of the OMT, a launch against a majority of MS would have most probably destroyed their effect and would thus have been useless and even detrimental to the ECB's credibility and legitimacy. More generally, any ECB action which is not in accordance with a critical mass of MS preferences is formally possible – due to the ECB's political independence – but would do serious harm to the ECB's credibility and legitimacy in the long run. As elaborated in Chapter 5.7.3, a significant loss of reputation and trust in the public, or the overt withdrawal of support by a critical mass of MS governments, would challenge the common currency itself and thus jeopardize the ECB's existence. Therefore, the ECB – and especially Mario Draghi – was very careful throughout the crisis to extensively consult the MS prior to making its decisions and to act only once it was sure that a critical mass of actors was on its side (Interview 2). Although this cannot be considered an *ex-ante* coordination, but rather an informal exchange of views, the ECB's always pursued a “cooperative approach” (Interview 1, also 10, 21, 22). In sum, despite the low institutional constraint, the other actors' preferences still play an important role for the ECB's actions and its impact on the outcomes.

5.7.5 Results and Causal Mechanisms

The ECB's successful leadership in the case of the OMT announcement can plausibly be explained by the theoretical model. As predicted by the hypotheses of the first analytical step, the ECB emerged as a leader because the *status quo* costs were extraordinarily high and its benefits of leading – namely, the preservation of the common currency and thus of its own existence – outweighed the costs. As regards the second analytical step, the ECB could successfully launch the OMT because, as predicted by all three hypotheses, its power resources are extremely high, preferences converged on its own preferred outcome, and the institutional constraint was very low. If the ECB had not achieved the desired outcome in this case, the analytical model would have been falsified.

One could argue that the low institutional constraint is already sufficient to explain the ECB's success. However, if the ECB's power resources had been low, the ‘whatever it takes’ and the ensuing OMT would not have been as credible and thus possibly ineffective. Moreover, if the other actors, and

particularly the MS, had had strongly opposed preferences, they would have undermined the ECB's credibility and legitimacy as well.

Confidence in the single hypotheses can be increased by tracing the presumed causal mechanisms. With regard to the emergence of leadership, we expect that the ECB presented the launch of the OMT as a way to reduce the group's *status quo* costs and thus as a contribution to a common goal. Moreover, there should be evidence that the other actors took notice of this leadership offer and that at least some of them objected to it. The search for such evidence constitute a 'hoop test', as this is necessary but not sufficient to affirm causal interference (Collier 2011). In other words, while the finding of this evidence strengthens the confidence in the hypotheses, it does not exclude alternative explanations. If we do not find this evidence, however, the presumed causal mechanism would be disproved.

As regards the supply of leadership, the ECB indeed presented the OMT as a contribution to the common goal of preserving the euro and overcoming the crisis. When the ECB presented the technical details of the OMT programme, for instance, its President Mario Draghi explained that it "is now time [...] for the ECB to graduate from the narrowly inflation-focused priority rooted in the German model and assume greater responsibility for the functioning, or even *the survival, of the system*" (Euractiv 2012b, own emphasis). Also the ECB's official press release states that the OMT "aim at safeguarding [...] the singleness of the monetary policy" (European Central Bank 2012b). In any case, the original statement "to do whatever it takes to preserve the euro" (President of the European Central Bank 2012) already defines any ensuing action as a contribution to the Eurozone's common goal.

As regards the demand for leadership, the other actors perceived the ECB's announcement as a leadership offer, although some MS objected to it behind closed doors (Interviews 1, 2, 10, 11, 13, 14, 16, 17, 25-27). In order to safeguard the ECB's political independence, most actors refrained from publicly commenting on the ECB's decision. However, Germany and France publicly welcomed the launch of the OMT as an obligation of the European institutions to protect the integrity of the Euro area (Waterfield 2012). This statement shows that the two MS indeed perceived the ECB's announcement as an attempt to lead, by guiding the Eurogroup towards a common goal (see Spiegel/Peel/Wilson 2012). The same is true for the Commission and the EP. Most telling in this regard is the reaction of EP President Martin Schulz: "This courageous decision is a major step towards resolving the sovereign debt crisis and restoring the stability of the euro zone" (Euractiv

2012b). This does not mean, however, that there were no objections against the ECB's measures. As outlined in Chapter 5.7.4, the German government especially urged the ECB not to activate the OMT.

All three hypotheses of the second analytical step pass the congruence test. If also the presumed causal mechanism applies, there must be evidence that the ECB employed its resources in one or more of the leadership strategies defined in Chapter 3.3.1. Such evidence is necessary and sufficient to affirm causal interference and thus constitutes a 'double-decisive test' (Collier 2011). However, no evidence could be found that the ECB translated its resources in any of the defined bargaining strategies ('enhancing collective action'¹³⁶). Moreover, there is no evidence that the other actors anticipated the ECB's reaction in case they would not support the OMT and therefore backed its decision ('rule of anticipated reaction'). This indicates that the ECB, due to its political independence, refrained from engaging in power-based distributional bargaining, which distinguishes it from all the other actors examined by this work (see below). Nevertheless, there is evidence that the ECB (1) acted as a provider of common knowledge in order to ensure acceptance for its measures and (2) relied on unilateral action which provided it with a first-mover advantage.

First, the ECB carefully prepared its measures through exchanges of views with all relevant actors, which allowed it to take the others' preferences into account, but also to explain its own course of action and thus to shape new outcomes (Interviews 1, 2, 21, 24). In particular the latter point is crucial: by providing "full information" (Interview 24) as regards the state of affairs and possible outcomes (Interviews 21, 24), the ECB inevitably shapes the strategic preferences of the other actors. In particular during crisis management, ECB officials explained monetary policy and macroeconomics publicly and internally in all relevant EU fora. In this way, the ECB defined possible solutions and advocated those preferred by itself (Beukers 2013: 1581). In the concrete case of the OMT announcement, the ECB – and in particular its President Mario Draghi – were very "pro-active" (Interview 2) in communicating with MS governments and the Presidents of the European Council, Eurogroup, and Commission (Interviews 1, 2, 10, 22, 25-27). This regarded especially the German government as the potentially most powerful opponent of the ECB: Indeed, "[w]ithout compromising the ECB's independence, Mr Draghi worked informally with Ms Merkel, carefully testing what might be acceptable" (Spiegel 2014). Although the ECB thereby prepared the ground for the OMT, it did not inform the other actors about its concrete plans or when to launch them.

¹³⁶ The only exception in this regard is 'unilateral action' (see below).

The second strategy employed by the ECB is that of unilateral action. According to Arild Underdal, unilateral action as a leadership strategy “is exercised whenever one moves to solve a collective problem by one's own effort, thereby setting the pace for others to follow” (1994: 183). A necessary pre-condition, however, is that the respective actor occupies a dominant or preponderant position within the basic game in question (Underdal 1994: 183). This matches perfectly the case of the OMT: the ECB solved the Eurozone's most immediate problem at the time completely by its own effort and thereby bought time for the MS to reform. As a top official in the German Finance Ministry explained: the ECB took a decision which actually should have been taken in the ECONFIN Council; instead, the ECB acted unilaterally (Interview 27). An ECB official admitted and justified the ECB's unilateral action: “There were only two alternatives: Either the ECB appearing as lender of last resort to governments or Germany moving on towards Eurobonds or Redemption Fund or something to stop the crisis” (Interview 22). Hence, by declaring to ‘do whatever it takes’ and announcing the OMT, the ECB exploited a first-mover advantage and thus modified the strategic preferences of the opponents among the MS. Although they were still against the activation of the announced bond purchasing programme, they strategically took a favourable position because otherwise they would have destroyed the effect of the announcement and thereby even increased their *status quo* costs. As specified by Underdal, the ECB could employ this strategy because it possesses paramount material power resources in the Eurozone.

In sum, the ECB emerged as a leader in summer 2012 because in the light of an unprecedented fragmentation risk in the Eurozone there was a great demand for decisive action and the ECB needed to ensure its own survival. The ECB's leadership was successful because it used its paramount power resources to first provide common knowledge and then move on to unilateral action. Although there is no process-tracing evidence indicating that the ECB would have been less successful if the preference distribution or the institutional constraint had been less favourable, it appears plausible that these two factors facilitated or even enabled the ECB's impact.

Moreover, the case of the OMT bears at least two further important results for the study of leadership. First, this case sheds light on the phenomenon of ‘*leadership by default*’. Leaders by default are leaders that, although they may be very powerful actors, intervene only if there is a leadership vacuum. According to this work's theoretical model, the only reason for doing so can be the high costs of leading. In the case of the OMT, the ECB's costs of leading were indeed very high and consisted primarily in its politicization: “An institution that was designed to be free of politics, maintaining its existence in an international environment outside the control of any one government, has become intensely politicized. The ECB, for better or worse, is now embroiled in politics” (Farrell

2012). If the costs of leading are very high, the leadership candidates act as late as possible because they hope that another actor will take the lead first and achieves the common goal, thereby making them free-riders ('game of chicken'). However, if this does not happen, they have to intervene to avoid the even bigger costs of the *status quo*, which makes them leaders by default. In other words, leadership by default is costly, but driven by the avoidance of even higher *status quo* costs. In the case of the OMT, the ECB's actions were indeed driven by the attempt to avoid the even higher costs of non-action, namely the break-up of the Eurozone which would have implied its own institutional death (Interview 20; Krampf 2016: 467). Still, the ECB waited as long as deemed possible before it intervened because it hoped that the MS, and in particular Germany, would act before.

Second, and closely related to this, the ECB's basic interests apparently differ from those of all other actors examined by this work. MS as well as supranational institutions proved to be interested in the increase of their power understood as the capacity for political influence. In the case of the ECB, however, the increase of political influence does not coincide with an increase of institutional power. The politicization of the ECB is rather a cost it faces, because it jeopardizes its political independence and makes it vulnerable to political pressure. As one ECB official, who among others had also been involved in the Troika activities, put it:

"In the house there is a certain unease about expanding so much the role of the ECB. I think few people are happy with the fact that the ECB had to play such an important role in the crisis management. Many people are aware of the risks that comes with it. The risk of mission creep and lack of legitimacy" (Interview 18).

Thus, this work disagrees with other recent accounts, which, in the light of the ECB's politicization during the crisis, consider the ECB a classic strategic player (Beukers 2013; Henning 2016; Torres 2013). Instead of engaging in bargaining over outcomes or institutional power with the MS and other EU institutions, the ECB simply reacted to functional constraints. The fact that in so doing it had to take into consideration the actions of the MS does not necessarily indicate that the ECB has been a strategic player trying to maximize its institutional power. Such a claim could only be proved by evidence unveiling the ECB's bargaining behaviour in the relevant EU fora. However, no such evidence could be found in the conduct of the research for this thesis.¹³⁷ On the contrary, all

¹³⁷ The alternating sequence of action between the MS' moves in fiscal and economic policy and the ECB's moves in monetary policy (Beukers 2013: 1601) does not qualify as evidence for strategic action as the MS' actions modified the functional constraints on the ECB and thus increased its leeway in monetary decision-making (instead of constraining it). If this sequence of measures were an actual indicator for strategic interaction, there should be evidence that the ECB made respective commitments or threats vis-à-vis the MS (e.g. tit-for-tat: 'if you MS decide on direct bank recapitalization, we will launch OMT'). However, no such evidence could be found.

interviewees agreed that the ECB explained the existing functional and institutional constraints on it to the MS, but that it refrained from using them as a bargaining chip.¹³⁸

¹³⁸ The only mentioned exception to this is the ECB's behaviour in the so-called Troika vis-à-vis debtor states like Greece or Portugal (Interview 25).

6. COMPARATIVE RESULTS

6.1 Cross-Case Analysis

As outlined in the methodology chapter, this work aims at complementing the within-case analyses, which serve as a plausibility probe of the theory, with a controlled comparison to actually test the theory. The underlying logic is that of Mill's method of difference: by matching the cases in such a way that they differ only with regard to their outcomes and one independent variable, while all the other independent variables have the same value, we can make sure that within the analytical model it is indeed the isolated variable which accounts for the difference in the outcomes. Table 24 illustrates this for the first analytical step explaining the emergence of leadership.

Table 24: Comparative Results Regarding the Emergence of Leadership

	Emergence of Political Leadership (dv)	Leader's Surplus (iv ₁)	Status quo Costs (iv ₂)
First Greek Bailout	0	0	1
Super-Commissioner	1	1	1
Fiscal Compact	1	1	1
Eurobonds (Commission)	0	0	1
Eurobonds (EP)	1	1	1
OMT	1	1	1

Source: Own Illustration

As can be clearly seen from the table, the *status quo* costs can serve as a control variable because in the context of the Eurozone crisis they did not vary significantly. Thus, we obtain a controlled comparison for the first hypothesis regarding a leader's surplus. The hypothesis passes the test: under the condition that the *status quo* costs are high, there is perfect congruence between the values of the independent (leader's surplus) and the dependent variable (emergence of leadership): in all six cases, powerful actors emerged as leaders only if they expected individual benefits from it. Moreover, we can conclude that both a leader's surplus and the aggregate *status quo* costs are necessary conditions for the emergence of leadership.

With regard to the second independent variable, we can furthermore see that a high demand for leadership is not a sufficient condition for its emergence: only in combination with a leader's surplus the demand can account for the emergence of leadership. However, this second hypothesis could not be tested on the basis of a cross-case comparison because its independent variable does not vary. Within the scope of this work, we therefore have to rely on the plausibility probes which were conducted in the context of the within-case analyses.

Table 25 shows the more complex picture of the second analytical step, which accounts for a leader's impact on the outcomes.¹³⁹

Table 25: Comparative Results Regarding the Impact of Leadership

	Impact of Political Leadership (dv)	Power Resources (iv₁)	Preference Distribution (iv₂)	Institutional Constraint (iv₃)
Super-Commissioner	No	Medium-high	Unfavourable	High
Fiscal Compact	Yes	Medium-high	Favourable	High
Eurobonds (EP)	No	Low	Heterogeneous	High
OMT	Yes	High	Favourable	Low

Source: Own Illustration

As emerges from the table, only the second hypothesis on the preference distribution can be tested by means of a controlled comparison. If we compare the case of the super-commissioner with the shaping of the Fiscal Compact, we see that in both cases Germany emerged as a leader and treaty change was required to bring about the desired results. Thus, in both cases the power resources were the same and the institutional constraint was high. As a result, we can affirm that the difference in the preferences of the followers, which in the case of the Fiscal Compact weakly converged on the leader's preference whereas they converged elsewhere in the case of the super-commissioner, accounts for the different outcomes. Moreover, it can be speculated that the preference distribution plays a more important role for a leader's impact than the other variables. Based on this work's sample of cases, a favourable preference distribution appears as a sufficient condition for a leader's impact, independently of the values of the other variables. This would imply that if the major part of the actors agrees on the outcome preferred by the leader, there will be an impact even if the leader's power resources are low and the institutional constraint is high.

¹³⁹ In order to avoid excessive complexity, verbal descriptions are used instead of numbers.

As regards the other two hypotheses concerning a leader's power resources and its institutional constraint, the sample of cases does not allow for a controlled comparison. However, all hypotheses have already undergone multiple plausibility tests in the form of congruence tests and process-tracing (Ch. 5) and are therefore empirically corroborated. Future research including further cases selected on the independent variables may enable controlled comparisons also for the remaining two hypotheses.

6.2 Further Results

This chapter summarizes further results that emerged from the empirical analysis. It is subdivided into three sections. While the first part focuses on the actors' costs and benefits in EMU, the second and third part present general and actor-specific findings, respectively.

One empirical contribution of this work is the investigation of what the actors' costs and benefits in EMU actually are. From a comparative perspective, it becomes clear that the perceived costs and benefits of the German government differ considerably from those of the two formal decision-makers among the EU institutions, namely the Commission and the EP. The costs and benefits of the ECB, finally, whose decision-making competences are limited to monetary policy, fall into a third category that differs from all other actors analysed by this work.

Germany's costs and benefits in the crisis management evolved around the goal to avoid becoming EMU's 'paymaster' and to institutionalize fiscal discipline, on the one hand, and to calm the financial markets and stabilize the Eurozone on the other. Hence, most of Germany's costs and benefits were related to material gains in a distributional conflict about economic welfare. To a lesser extent, the German government was also concerned with domestic costs and benefits, which in most of the cases can be translated into electoral votes.

The costs and benefits of the Commission and EP, by contrast, consisted mainly in non-material power resources. It is striking that both institutional actors had almost identical rationales for action: both the Commission and the EP were primarily concerned with gains or losses in institutional and ideational resources. With regard to the latter, the EP's main concern was its legitimacy, while the Commission took also its credibility and bureaucratic resources into account.

The ECB, finally, was much more interested in its political independence and effectiveness than in its power or political influence (see also Lombardi/Moschella 2016: 863-5). In the context of the Eurozone crisis, both aspects were closely related to the ECB's survival as an institution. Moreover, the ECB's political independence is key to maintaining monetary dominance over the MS' fiscal authorities.¹⁴⁰

In sum, while Germany's (and arguably all other MS') costs and benefits consisted primarily in material gains and losses, the Commission and EP were more interested in non-material power resources. However, all three of them assessed their costs and benefits in terms of political influence, be it due to material or non-material resources. This is what distinguishes them from the ECB, which under certain circumstances faces a trade-off between its political influence and its independence. In principle, the ECB's independence weighs more for the institution than an increase in political influence (see below).

As regards the work's model of political leadership, at least five general findings emerged from the empirical analysis. First, leadership can function as a solution to collective action problems. This means that in situations, in which a group faces suboptimal collective action outcomes due to incomplete institutional rules, a leader can help them to complete the institutional framework. In other words, a leader can optimize collective action. In the case of the first financial assistance to Greece, for instance, we can see that due to a lack of leadership on the part of Germany, the eventual assistance was too little, too late. Thus, the Eurozone as a whole was worse off as the Greek sovereign debt crisis spilled over to other MS and jeopardized the single currency. In the course of the crisis, it turned out that a limited backstop like the ESM would not suffice to calm the markets and thus to remove the immediate fragmentation risk in the Eurozone. Thus, in order to suspend or even end the crisis, an unlimited backstop was needed. Eurobonds would be such a backstop, but given that no powerful Eurozone actor emerged as a leader in the issue, and the EP was not successful in its efforts either, the crisis continued. Only when the ECB stepped in as a lender of last resort – and thus as an unlimited backstop – the Eurozone's collective action problem¹⁴¹ could be solved for the time being.

¹⁴⁰ Monetary dominance means that fiscal authorities adjust to the central bank's monetary policy. This is supposed to result in lower debt ratios and more price stability. In the case of fiscal dominance, instead, the central banks need to adjust their decisions to the fiscal authorities, which design their policy independently.

¹⁴¹ The Eurozone's collective action problem is twofold: on the one hand, a non-optimal currency union bears incentives for free-riding, which needs to be regulated; on the other hand, it requires a certain degree of redistribution. The EMU lack institutional rules with regard to both problems (Ch. 5.1.1).

Second, leadership is no altruistic sacrifice. In all six cases analysed by this work, actors supplied leadership only if they expected individual benefits from doing so. Especially in the case of Eurobonds, there would have been good normative reasons for the Commission to take the lead despite the low chances for success. However, the Commission refrained from taking the lead because it anticipated considerable losses in institutional and ideational power. The same is true as regards Germany's role in the first financial assistance granted to Greece, when pro-European arguments or values like solidarity did not suffice to make Germany emerge as a leader on the issue.

Third, the fact that the leader also needs to be better off at the end of the day can result in a leadership vacuum. In such a situation, surprisingly weak actors, which under normal circumstances would not have the chance to assume leadership, can step in and help the group to achieve its common goal. This has been the case with the EP in the case of Eurobonds. However, due to their lack of resources, weak leaders will succeed only if they face favourable preferences or a low institutional constraint. Especially in cases where they promote solutions that had already appeared in the public sphere, as the EP did with Eurobonds, it is likely that weak leaders face strong opponents and thus unsurprisingly fail. Next to weak leaders, a leadership vacuum can also bring about 'leaders by default'. In particular when the expected costs of leading are very high, potential leadership candidates wait as long as possible until they supply leadership, in the hope that another actor will take the lead before them. If the *status quo* costs are high, too, the result is a so-called 'game of chicken'. Hence, it can be speculated that it is the actor that has to lose most in a continuation of the *status quo* who eventually emerges as a leader. This has been the case with the ECB and its launch of the OMT. Although the costs of leading were very high, the *status quo* costs finally pushed it to take the lead. Given that these *status quo* costs consisted in the feared collapse of the Eurozone and thus in the institutional death of the ECB, it had even more to lose than the MS.

Fourth, the dependent variable of the first analytical step (emergence of leadership) may be better conceptualized as a continuous variable. In the theoretical model, the variable has only two possible values, which are either the presence or the absence of leadership. However, the case of the super-commissioner has shown that leaders can deliberately decide about the degree to which they provide leadership. If we compare Germany's proposal of a super-commissioner to the Fiscal Compact, for instance, we see that in the case of the super-commissioner Germany limited itself to the provision of common knowledge, whereas it extended its engagement to the costlier leadership exercise of employing bargaining strategies when it came to shaping the Fiscal Compact.

Fifth, with regard to the second analytical step, we could observe that it is not just the value of one single independent variable that determines a leader's impact on the outcomes, but the interplay between all three independent variables, namely a leader's power resources, the distribution of preferences, and the institutional constraint. Therefore, the single hypotheses apply only *ceteris paribus*. The case of the Fiscal Compact is especially insightful in this regard. If one looks only at the hypothesis on institutional constraint, which was very high, one would expect no impact on the outcomes. However, Germany's power resources (H3) and the favourable distribution of preferences (H4) can explain why and how the high institutional constraint could be overcome.

Finally, the empirical analysis allows us to draw conclusions on the role of single actors in EMU. The actor that has been most frequently called on to assume leadership is Germany. Its role in the management of the crisis was central because it is the Eurozone's biggest economy. However, as this work shows, Germany is not omnipotent. While it is true that Germany is a *de facto* veto player in EMU, its shaping power (which is crucial to create new solutions and thus to assume leadership) has clear limits. Hence, it is much easier for the German government to maintain the *status quo* in the Eurozone than to bring about policy or institutional change in its interest. This is certainly one reason that crisis management has been characterized by incremental 'muddling through' rather than bold innovation. To put it bluntly, while Germany cannot do whatever it likes in EMU, it can block whatever it does not like. Thus, Germany provided leadership only if this regarded solutions that reflected its preferences, namely the allocation of adjustment costs at the national level through the implementation of austerity measures and the institutionalization of fiscal discipline. However, due to its limited shaping power, it did so with varying success (e.g. Super-commissioner vs. Fiscal Compact). By contrast, with the exception of monetary policy, Germany successfully prevented the leadership of other actors if they promoted solutions that did not reflect its preferences (e.g. Eurobonds).

With regard to the Commission and EP, this work shows that even if both actors have the same basic interest, which is the maximization of power, they face different utility functions due to their different institutional roles. Under the same external conditions, the promotion of a solution to a collective action problem in the EU may be beneficial for the EP while it is detrimental to the Commission. Although both institutions are supposed to promote the EU's common good, the EP would do so even where little or no chance for success obtains, because it can blame the executive in case the implementation of the proposal fails. As the case of Eurobonds shows, while the EP could only win by promoting a politically unfeasible solution to the crisis, the Commission as part of the EU's executive would suffer considerable damage and therefore refrained from taking the lead on

this issue. Hence, in an analysis of these institutions' behaviour we have to consider that even if we assume the same basic interests, their rationales of action and thus their policy proposals are constrained by their institutional roles.

While these insights do not challenge the rationalist assumption that both the Commission and EP are power-maximizers, the same proposition does not apply to the ECB. If the maximization of power, understood as capacity to influence the behaviour of others, implies distributional bargaining (e.g. compromises, package deals, commitments), the ECB normally tries to refrain from it in order to safeguard its political independence. Therefore, the ECB is no strategic player in the conventional understanding. Only if the ECB's existence itself is at stake, as has been the case in the course of the Eurozone crisis, will it be ready to sacrifice (parts of) its independence and thereby become politicized. This can be seen by the fact that the activation of the OMT was made conditional on an ESM programme and thus indirectly on the consent of the MS. Nevertheless, the ECB has never made deals with the MS and therefore has largely preserved its independence also in times of crisis. This insight does not mean that the ECB is not a utility-maximizer – it simply means that the ECB's political independence weighs more than its political influence.

7. CONCLUSIONS

Why and how do composite actors such as states or international institutions emerge as political leaders? Moreover, once in charge, how do political leaders manage to influence policy or institutional change? What determines their success or failure? Based on a rational-choice institutional framework, the thesis can provide an answer to these questions.

Leaders emerge if a collective action problem and incomplete institutions create high *status quo* costs and if at the same time a powerful actor expects that her individual benefits of leading will outweigh the costs ('leader's surplus'). While the *status quo* costs create a demand for leadership, a leader's surplus accounts for the supply of it. In order to take the lead, the leadership candidate expresses her preferences with regard to a change of the *status quo* that is supposed to be to the benefit of the entire group ('collective goal'). The other actors in the group take notice of this leadership offer and at least some of them object to it, thereby becoming followers. Where there is more than one leadership offer, the most powerful candidate's offer will succeed. At this point, the emerging leader will have to react by employing her resources in such a way as to reach an outcome as close as possible to the proposed change. In doing so, the actor exercises leadership.

Once in charge, leaders influence policy or institutional change by translating their power resources into strategies. These can take the form of typical negotiation strategies, which help a group to overcome problems caused by high transaction costs or uncertainty, or can consist in the provision of common knowledge, which comprises the definition of problems, the presentation of ideas, and their promotion as solutions. Instead of actively employing strategies, a leader can also influence outcomes by relying on the 'rule of anticipated reaction': followers may anticipate that the leader can use her power resources against them if they do not behave as the leader wants them to. Therefore, they comply preventively with the leader's requests. Hence, a leader's success or failure is partly determined by her power resources. However, two further factors play a crucial role: the distribution of preferences and the institutional constraint faced by the leader. A leader's success is more likely if the preferences in the group converge on the outcome preferred by the leader instead of being completely heterogeneous or even converging on some other outcome. Moreover, a leader's prospects of success increase with the degree of leeway in decision-making provided for by institutional rules. The more a leader has to take into account the preferences of her followers because of their respective decision-making rights, the less likely is her success. Thus, it is the

interplay of power resources, preference distribution, and institutional constraint that determines a leader's success or failure.

The empirical analysis has shown that the model of political leadership proposed by this work can plausibly explain the emergence and impact of composite leaders in the Eurozone crisis management. Thus, rational-choice institutionalism has proven to be capable of dealing with the issue of political leadership, which so far has been widely neglected by the rationalist analysis (see Brennan/Brooks 2014). This does not mean, however, that all cases and aspects of political leadership could be explained with rational-institutionalist propositions. Most notably, non-material factors outside a rationalist framework are excluded from the model. In particular with regard to Germany's behaviour in the Eurozone crisis management, the role of ordoliberal ideas has been highlighted by some authors as a crucial explanatory factor (Bulmer 2014; Matthijs 2016; Nedergaard/Snaith 2015; Schäfer 2016). While a discussion of such assessments would go beyond the scope of this work, it needs to be acknowledged that the theoretical model of this thesis does not allow for the consideration of ordoliberal ideas in the empirical analysis. The same is true for other non-material factors outside the rationalist paradigm such as norms, values, or identities. Thus, although the findings of this work sustain a rationalist explanation of Germany's and the other actors' behaviour in the crisis, they cannot disprove alternative explanations.¹⁴²

The testing of the model against alternative explanations of leadership emergence and impact is therefore one of the two major avenues for future research on the topic. Such an endeavour bears a few difficulties, however. First of all, there is no norm- or idea-based model of political leadership. The respective theoretical proposition and their empirical implications would still need to be elaborated. Second, in the most controversial case of Germany's behaviour in crisis management, both a rationalist and an ideational approach would expect the same outcome, which makes an empirical test very difficult. If we expect that Germany's behaviour is driven by rationalist cost-benefit calculations, we predict that the German government supports a rule-based approach to economic and monetary governance, which is based on structural reforms and fiscal consolidation (austerity) at the national level. If we expect that Germany's behaviour is motivated by ordoliberal ideas, instead, we would predict exactly the same outcome. Also with regard to the other actors, the logic of consequentiality and appropriateness often results in the same behaviour: the realization of an integrationist norm or idea by the Commission frequently comes along with an increase in power for this institution; the EP's efforts to increase its influence in EU policy-making correspond to the

¹⁴² Further limitations to the model, which have been exposed by the empirical analysis, but can be treated within the rationalist framework, see Chapter 6.2.

norm of parliamentary legitimization in liberal democracies; and the ECB's fight for the common good of the euro is simultaneously a fight for its own institutional survival. Hence, any test of competing explanations in the area of EMU governance needs to be based on a careful selection of cases where rationalist and ideational propositions would predict different preferences and behaviour. Such a test is still missing at the time of writing.¹⁴³

A second major avenue for future research concerns the increase of the model's external validity. In this work, the model is tested only within the empirical scope of the Eurozone crisis and with regard to four different actors. Therefore, a different empirical scope with different actors would help to refine and generalize the model. The field of International Relations appears as an especially promising empirical ground for that endeavour. A study of the EU as a potential leader in international politics, for instance, would be a coherent continuation of this work. However, given the model's generality, other global actors such as regional powers, international organizations, or major non-governmental organizations (NGOs) could also be the object of future studies to test and enhance the model. An alternative way of increasing the model's external validity would be the comparison of a particular actor's leadership behaviour in different policy areas. In particular, a comparison of Germany's role in the Eurozone crisis (economic policy) and the current refugee crisis (migration policy) would be a timely and insightful study.

Finally, there remains the question of what we have learned. On the one hand, this regards the theoretical contribution of the thesis. On the other hand, this refers to the real-world implications that we can draw from it. The theoretical contribution is straightforward: So far there has been no causal, conditional, and generalizable model explaining the political leadership of composite actors. The thesis delivers such a model. As pointed out at the beginning of the thesis (Ch. 1.1), this contribution is especially relevant with regard to theories of European integration.

At variance with the propositions of liberal intergovernmentalism, the thesis corroborates the findings of Tallberg (2006: 14f, 221) that power is not just given by a MS' fall-back position (i.e. the relative dependence on an agreement), but also by its resources. Given that in the EU these resources are unevenly distributed, single powerful states can lead a group to Pareto-improving outcomes, which not only reflect their own preferences, but which would not even exist without these states' additional leadership efforts. Considering the large theoretical overlap, however, the thesis' model of political leadership can be understood as a complement to liberal

¹⁴³ Matthijs 2016 follows a similar logic, however.

intergovernmentalism. In particular, it can help to explain irregular outcomes such as a leadership vacuum, which according to liberal intergovernmentalists' propositions should not exist in the context of European integration, where we would rather expect an oversupply of state leadership (see Beach 2005: 21). But, as the thesis shows, leadership is costly and prone to failure, which is why states may refrain from leading despite the benefits of a final agreement. Furthermore, by theorizing and investigating the use of leadership strategies, the thesis complements liberal intergovernmentalism in explaining *how* powerful states realize their preferences.

Also with regard to neo-functional approaches and their successors, which acknowledge the role of (primarily supranational) leadership for the process of regional integration, the leadership model of this thesis can serve as an insightful theoretical complement. Firstly, it refines the existing works (esp. Lindberg/Scheingold 1970) by explicating why and how national and supranational leaders emerge. Secondly, the model adds to the existing propositions that leadership is not always an appropriate tool to further regional integration because it can also fail. Also with regard to this second analytical step, the model explicates the conditions for a leader's success in the form of testable hypotheses. Thirdly, the thesis complements neo-functional and supranationalist approaches by highlighting that supranational institutions do not always provide leadership in favour of European integration. As could be seen in the case of the Commission's attitude towards Eurobonds (Ch. 5.5), the promotion of pro-integrationist solutions and a supranational institution's self-interest may be at odds – and in this case the institution will refrain from taking the lead and safeguard its self-interest. Finally, the thesis confirms and refines Mattli's (1999) and Cohen's (1998) propositions that state leadership is an important explanatory factor for regional integration.

The detailed empirical findings of the thesis were presented in Chapter 6. Most importantly, the thesis shows that leadership is a way of overcoming collective action problems and that the emergence of leadership is not sufficient for its impact. During the Eurozone crisis, some actors refrained from taking the lead, while others provided leadership with varying success. Most ambiguously, Germany appeared in all three roles: as veto player rather than leader, as failed leader, but also as successful leader. This demonstrates that leadership is an issue-specific phenomenon. Eventually, it was not Germany, but the ECB that managed to suspend – if not to overcome – the crisis as a leader by default.

Nonetheless, leadership is no panacea. As its emergence and success depend on several conditions, it is not always appropriate to call for leadership whenever a group faces a problem. Leadership may work as a solution to collective action problems, but it is no altruistic sacrifice made by powerful

actors. This implies that in times of crises it may make sense that actors subordinate their immediate preferences to those of the leader in order to profit from the achievement of the greater common goal. In the Eurozone crisis, this happened when the Southern MS accepted more stringent fiscal rules and further intrusion in their national fiscal policies through the Fiscal Compact, and when the Northern MS around Germany refrained from proceeding against the ECB's launch of the OMT. *Vice versa*, the thesis also demonstrates that a leader needs to take into account the preferences of her followers if she wants to succeed. Even the ECB, which could decide autonomously without the consent of the MS, announced the OMT only once it was assured that Germany would subordinate its actual preferences to the greater good of overcoming the crisis. Likewise, no leader will succeed in introducing Eurobonds as long as the German government categorically rejects them. As a result, each call for leadership should be preceded by a careful assessment of the relevant conditions to find out from which actor successful leadership can be reasonably expected. The leadership model proposed by this thesis provides the relevant criteria for such an assessment.

Moreover, leadership is not a tool to make everyone happy. The achievement of a common goal does not mean that all actors agree with the way this has been done. In none of the cases analysed by this work, all actors agreed with the solution proposed by the leader. This implies that despite the presence of a leader there are always relative winners and losers. One can even argue that if all actors agree, there is no need for a leader. These implications confirm what Charles Kindleberger wrote already in 1981: “[...] leadership to provide the public good of stability, properly regarded, misunderstood as exploitation, or sniped at by free riders, seems a poor system, but like democracy, honesty, and stable marriages, is better than the available alternatives” (252).

These insights not only apply to the Eurozone crisis, but also to other present and future crises. For the time being, the salience of the Eurozone crisis and its aftermath has been superseded by the current refugee crisis in Europe. This is certainly a hard case for the rise of successful leadership, not least due to the strongly diverging preferences of the MS and the high institutional constraint a leader would have to face. So far Germany's unilateral decision to temporarily suspend the Dublin agreement for Syrian refugees¹⁴⁴ and the Commission's proposal for a pan-European relocation mechanisms for refugees can already be seen as two failed attempts to provide leadership in this crisis. The even more pressing problems posed by the current refugee crisis in conjuncture with an increasingly Eurosceptic climate in almost all MS do not seem to allow for a 'leadership surplus' when it comes to the still pending completion of EMU. However, in the light of still uncorrected

¹⁴⁴ This can be seen as an attempt to provide 'leadership by example'.

institutional design failures, persisting macroeconomic imbalances, and increasing material inequalities between the populations of the so-called debtor and creditor states, leadership remains as needed as ever before in the Eurozone.

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ANNEX

Interview Template Brussels (November 2014)

Semi-structured Interview

Interviewee:

Affiliation:

Date:

Starting time:

Number:

Interviewer: *Magnus Schoeller*

Affiliation: *European University Institute*

Project: *Political Leadership in the Eurozone crisis:*

Section 1:

- *First bailout of Greece, autumn 2009 – April 2010*
- *Schäuble's plan to make Olli Rehn 'super-commissioner', October 2012*
- *Fiscal Compact, Autumn/Winter 2011*

Section 2: Eurobonds

Section 3: Draghi's 'whatever it takes' / ECB's OMT, July - September 2012

Purpose: *Research related only*

Data: *Anonymous, for research project only*

Record: *Yes / No*

SECTION 1: Greek bailout, super-commissioner, Fiscal Compact

- 1)
 - A) How would you describe **Germany's role** in the first Greek **bailout**, on a continuum ranging from passive or hesitant to actively pushing for it?
 - B) [*if appropriate*] What prevented the German government from acting more pro-actively?
 - C) What could the German government gain from this bailout, if any?

- 2) What were the **preferences** [*of MS, EC, EP, ECB*] when the **Fiscal Compact** was shaped? Who liked it, who didn't like it, and who liked something else?

- 3)
 - A) How would you describe **Germany's role** in shaping the **Fiscal Compact**, on a continuum ranging from passive or hesitant to actively pushing for it?
 - B) [*if appropriate*] Germany and France wrote two letters in favour of the Fiscal Compact. **What else did the German government do to convince the others of the Fiscal Compact?**
 - C) [*if appropriate*] What could the German government gain from promoting / pushing the Fiscal Compact? What were its benefits?
 - D) [*if appropriate*] Did this more pro-active behaviour imply any costs, burden or even sacrifices for the German government?

- 4) In October 2012, the German finance minister Wolfgang Schäuble came up with the idea of making Olli Rehn a '**super-commissioner**' with veto-rights over national budgets etc.
 What were the **preferences** as regards the **super-commissioner**? Who liked the idea and who did not?

- 5)
 - A) **Did Germany promote/push the idea of a super-commissioner apart from Schäuble's proposal? If yes, how?**
 - B) [*if appropriate*] Did this active behaviour imply any costs, burden or even sacrifices for Germany?

C) What would the German government have gained by establishing such a super-commissioner? What would have been its benefits?

6) In terms of institutional **rules**, what would have been necessary to establish a **super-commissioner**? [*e.g. treaty change*]

7) How would you assess **Germany's power** when it comes to decision-making in the Eurozone crisis? [*strong vs. weak*] Why?

SECTION 2: Eurobonds

1) What are the **preferences** as regards the issue of Eurobonds? Who is in favour, who against it, who is neutral? [*EP, EC, MS, (ECB)*]

2) The EC published a Green Paper on 'stability bonds' and mentions them as a possible long-term measure in its blueprint of November 2012.

A) Would a stronger commitment towards Eurobonds have implied any **costs or disadvantages** for the **EC**?

B) If Eurobonds were introduced, how would the EC **profit** from this?

3) Did the **EP** promote Eurobonds apart from its own-initiative report?

If yes

A) **How?** [*strategies*]

B) Did this pro-active behaviour imply any **disadvantages or costs** for the EP?

C) What **achievement** did the EP expect from promoting Eurobonds?

D) [*if not redundant*]: Were there any **other positive consequences** the EP aspired to by promoting Eurobonds? [*i.e. apart from obtaining Eurobonds themselves*]

If no

E) Did the own-initiative report imply any burden or costs for the EP?

F) What achievement did the EP expect from its own-initiative report?

G) [*if not redundant*]: Were there any other positive consequences the EP aspired to by its own-initiative report? [*i.e. apart from obtaining Eurobonds themselves*]

H) What else could the EP have done to promote Eurobonds?

- 4) A) When it comes to the promotion of Eurobonds, which actor would have the better **prospects for success**, the EC or the EP? Why?
- B) What is the respective **power** of the two actors *vis-à-vis* reluctant member states (here: Germany)?
-

SECTION 3: ECB

1) In July 2012 Mario Draghi's declared the ECB would 'do whatever it takes to preserve the Euro' and a few weeks later the ECB declared its OMT.

A) To your knowledge, did the ECB **consult or inform** the MS or the European institutions before making these announcements?

B) Was there any relevant **player** among the member states or the EU institutions that was **against** these steps taken by the ECB?

C) *If yes*, how could this actor / these actors be **persuaded**?

2) Did the announcement 'to do whatever it takes' and/or the announcement of the OMT imply any **costs** or disadvantages for the ECB?

3) A) Were there any **benefits** for the ECB of making these moves? Could it gain anything through this action?

B) [*if not redundant*] Has the ECB become a more powerful institution through these announcements?

4) The ECB is formally independent. How would you assess the ECB's actual **latitude** to make such announcements *vis-à-vis* potentially opposing actors? Could the ECB have been prevented by any opposing actor or a coalition of actors?

GENERAL QUESTIONS

1) In your view, which were the most precarious / **most critical moments** in the crisis, when the perceived pressure for action was highest?

2) It has been said a lot about the power of Germany due to its economic resources. But what's about the **power of the EC**? What are its resources and how does it use them?

Interview Template ECB Frankfurt (March 2015)

Semi-structured Interview

Interviewee:

Affiliation:

Date:

Number:

Interviewer: *Magnus Schoeller*

Affiliation: *European University Institute*

Project: *Political Leadership in the Eurozone crisis:*

Section 1:

- *First bailout of Greece, autumn 2009 – April 2010*
- *Schäuble's plan to make Olli Rehn 'super-commissioner', October 2012*
- *Fiscal Compact, Autumn/Winter 2011*

Section 2: Eurobonds

Section 3: Draghi's 'whatever it takes' / ECB's OMT, July - September 2012

Purpose: *Research related only*

Data: *Anonymous, for research project only*

Record: *Yes / No*

SECTION 3: ECB

- 1) *[for DG EU Relations only]*
 - A) Could you briefly **describe** the work of your DG, esp. of the EU institutions division? How are the relations to the EU institutions shaped? What are the most important **formal** and **informal** fora and channels of interaction?
 - B) Is this a mere exchange of information, or does it go beyond in terms of co-ordination and influence?

- 2) Strictly speaking, 'whatever it takes' and shaping of OMT are separate cases.
 - A) How have you been **involved** in each of them?
 - B) *[if appropriate]* Who has been informed by Draghi before he made the announcement?

- 3)
 - A) **Who** (else) **designed** the OMT?
 - B) Who **outside** the ECB was involved in the drafting?
[EU Institutions, MS; e.g. quotation Schäuble: "If programme is precondition for OMT, then I can block the programme"]
 - C) *[if appropriate]* What were the preferences of those? Have they been considered?

- 4)
 - A) What were the **pros & cons** / cost & benefits the ECB had to balance when it decided in favour of the 'whatever it takes' and the ensuing OMT?
 - B) What was the **trigger** point for the decision?
 - C) *[if appropriate]* Did the increase of control of the **conditionality** play a role?
 - D) *[if appropriate]* How would you assess the costs and benefits in terms of **legitimacy**? Does this make any difference for the ECB anyways?

- 5) How would you assess the **need for action** perceived by the ECB at the time (as compared to other instances of the crisis)?

- 6) The ECB is politically independent.
- A) Do the **preferences of MS** play any role for its decisions?
 - B) The other way round, do the **ECB's preferences** play any role for the decisions of the MS?
 - C) Do the preferences of the members of the Governing Council reflect the MS preferences?
- 7) It has been said a lot about the power of Germany due to its economic resources, but not so much about the power of the ECB. What are its **resources** and how does it use them?

OTHER SECTIONS: Preferences ECB

- 8) A) How was the ECB involved in the shaping of the **Fiscal Compact**?
- B) [*if appropriate*] Who had the original **idea**?
- C) What were the ECB's **preferences** as regards the Fiscal Compact?
- a) in favour
 - b) neutral
 - c) against
 - d) other
- 9) Schäuble repeatedly demanded a '**super-commissioner**' with veto-rights over national budgets and special rights in the College. What are the ECB's preferences in this regard?
- a) in favour
 - b) neutral
 - c) against
 - d) other

- 10) What are the ECB's preferences as regards the idea of **Eurobonds**?
- a) in favour
 - b) neutral
 - c) against
 - d) other

OPTIONAL:

- 11) In your view, which were the most precarious / **most critical moments** in the crisis, when the perceived pressure for action was highest?
- 12) How would you say has the ECB's role changed during the Eurozone crisis?
- 13) Was there any overall strategy the ECB used to further its ends?
- 14) Anyone else I should talk to?

Interview Template Federal Ministry of Finance Berlin (March 2015)

Semi-structured Interview

Interviewee:

Affiliation:

Date:

Number:

Interviewer: *Magnus Schoeller*

Affiliation: *European University Institute*

Project: *Political Leadership in the Eurozone crisis:*

Section 1:

- *First bailout of Greece, autumn 2009 – April 2010*
- *Schäuble's plan to make Olli Rehn 'super-commissioner', October 2012*
- *Fiscal Compact, Autumn/Winter 2011*

Section 2: Eurobonds

Section 3: Draghi's 'whatever it takes' / ECB's OMT, July - September 2012

Purpose: *Research related only*

Data: *Anonymous, for research project only*

Record: *No*

SECTION 1: Greek bailout, super-commissioner, Fiscal Compact

- 1)
 - A) Könnten Sie kurz die **wesentlichen Ereignisse**, die zur ersten Finanzhilfe für Griechenland im Frühjahr 2010 geführt haben, beschreiben? (Okt. 2009 - April 2010)
 - B) Ab wann war Deutschland bereit, Griechenland finanziell zu helfen?
 - C) Ab wann wusste Griechenland das?
 - D) Was war **inoffiziell zuerst** da: die griechische Anfrage nach finanzieller Hilfe oder das deutsche Angebot?
- 2) Was waren die **Vor- und Nachteile**, die es damals für Deutschland abzuwägen galt?
- 3) [*Falls angebracht*] Was stand auf dem Spiel? Wie wurden zur damaligen Zeit die **Folgen** eingeschätzt, sollte Deutschland Griechenland nicht beispringen?
- 4) Warum hat sich Deutschland **nicht von Anfang an** zu Finanzhilfen für Griechenland bekannt?
- 5) Was war schließlich der **ausschlaggebende Punkt**, der zu einer Einigung geführt hat?
- 6) Wolfgang Schäuble forderte wiederholt eine **Kompetenzerweiterung** für den **Währungskommissars** (u.a. Veto über nationale Haushaltsbudgets und besondere Rechte innerhalb des Kollegiums der Kommissare).
 - A) **Wie** wurde diese Idee von der deutschen Regierung vorangebracht? Was wurde getan um andere zu **überzeugen**? [*z.B. Papier in Eurogroup; Konzessionen in anderen Bereichen*]
 - B) [*falls anwendbar*] Brachte dieses aktive Vorgehen irgendwelche **Kosten** oder Nachteile mit sich?
 - C) Was wären Deutschlands **Nutzen** von solch einem Super-Kommissar?
 - D) Warum wurde die Idee bisher **nicht verwirklicht**?

- 7) A) Wie waren die **Präferenzen** der anderen **Mitgliedstaaten**? Wer war dafür, wer dagegen, wer wollte etwas anderes?
- B) Wie waren die **Präferenzen** der **EC**, des **EP** und der **ECB**? Dafür, dagegen, dritte Option?
- 8) Welche gesetzlichen **Voraussetzungen** müssten geschaffen werden, um die Idee zu verwirklichen? [*EU-Vertragsänderungen? Verfassungsänderungen auf nationaler Ebene?*]
- 9) Könnten Sie kurz die **wesentlichen Ereignisse**, die zur Verabschiedung des Fiskalpakts geführt haben, beschreiben? Von der ursprünglichen Idee bis zum Unterzeichnen?
- 10) Wer hatte die **Idee** eines Fiskalpakts / europäischen Schuldenbremse?
- 11) A) Deutschland förderte das Zustandekommen des Fiskalpaktes aktiv. Z.B. verfassten Deutschland und Frankreich gemeinsame Briefe, in denen sie den Fiskalpakt befürworteten. Was tat die deutsche Regierung sonst, um das Zustandekommen des Fiskalpakts zu unterstützen bzw. **andere Regierungen zu überzeugen**?
- B) i) Warum wollte Deutschland den Fiskalpakt? In Anbetracht von 6- und 2pack, was war Deutschlands **Nutzen**?
- ii) War das eher als ein effektives **Signal** an die Finanzmärkte und die deutschen Wähler zu verstehen, oder erhoffte man sich einen Effekt aufgrund substantieller Veränderungen?
- C) Brachte diese pro-aktive Förderung des Fiskalpakts irgendwelche **Nachteile** für Deutschland mit sich? [*z.B. Musste es anderswo nachgeben? Prestigeverlust in südlichen MS*] Wenn ja, waren diese Nachteile **signifikant**?
- 12) A) Wie waren die **Präferenzen** der anderen **Mitgliedstaaten**? Wer war dafür, wer dagegen, wer wollte etwas ganz anderes?
- B) Wie waren die **Präferenzen** der **EC**, des **EP** und der **ECB**? Dafür, dagegen, dritte Option?

SECTION 2: Eurobonds

- 1) Deutschlands Haltung zu Eurobonds ist bekannt. Wie war die **Haltung der (Barroso-)Kommission**?
-

SECTION 3: ECB

- 1) Im Juli 2012 erklärte Mario Draghi 'to do whatever it takes to preserve the Euro'. Einige Wochen später folgten dann die OMT.
 - A) Hatte die EZB die deutsche Regierung **informiert** – oder gar **konsultiert** – bevor Mario Draghi diesen Schritt machte?
 - B) Was war **Deutschlands Haltung**?
 - C) [*wenn angebracht*] Konnte Deutschland irgendwie **überzeugt** werden **oder** wurde es **ignoriert**?
- 2)
 - A) Wurde **Deutschland** bzw. das Finanzministerium in die Ausgestaltung der OMT mit **einbezogen**?
 - B) *Wenn nein*, konnte Deutschland **anderweitig Einfluss** nehmen?
- 3)
 - A) Theoretisch: Könnte die deutsche Regierung eine Aktion wie die Einführung der OMT **verhindern**?
 - B) *Wenn nein*, wäre das einer Koalition von Mitgliedsstaaten möglich?
- 4) Nimmt die **EZB Einfluss** auf die Wirtschafts- oder Finanzpolitik der Mitgliedstaaten (außerhalb der Troika)? Wenn ja, wie?

- 5) Die **EZB** hat sich als einflussreicher Akteur in der Krise erwiesen. Was sind die Quellen bzw. **Ressourcen** für diesen Einfluss? [*materiell => kann Geld drucken; institutionell => hat ein Mandat; kann unkompliziert entscheiden; ideell => Glaubwürdigkeit*]

Allgemeine Fragen:

- 1) Aus Ihrer Sicht, was waren die kritischsten Momente in der Krise, an denen der Handlungsdruck am größten war?
- 2) Wie schätzen Sie Deutschlands Stellung und Einfluss in der Euro-Krise bzw. dem Krisen-Management ein?