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European Journal *of* Industrial Relations

European Journal of Industrial Relations
2022, Vol. 28(1) 7–25
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The management of the Eurozone in crisis times: Actors, institutions and the case of bailout packages

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Abstract

The adjustment to the financial crisis was particularly brutal for Eurozone countries targeted by private bondholders. Financial assistance through the newly created Eurozone governance system was conditional on the implementation of austerity measures and the introduction of structural reforms in industrial relations (decentralization of collective bargaining and liberalization of employment protection). Our analysis focuses on the formation process and the structural features of Eurozone supranational institutions. Building from the insights of actor-centred institutionalism, we illustrate the importance of coalitions among some, but not all, important actors based on the overlapping of their non-monolithic preferences in the process of institutional innovation. The structural features of Eurozone institutions curtailed member states' ability to effectively resist the imposition of internal devaluation policies. A contested outcome, these institutional features were secured by a specific coalition of important actors – most notably, the German government and the European Central Bank – based on their overlapping interests around internal devaluation policies.

Keywords

Actors, Eurozone, financial crisis, institutions, internal devaluation, structural reforms

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Introduction

The adjustment process to the financial crisis was particularly brutal for Eurozone countries targeted by private bondholders. Newly created supranational institutions of financial assistance, the temporary EFSF (European Financial Stability Facility, established in May 2010) and the permanent ESM (European Stability Mechanism, agreed to in March 2011 and made operational in September 2012) provided financial assistance only on stringent terms (Blyth, 2013; Hall, 2014). The formal bailout packages provided to Greece (May 2010, March 2012 and July 2015), Ireland (December 2010) and Portugal (May 2011) required them to implement extensive austerity measures and introduce liberalizing reforms of their industrial relations systems, that is, internal devaluation strategies designed at improving international (price) competitiveness by reducing labour costs (Armingeon and Baccaro, 2012; Rathgeb and Tassinari, 2020). Reforms in the sphere of industrial relations took the form of the decentralization of collective bargaining and the liberalization of collective redundancy schemes (Marginson, 2015).

Our analysis focuses on the formation process and the structural features of supranational institutions of Eurozone financial assistance (EFSF/ESM) that have been prominent in the imposition of structural reforms in the area of industrial relations on countries (and their workers) targeted by private bondholders. Our argument builds upon the insights of the actor-centred institutionalism perspective that emphasize the interdependent character of the relationship between actors and institutions in contemporary capitalism (Scharpf, 1997, 2000). First, institutional arrangements constitute configurations of power that influence the direction and character of change by structuring, in an asymmetrical manner, power relations among actors (Scharpf, 1997: 36–50). Institutions are not neutral as they condition access to, and thus influence over, the decision-making process (Hall, 1986). In our analysis, the ability of actors to resist the imposition of internal devaluation policies was constrained by key institutional features of the newly created supranational organizations. These are the provision of veto power over lending decisions to large member states with domestic banks exposed to the rest of the Eurozone, and the inclusion of two actors (European Central Bank (ECB) and IMF) with marked preferences for stringent conditionality as members of the Troika (Henning, 2017; Mueller, 2015). However, theoretical perspectives based on institutional arrangements as configurations of power remain incomplete. If institutions are so important, actors will seek to influence their structural features (Roe, 1998). How do new institutions emerge?

Second, actor-centred institutionalism emphasizes the relational character of how important actors interact strategically with each other (Scharpf, 1997: 36–58; see also Hall, 1984). Traditional analyses of the formation of international institutions highlight the prominence of important national governments to achieve collaboratively what they cannot on their own (Keohane, 1984; see also Goyer and Valdivielso del Real, 2018, for an overview). The resulting institutional outcomes are often based on convergence around lowest common denominator solutions. Moving beyond broad, and static, perspectives that highlight how institutional innovations reflect the importance of powerful actors, however, our analysis underlines the theoretical contribution of two key concepts in actor-centred institutionalism (Aguilera and Jackson, 2003; Scharpf, 1997: 72–84). The first illustrates that the interests of actors are non-monolithic, thereby enabling them

to prioritize in a selective manner specific dimensions of their preferences at the expense of others. The second concept highlights that institutional innovation reflects strategic interaction among actors in a coalitional manner based on overlapping interests. Incorporating these two concepts, our analysis illustrates how the preferences of some, but not all, important actors were translated into institutional outputs. The core institutional features of the newly created Eurozone supranational institutions emerged as a contested outcome secured by a coalition of actors with overlapping interests around the implementation of internal devaluation strategies. The strategic activism of the German government and the ECB – the former supported by smaller countries (Austria, Finland and the Netherlands) – involved both the provision of financial resources and the selective use of veto power in the process of institutional construction (Schild, 2020; Woodruff, 2016). The latter demonstrates how the imposition of internal devaluation strategies, and more specifically the liberalization of industrial relations arrangements, did not occur in an automatic fashion. The preferences of the French government, an important Eurozone actor, for solutions based on the provision of massive liquidity to quash speculations on bond markets, not on the implementation of internal devaluation measures, were rejected. Resisting alternatives illustrates the multiplicity of preferences of actors engaged in coalition formation over institutional building (Scharpf, 1997: 51–68; see also Hyman, 2015).

The article is organized as follows. First, we provide an overview of the importance of internal devaluation in the adjustment process to the financial crisis. Second, we discuss the insights and limitations of interest-based perspectives that assign primary influence to important political actors, namely, the members of the Troika and large member states with domestic banks exposed to the rest of the Eurozone. Third, we present the key features of our theoretical framework that highlights how institutional innovations result from the interactions among important actors in a coalitional manner based on overlapping interests. Finally, we provide an empirical overview of the institutional construction of supranational arrangements of financial assistance that have been prominent in the use of the internal devaluation strategy as the main mechanism of management of the Eurozone crisis.

Internal devaluation and the management of the Eurozone crisis

This article examines an important aspect of innovation in European governance, namely, the development and design of institutional mechanisms of financial assistance (EFSF/ESM). Our analysis focuses on the formation process and the structural features of Eurozone supranational institutions. This targeted focus reflects the importance of these Eurozone institutions in the imposition of structural reforms in the area of industrial relations for recipient member states. Two features characterize the stringent conditionality of bailout packages in the Eurozone: the imposition of austerity measures, and the introduction of important legal changes in the sphere of industrial relations in the form of the decentralization of collective bargaining and the liberalization of collective redundancy schemes. The selection of these two forms of conditionality reflected the prevalence of the concept of internal devaluation (Armingeon and Baccaro, 2012; Rathgeb and Tassinari, 2020).

In the management of the Eurozone crisis, national systems of industrial relations of member states have been particularly susceptible to demands for the implementation of internal devaluation measures following reduced adjustment options and the policy positions of important European actors. First, external devaluation (currency devaluation and increases in monetary supply) as a strategy of adjustment to problems of balance of payments imbalances and/or government deficits is not available (De Grauwe, 2013). Eurozone governments cannot monetize their budget deficits due to their lack of control over the money supply and their inability to devalue periodically against their trading partners (Blyth, 2013). Yet, the removal of the strategy of external devaluation does not mean that there was only one course of action available to policy-makers (Armingeon and Baccaro, 2012). Second, important European actors have been opposed to the introduction of reflation policies, alongside adjustment in debtor countries, whereby surplus countries implement strongly expansionary wage policy in order to reduce trade imbalances (Blyth, 2013). Eurozone surplus countries rejected mutual adjustment via the introduction of reflation policies given the importance of export-oriented sectors in the economy (Hall, 2014; Hancké, 2013). The result was the nationalization of economic policies with internal devaluation as the main form of adjustment (Erne, 2015). Governments implemented measures aimed at improving international (price) competitiveness by reducing labour costs.

As insightfully illustrated by Galazka and Prosser (2020), however, the central position of internal devaluation in the management of the Eurozone crisis did not reflect a trade union strategy of wage moderation and related policies aimed at undercutting Eurozone partners in a beggar-thy-neighbour manner. Rather the prominence of internal devaluation illustrates the vulnerability of Eurozone countries to the demands of external actors given blocked alternatives. For European officials, the use of internal devaluation reflected an interpretation that the crisis was not only about public finance but also about competitiveness (Bini Smaghi, 2013: 44–48). Liberalizing reforms in industrial relations and the implementation of austerity measures (public sector wage cuts/freezes), the conditionality terms for securing financial assistance, were justified as part of an economic strategy designed to increase wage and price flexibility that were deemed essential for restoring international competitiveness (Schulten and Mueller, 2013).

Although a detailed analysis of the conditionality measures is outside the scope of this article, these externally imposed requirements have been extensively documented elsewhere. Coverage of conditionality terms have been presented in both mapping exercises (Clauwaert and Schoemann, 2012; ETUI, 2013; Eurofound, 2013; Goyer and Valdivielso del Real, 2018; Moreira et al., 2015; Petmesidou and Glatzer, 2015) and in standard academic analyses (Currie and Teague, 2017; Glatzer, 2018; Goyer et al., 2015; Hickland and Dundon, 2016; Marginson, 2015; Mueller, 2015; Schulten and Mueller, 2013). From the perspective of industrial relations, labour market reforms imposed by the Troika were primarily felt in the three areas of collective bargaining: pay cuts/freezes in the public sector, lowering of the minimum wage and devolution of the locus of collective bargaining (Schulten and Mueller, 2013). The externally imposed reforms for the Greek and Portuguese bailouts also involved structural reforms in three areas of employment protection legislation: shortened notice periods for dismissals, facilitation of fixed-term contracts and cuts to severance payments (Currie and Teague, 2017). The Troika did not seek

to impose the liberalization of collective redundancy schemes in Ireland since the regulation of employment termination was already close to that of other liberal market economies. Some of the most important measures are summarized in the Supplemental Appendix.

The inclusion of structural reforms in the area of industrial relations as part of the conditionality requirements remains puzzling. The first issue is that the strategy of internal devaluation is contingent upon mutual adjustment from both balance of payment deficit and surplus countries (Armingeon and Baccaro, 2012). Internal devaluation is associated with two intended outcomes: restoring balance of payments equilibria by repressing internal demand for imports and engineering economic recovery via export-led growth (Perez and Matsaganis, 2019: 260). Seeking to balance internal accounts via export-led growth is extremely difficult if adjustment is asymmetric in the form of only being imposed on debtor countries. Yet, the governance of the crisis has been characterized precisely by the asymmetric distribution of the costs of adjustment imposed on debtor countries (Marginson, 2015; Roos, 2019).

The second issue is that domestic aggregate demand and structural reforms constitute two key variables with differential impacts on macroeconomic outcomes, such as balance of payments equilibria, thereby requiring a disaggregation of their effects (Carlin and Soskice, 2009). The strategy of internal devaluation is partly predicated upon the implementation of austerity policies that, unsurprisingly, depress nominal growth (Armingeon and Baccaro, 2012). Persistent weakness of domestic demand, in turn, reduces demand for imports and, thus, contributes to an improvement of the balance of payments. In contrast, the full effects of structural reforms, such as the liberalization of institutions of industrial relations, are contingent upon the overall context in which they are embedded (Thelen, 2009; see also Meardi, 2018). Structural reforms might exhibit their full effects, if at all, over the medium to long term (Hermann, 2017). The implication is that restoring balance of payments equilibria via a decrease in imports could take place in the presence of extensive austerity measures that contribute to persistent weakness of domestic aggregate demand (Carlin and Soskice, 2009). Under this scenario, therefore, the implementation of structural reforms in the sphere of industrial reforms is not needed for reducing imbalances in the balance of payments.

Greece and Portugal, as well as Italy and Spain, illustrate how an adjustment process based on severe demand contraction led to improvements in the balance of trade primarily through sharp falls in imports rather than the hoped-for boom in exports (Perez and Matsaganis, 2019). Austerity programmes designed to reduce the government deficit by 11 percent in Greece and by 6 percent in Portugal in a short period of 3 years, and by 9 percent in Ireland in 5 years, led to steep increases in unemployment. In each of these cases, unemployment more than doubled from pre-crisis levels, reaching 27.5 percent, 16.4 percent and 15.5 percent in Greece, Portugal and Ireland during the peak of their crises. The contraction in economic activity led to a deep fall in imports.[1] Average annual imports (2009-2017) fell by 38.1 percent in Greece relative to 2008 and by 19 percent in Portugal. Yet, lower unit labour costs did not result in substantial increases in exports: relative to 2008, average annual exports from 2009 to 2017 dropped by 22.9 percent in Greece and in Portugal increased by a paltry 1.1 percent. Corrections in the balance of payments were therefore achieved principally

through falls in imports rather than a surge in exports. The same pattern holds in Italy and Spain, where average annual imports fell by 17.1 percent and 20.5 percent while exports decreased by 10.1 percent and increased by 0.2 percent, respectively, over the same period relative to 2008. Ireland, where imports increased by 14.6 percent and exports increased by 24.5 percent, is the sole exception to this pattern.

Competing theoretical perspectives

This article contributes to the literature on industrial relations in the context of the Eurozone crisis via an analysis of the institutional construction of supranational organizations of financial assistance, namely, the EFSF and its successor the ESM. The operations of these supranational organizations have been crucial in the imposition of internal devaluation policies as a condition for securing financial assistance. Several investigations of the Eurozone crisis have drawn from the insights of interest-based explanations (see, for example, Frieden and Walter, 2017; Hall, 2014). At their core, interest-based explanations emphasize that the sustainability of policy is contingent upon its fit with the interests of powerful actors. Different actors seek to advance their preferences via the implementation of institutional reforms that will result in favourable policies. Two broad categories of actors have been particularly important in the governance of the Eurozone crisis: the Troika (ECB, IMF and EU Commission) and national governments whose domestic banks were exposed to the rest of the Eurozone, that is, the so-called ‘creditor countries’ (Currie and Teague, 2017; Roos, 2019; Woodruff, 2016).

The preferences of the different members of the Troika have been influential in the management of the Eurozone crisis. From the perspective of the preferences of the ECB, the combination of its mandate to combat inflation and the legal prohibition on the direct purchase of government bonds of Eurozone governments on primary markets meant an important reduction in the strategies of adjustment to the crisis (Armingeon and Baccaro, 2012: 271; Hall, 2014: 1232). Its preferences militated against a traditional lender of last resort role similar to the one exercised by the Federal Reserve Board and the Bank of England. Yet, the policy position of the ECB for the management of the crisis was also characterized by the introduction of structural reforms in the form of liberalization of industrial relations regulation – as well as the implementation of austerity measures (ECB, 2015; Hermann, 2017: 52–58). The reasoning of the ECB was that the introduction of structural reforms designed to reduce rigidities in the process of adjustment would help to generate economic growth that, in turn, would reduce government deficits (Bini Smaghi, 2013: 44–48; ECB, 2004: 52, 2009: 71). As such, therefore, the main targets of the ECB in the field of industrial relations were institutional arrangements that provide strong employment protection and those that support coordinated wage bargaining (ECB, 2009: 71, 2012: 58–62, 2015). Employment protection legislation that makes it difficult for companies to dismiss employees reduces labour mobility and leads to a market dualism between insiders and outsiders whereby the burdens of adjustment are imposed on vulnerable groups (ECB, 2009: 71). Institutional arrangements that limit wage flexibility, on the other hand, hinder the transmission of monetary policy as changes in interest rates do not translate symmetrically (downwards or upwards) in wage adjustments and rates of employment (ECB, 2015). This issue is particularly important in the context of a

currency union since differences in unit labour costs could easily translate into problems of competitiveness and of balance of payments imbalances (ECB, 2012: 58–59; Hancké, 2013). Identified policy recommendations that would strengthen wage flexibility are the following: lowering minimum wages, lessening the automatic character of wage indexation schemes and facilitating wage bargaining at the firm level (ECB, 2012: 61, 2015).

The preferences of the IMF also favoured the combination of austerity policies and of liberalization of industrial relations (Blanchard et al., 2013). The IMF had developed a (deserved) reputation for stringent conditionality in its programmes (Henning, 2017). The implementation of austerity policies by recipient countries had been a predominant, and constant, feature of IMF conditionality with the aim to restore balance of payments imbalances via, among other policies, the reduction of imports. In its policy recommendations in the context of the Eurozone crisis, IMF officials advocated the reduction in public sector wages in order to improve the fiscal position of national governments seeking financial assistance (Blanchard et al., 2013: 17; Clift, 2018: 146-147). Moreover, IMF conditionality increasingly requires the liberalization of labour markets of recipient countries. In its specific analysis of the Eurozone crisis, the policy recommendations of the IMF highlighted the importance of labour market institutions for micro flexibility and macro adjustment. Strong employment protection for open-ended contracts hinders the reallocation of workers to jobs needed to sustain growth and, thus, negatively affects productivity growth. IMF officials recommended increasing the prominence of unemployment insurance and deregulating regulation of dismissals of employees on open-ended contracts, thereby espousing the core features of the flexicurity model (Blanchard et al., 2013: 5–10). In the area of collective bargaining, the IMF advocated for the greater use of opt-out clauses to facilitate the decentralization of collective bargaining towards the level of the firm to allow countries to better adjust to macroeconomic shocks (Blanchard et al., 2013: 17).

The EU Commission, the third member of the Troika, also supported policies that allocated the burdens of adjustment on debtor countries (Hyman, 2015; Mailand, 2020; Marginson, 2015). The role of the European Union in the liberalization of labour markets was substantially strengthened with the implementation of a new economic governance regime designed to update the Stability and Growth pact in the new context of the economic crisis (Marginson, 2015; Schmidt, 2016). Labour market policies of EU member states have become subject to multilateral surveillance procedures as a result of several legislative changes: the European Semester (2010), the Six Pack (2011), the Two Pack, and the Treaty on Stability, Coordination and Governance (2013) (Erne, 2015; Jordan et al., 2021). In particular, the influence of the EU Commission over the labour market policies of European countries has increased via the issue of yearly country-specific recommendations (CSRs) aimed at countries exhibiting 'excessive deficits' and other forms of macroeconomic imbalances. In addition to the potential issue of substantial financial sanctions, the prescriptions of the EU Commission for adjustment lie in core areas of industrial relations: wage levels, employment protection legislation and level of collective bargaining.

Interest-based explanations provide important insights for understanding the governance of the Eurozone crisis. The imposition of austerity policies and the liberalization of industrial relations have been prominent as conditionality features imposed on debtor

countries in alignment with the preferences of the members of the Troika (see, for example, Roos, 2019). The assertion that supranational actors exercised influence over the process of institutional creation is not revolutionary. Yet, the preferences of powerful supranational actors constitute a too broad concept for understanding the formation of new institutional arrangements. Drawing from the actor-centred perspective, we highlight that the interests of (powerful) actors are not monolithic, thereby enabling them to prioritize in a selective manner specific dimensions of their preferences at the expense of others (Aguilera and Jackson, 2003, 2010; Scharpf, 1997: 60–68). The puzzle, then, is to specify how, and which, preferences of powerful actors are translated into institutional outcomes.

The cases of the ECB and the IMF, two key supranational organizations involved in the design and operations of new institutions of financial assistance, illustrate the importance of the presence of non-monolithic preferences. For the ECB, the constant focus on inflation targeting has been accompanied by different priorities regarding the causal mechanisms to fulfil this objective (Schmidt, 2016). Under Trichet, the focus was on 'credibility' in order to maintain the independence of the ECB vis-à-vis Eurozone member states (Bastasin, 2015: 236–254). A politically responsive ECB would be highly conducive to the provision of 'easy' credit. Under Draghi, in contrast, inflation fighting was framed under the mantra of stability (Schmidt, 2016: 1039–1042). The collapse of the European financial/monetary system would negatively influence the ability of policymakers to contain inflation. The focus on different causal mechanisms for inflation targeting is highly relevant. Framing inflation targeting under the mantra of 'stability' enabled the ECB, under Draghi, to fully develop its bond-buying programme on secondary markets while recipient countries continued to implement austerity and liberalization of industrial relations (Meardi, 2014; Woodruff, 2016). Inflation targeting as a preference is not monolithic, thereby enabling the ECB to focus on different objectives that resulted in specific coalitions with other actors based on overlapping interests.

The preferences of the IMF, on the other hand, are varied and complex and have exhibited strong, but partial, overlap with those of other actors, most notably the ECB and the German government (Clift, 2018; Henning, 2017). As previously discussed, the IMF is a strong advocate of stringent conditionality in its lending decisions in the form of austerity policies and liberalization of industrial relations regulation (Blanchard et al., 2013). Yet, the policy positions of the IMF extend beyond stringent conditionality. The lending decisions of the IMF are also guided by the core criterion of sustainable debt (Clift, 2018: 135–137; Henning, 2017: 49–55, 129). In the case of the first Greek financial assistance package, the IMF (unsuccessfully) advocated the restructuring of existing debt with the imposition of losses on private investors before the provision of additional loans since financial support might not be effective if debt that is unlikely to be reimbursed piles up (see below).

A second strand of interest-based explanations focuses on the preferences of large Eurozone governments whose domestic banks were seriously exposed to the rest of the Eurozone (Goyer and Valdivielso del Real, 2014; Roos, 2019). Framed under the concept of financialization, this strand highlights the importance of structural developments in the global economy that have increased the prominence of capital, most notably via the liberalization of capital flows across borders, at the expense of labour (Culpepper, 2015;

Prosser, 2014). The removal of controls on capital flows enabled banks to proceed to an international diversification of their assets that, in turn, led to a substantial increase in the degree of concentration of finance (Roos, 2019). In the context of the Eurozone, this concentration process meant that the outstanding obligations of several Eurozone governments (Greece, Ireland, Italy, Portugal and Spain), and of their domestic financial institutions, were held by a relatively small number of banks principally headquartered in France and Germany at the beginning of the crisis. For instance, slightly under 60 percent of all outstanding Greek debt (state and national banks) was held by French and German banks in early 2010 (Bank for International Settlements, 2010: 17). Moreover, these relatively few influential (French/German) financial institutions were also considered systemically important, that is, ‘too big to fail’ (Thompson, 2015). These systemic banks experienced substantial external growth as the result of their takeover acquisitions and securitization activities (Goyer and Valdivielso del Real, 2014).

Building on these developments, an important sub-strand of financialization primarily conceptualizes the governance of the Eurozone crisis as a distributive conflict among member states over the allocation of the costs of adjustment for the management of the accumulated debt that was unlikely to be serviced as originally planned (Frieden and Walter, 2017). The preferences of Eurozone member states reflect their international investment position as either net recipients or net exporters of international capital flows. From the perspective of debtor countries, whose national governments accumulated substantial liabilities, their preferences lie in debt restructuring/debt relief given their inability to repay at contracted conditions and their continuing dependence on accessing short-term capital markets. In contrast, governments of countries whose domestic banks provided funding to the rest of the Eurozone preferred adjustment to occur in debtor countries targeted by private bondholders via the implementation of measures of internal devaluation (Roos, 2019: 225–234). Although constituting a classic case of a debt crisis regarding the distribution of the costs of adjustment, the Eurozone is different in one respect from previous episodes, namely, that the strategy of external devaluation (currency devaluation and increases in monetary supply) is not available. In the event of debt default in Eurozone countries targeted by private bondholders, Northern European governments, especially France and Germany, would face the politically unpopular prospect of engineering financial rescue packages of their own domestic, and systemic, banks that previously provided funding to the rest of the Eurozone (Thompson, 2015). Furthermore, these rescue operations would have to take place in the context of the absence of a lender of last resort under the control of national governments.

Financialization explanations correctly highlight the heightened intensity of (powerful) countries in seeking to protect domestic banks from their exposure to the rest of the Eurozone in the context of the institutional apparatus of the Maastricht Treaty. The assertion that actors seek to influence the design of new international institutions is uncontroversial (Keohane, 1984; see Goyer and Valdivielso del Real, 2018, for an overview). In the context of the Eurozone crisis, something as important as the distribution of the costs of adjustment to the crisis is certainly worth fighting about as national governments (creditor and debtor alike) operated under a range of reduced adjustment strategies (De Grauwe, 2013). Yet, financialization explanations exclusively emphasizing the role of (French/German) policy-makers seeking to protect domestic banks remain incomplete.

Preferences of powerful governments derived from their international asset position do not capture the presence of important variations in positioning for institutional innovation as well as the importance of coalition building. France and Germany shared the common goal of the preservation of the single currency, and the protection of their domestic banks from their exposure to the rest of the Eurozone, but sharply disagreed on many aspects of the process of institutional reform and on the distribution of the costs of adjustment (Schimmelfennig, 2015). The major issues of disagreement were the following: participation of the IMF in the decision-making process of financial assistance, voting rules regarding the provision of funding and the allocation of a banking licence to the new supranational organizations of financial assistance (EFSF/ESM) in order to enable them to borrow from the ECB (see below). More specifically, the French proposals for institutional building sought to tackle the financial crisis via the provision of massive liquidity, not via the implementation of internal devaluation policies. Yet, reforms in industrial relations were prominent as features of conditionality despite the opposition of the French government. Our analysis, therefore, illustrates that institutional outputs do not constitute a lowest common denominator solution among powerful actors. The case of the formation of the EFSF/ESM highlights that the structural features of these two Eurozone institutions reflected the preferences of some, but not all, important actors. The question, then, is to specify how, and which, preferences are translated into outcomes.

Theoretical framework

Our argument is inspired by insights from the actor-centred institutionalism perspective to account for the specific features of governance reforms of the Eurozone financial assistance regime (EFSF/ESM). In the perspective of actor-centred institutionalism, governance outputs result from strategic interaction among intentional actors, but these occur in a specific environment whereby these interactions are themselves structured and shaped, but not determined, by the characteristics of the institutional settings in which they take place (Scharpf, 1997, 2000). Actor-centred institutionalism constitutes a framework that captures the interdependent character of the relationship between actors and institutions across different domains in social sciences, including industrial relations (Scharpf, 1997: 37; see also Bechter et al., 2021). Institutional arrangements operate as a constraint on the strategic behaviour of actors, yet institutions are also the creation of specific constellations of interacting actors (Aguilera and Jackson, 2003, 2010; Scharpf, 2000: 775–782). How do actors and institutions relate to one another? Two theoretical features are prominent in actor-centred institutionalism. These are institutional arrangements as configurations of power and the importance of coalitions of actors based on overlapping interests in institutional building.

The first theoretical feature of the actor-centred institutionalism perspective highlights the relational character of institutions that structure interactions among participants (Scharpf, 1997: 36–50). Building from classical institutional approaches, the actor-centred institutionalism perspective incorporates the prominence of institutional arrangements as a highly influential variable shaping the relative power of actors in an asymmetrical manner by privileging the interests of some against those of other participants. Institutions do so by granting, or limiting, legal rights of participation over key

aspects of the decision-making process. The institutional framework in which important decisions take place mediates the translation of actor preferences into desired outcomes (Hall, 1986).

Explanations based on the prominence of institutions, conceptualized as power configurations, are particularly suited for understanding the management of the Eurozone crisis given the asymmetric distribution of the costs of adjustment. The ability of actors to resist the imposition of internal devaluation policies in the area of industrial relations was constrained by the institutional features of the newly created supranational organizations. Two broad categories of actors have been particularly important in the governance of the Eurozone crisis: the Troika (ECB, IMF and EU Commission) and national governments whose domestic banks were exposed to the rest of the Eurozone (Currie and Teague, 2017; Roos, 2019; Woodruff, 2016). These actors were involved in the different institutional decision-making stages of the process of providing financial assistance.

The formal process of providing financial assistance via newly created supranational organizations (EFSF/ESM) is characterized by three stages (Henning, 2017: 37–55, 101-130). The first involves the members of the Troika drawing an assessment of the sustainability of the national public debt and of the potential financial need of countries targeted by private bondholders. In the second stage, the members of the Troika engage in internal negotiations on the acceptability of the application for financial assistance and, if deemed essential, on its associated elements of conditionality. Two separate reports are produced: one by the IMF and one by the European Commission. The contents of these two reports have been similar as the members of the Troika coordinate their activities. Supranational actors with strong preferences for the adoption of internal devaluation policies therefore exercise prominent influence over the first two stages of the decision-making process for awarding financial assistance.

In the third stage, the negotiation process shifts outward to Eurozone countries that are members of the EFSF/ESM. Eurozone governments, via their finance ministers, negotiate on the terms of conditions and amounts of funding presented in the reports provided by the Troika. If approved, or agreed after amendments, the Troika will act as monitor of the implementation of the assistance programme. Moreover, the voting rules on the provision of financial assistance at the third stage provide a preponderant influence to large creditor countries (Henning, 2017: 239–246; Mueller, 2015). Under the EFSF, unanimity in voting procedures was required for the approval of financial assistance, thereby providing substantial influence, as well as veto power, to large countries with domestic banks exposed to the rest of the Eurozone. Under the ESM, on the other hand, the continuation of unanimity in the process of approval was coupled with the introduction of a new emergency voting procedure stipulating that a qualified majority of 85 percent of voting shares from ESM countries is sufficient for the provision of financial assistance. The use of the emergency voting procedure is conditional upon a shared assessment by the ECB and the EU Commission that failure to assist threatened Eurozone countries would lead to systemic risks to the entire Eurozone edifice. From the perspective of Germany and France, for instance, their respective 27 and 20 percent voting rights in the ESM translates into effective veto power over lending decisions while the use of qualified majority voting lessened the risks of paralysis by removing the veto power of smaller states (Bastasin, 2015: 464–468).

Moreover, the veto power of the French and German governments over lending decisions has been used to resist calls from the IMF to combine internal devaluation with debt relief for Greece (first bailout) and Ireland (Henning, 2017: 84–91, 119–120). Although a strong proponent of conditionality, the IMF also expressed serious doubts that reductions in the debt-to-GDP ratio in Greece could occur without substantial debt write-downs. In the case of Ireland, on the other hand, the IMF advocated debt relief based on an interpretation that sovereign debt issues were the outcome of a banking crisis. In both cases, however, the governments of France and Germany used their veto power to oppose debt restructuring since it would have resulted in a banking crisis at home. The ECB also supported the actions of these two important creditor countries by highlighting that debt restructuring that result in losses for private bondholders is destabilizing in the midst of a financial crisis. Institutionally based vetoes, once in place, constrain the ability of actors who seek to overcome them.

The institutional features of the supranational organizations of financial assistance have reduced the ability of Eurozone countries to resist the imposition of internal devaluation policies as conditionality criteria for securing financial assistance. The composition of the Troika enables the participation of supranational actors with marked preferences for structural reforms in the area of industrial relations. The approval process of financial assistance also provides veto power over lending decisions to large member states with domestic banks exposed to the rest of the Eurozone. Yet, institutional perspectives conceptualized as configurations of power remain incomplete for our understanding of the governance of the Eurozone crisis despite their significant insights. An important issue is the process of institutional building. If institutional arrangements are so powerful, intentional actors will seek to influence the design of their structural features in order to shape the distribution of resources (Roe, 1998). What accounts for the origins and structural features of new institutions? This question is legitimate because new institutional arrangements of financial assistance needed to be set up in the institutional context of the Maastricht Treaty, that is, an institutional framework designed around central bank independence as a disciplining mechanism on countries perceived as being inflation prone, but not designed for the provision of financial assistance (De Grauwe, 2013).

The second theoretical feature of the actor-centred institutionalism perspective highlights the relational character of how actors interact with each other (Scharpf, 1997: 36–58; see also Hall, 1984). The perspective emphasizes the importance of coalitions among some, but not all, interacting actors based on the overlapping interests of their non-monolithic preferences in the process of institutional innovation (Aguilera and Jackson, 2003; Scharpf, 1997: 55–58). The presence of non-monolithic interests enables actors to prioritize in a selective manner specific dimensions of their preferences at the expense of others (Scharpf, 1997: 60–68). Although actors are undoubtedly driven by overarching goals, such as preventing the implosion of the Eurozone and protecting domestic banks from their exposure to other countries, they often prioritize specific dimensions of their preferences at the expense of others. As a result, the implementation of the preferences of actors will rarely prescribe only one strategy of adjustment. In turn, selecting specific preferences enlarges the range of coalitional possibilities (Aguilera and Jackson, 2003). Institutional innovation results from the ability of actors to engage in

coalition making by stressing different objectives across issue areas based on overlapping interests with (some) other participants.

The institutional construction of the new Eurozone regime of financial assistance: an empirical overview

Drawing from the insights from actor-centred institutionalism, our analysis surveys two important developments in the new Eurozone regime of financial assistance: the composition of the Troika and the voting rules of the EFSF/ESM. These institutional reforms sought to overcome the issues associated with the absence of a crisis management capacity (De Grauwe, 2013). The first major issue of institutional building concerned the composition of the Troika (crucial to the first and second stage of the decision-making process on financial assistance). The inclusion of the IMF as a Troika member was not pre-ordained. In the run-up to the formation of the EFSF, EU officials and many Eurozone countries focused solely on the IMF's expertise in monitoring the implementation of financial assistance programmes (Henning, 2017: 76–81). The most important source of opposition came from the French government whose resistance was driven by the stringent conditionality reputation of the IMF (Bastasin, 2015: 146–197). The Sarkozy government, supported by Southern European countries, instead emphasized the importance of a massive financial firewall funded by the direct intervention of the ECB on bond markets that would deter speculative attacks (Bastasin, 2015: 151–155, 193–210). The French government also proposed the granting of a banking licence to new supranational organizations of financial assistance to enable them to borrow directly from the ECB (Woodruff, 2016: 98–103). Newly created supranational organizations would be endowed with massive financial resources. In other words, the French proposals sought to tackle the financial crisis via the provision of massive liquidity rather than the implementation of internal devaluation policies.

However, the French proposals were rejected by a coalition consisting of the German government, the ECB and smaller Eurozone creditor countries recording balance of payments surpluses (Austria, Finland and the Netherlands). From the perspective of the German government, the involvement of the IMF as a Troika member was essential given its developed reputation for stringent conditionality (Bastasin, 2015: 133–169; Henning, 2017). The credibility of the IMF was crucial for the Merkel government in overcoming substantial domestic constraints – the most important being the Federal Constitutional Court based in Karlsruhe. The main task of the highly respected court is to protect the German Constitution (Basic Law of 1949) via its extensive power of judicial review. Throughout the course of the crisis, the German government was deeply concerned that the provision of financial assistance to fellow Eurozone member states, especially although not exclusively through the ECB, could be successfully challenged as a violation of the no-bailout clause of the Maastricht treaty (Woodruff, 2016: 98–103). As a result, the Merkel administration refused to commit to the creation of a new supranational organization of financial assistance lacking stringent conditionality criteria. In January 2010, the German government, supported most prominently by its Dutch counterpart, strongly rejected the French government's proposals for the rapid provision of

funding designed to build a massive financial firewall in the absence of strong conditionality (Bastasin, 2015: 151–159, 192–211). Instead, the German government successfully insisted on the acceptance of two conditions for its participation: the adoption of the principle of conditionality and the involvement of the IMF as a member of the Troika with responsibilities in the negotiation of the terms of conditionality (Bastasin, 2015: 146–180; Henning, 2017: 93–97).

The second major issue of institutional building concerned the voting rules among Eurozone governments (third stage of the decision-making process on financial assistance). In the case of the EFSF, the French government strenuously pushed for a decision-making process based on straightforward majority voting (one country–one vote) to swiftly repel speculative attacks from private bondholders (Bastasin, 2015: 197–200). This proposal received the enthusiastic support of Southern European countries. The French position reflected a specific understanding of the Eurozone crisis, namely, the importance of preventing financial contagion in the absence of a crisis management apparatus (Tooze, 2018: 109–115). As such, the French proposals did not require the implementation of internal devaluation strategies. As part of its contingent acceptance of the EFSF, however, the Merkel administration refused to commit to the creation of new supranational organizations unless provided with veto power over the disbursement of funds. Supported by the same group of smaller Eurozone countries (Austria, Finland and the Netherlands), the German government threatened to abstain from financially contributing to new financial assistance mechanisms in order to overcome the preferences of France and Southern European countries (Henning, 2017: 239–246; see also Schild, 2020). In the case of the ESM, the German government, under pressure from the Constitutional Court, made its participation contingent on the involvement of the Bundestag (Henning, 2017: 171–174). That is, the approval of the German parliament is required for both the provision of a mandate to the Troika for negotiations on financial assistance (first and second stages) as well as for the terms of conditions associated with requests for support (third stage).

The actions of the German government in the set-up of institutional mechanisms of financial assistance have been presented as an instance of coercive, but reluctant, hegemony (Beck, 2013; Currie and Teague, 2017). Seeking to prevent the collapse of the Eurozone, but operating under domestic pressures to avoid committing German taxpayers to fiscal transfers to debtor countries, the Merkel government acted in a manner that prevented the implementation of a Keynesian response to the crisis as internal devaluation policies were demanded in exchange for financial assistance. Our actor-centred institutional analysis, however, builds upon these approaches as we highlight the importance of coalitional politics as the intervention of the ECB proved crucial to the design of the specific structural contours of the EFSF/ESM, thereby complementing the activism of the German government. The role of the ECB as a provider of funds, from an initially narrow focus on inflation targeting to arguably having become a lender of last resort, has been well documented (Schmidt, 2016; Woodruff, 2016). In order to provide liquidity to the financial system to prevent its collapse, the ECB started its Securities Market Program (SMP) in May 2010 organized around the purchase of distressed bonds for a limited number of countries (Greece, Ireland, Italy, Portugal and Spain) on secondary markets (Roos, 2019: 235–250). Furthermore, under Draghi, the ECB in the summer of 2012

launched its Outright Monetary Transactions (OMT) programme whereby it could purchase bonds of targeted Eurozone countries in unlimited quantity.

Our analysis, on the contrary, highlights the coalitional role of the ECB in the design of new Eurozone supranational institutions and in the elaboration of the terms of conditionality. First, the ECB rejected the French proposals to provide new supranational institutions with a banking licence that would have enabled them to access the (unlimited) financing capacities of the Frankfurt-based financial institution (Bastasin, 2015: 181–204, 340–387). The French proposals for the provision of massive liquidity were contingent upon their acceptance by the ECB. The refusal of the ECB to accept the concept of the EFSF/ESM as a credit institution, in turn, strengthened the bargaining position of the German government opposed to the provision of financial assistance without conditionality. The institutional consequence of this stance was the agreement between France and Germany on the use of unanimity for the initial size and increases of the financial contributions of each member state to the EFSF/ESM out of fears that, otherwise, financial commitments would be ever expanding. The funding capacities of the EFSF/ESM were thus limited, thereby highlighting the dependency of actors on the involvement of the ECB. Second, the ECB successfully linked its contingent use of secondary bond markets (SMP) to the formation of Eurozone institutions of financial assistance based on stringent conditionality (Woodruff, 2016). Important purchases of bonds on secondary markets, which were held mainly by French and German banks, took place after the formation of the EFSF/ESM and their associated internal devaluation character.

The intervention of the ECB was crucial to the survival of the Eurozone. Under the SMP, French and German banks were able to reduce their exposure to the rest of the Eurozone by selling their bond holdings to the ECB (Roos, 2019: 225–273). Illustrating the importance of selective coalitional politics, the preferences of the ECB overlapped with those of France and Germany, the two biggest Eurozone countries, on the protection of large systemic banks from their exposure to the rest of the Eurozone (Bastasin, 2015: 170–180). The ECB was concerned about both the effects of the cancellation of debt on the balance sheets of Eurozone banks and the likely subsequent reluctance of private bondholders to purchase sovereign debt after experiencing losses (Henning, 2017: 115–118). Yet, the ECB departed from the French proposals for institutional reforms as they would reduce its independence by subordinating it to the demands of Eurozone governments (Bastasin, 2015: 170–204, 236–254). By contrast, the preferences of the ECB and of the German government in preventing financial collapse overlapped around the implementation of internal devaluation.

Conclusion

This article contributes to the literature on the impact of the financial crisis on national systems of industrial relations via an analysis of important Eurozone governance reforms, namely, the new supranational organizations of financial assistance. Drawing from actor-centred institutionalism, we illustrate the prominence of the interdependent relationship between institutions and actors by highlighting the importance of coalitions among actors based on the overlapping of their non-monolithic preferences. There was nothing automatic about the imposition of internal devaluation policies in the management of the

crisis. Our analysis highlights the contingency in political and social life. The institutional features of the EFSF/ESM acted as a serious constraint on the strategic behaviour of Eurozone countries seeking to resist the (external) imposition of internal devaluation policies as a condition for securing financial assistance. Yet, these new institutional arrangements of Eurozone governance emerged as a contested outcome secured by a coalition of activist actors based on overlapping preferences for the implementation of internal devaluation policies. As illustrated by our analysis of the roles played by the ECB and the German government in the construction of these institutions, the non-monolithic preferences of these actors increase their ability to engage in coalition making.

Authors' note

A previous version of the article was presented at the annual meeting of the Canadian Industrial Relations Association, Montréal, June 2018.

Acknowledgements

We thank Paul Edwards and Bob Hancké for their insightful comments on the different versions of the article. Comments and guidance from the journal editor were very insightful in improving the quality of the manuscript. The article also benefited from the comments of two anonymous reviewers. The usual disclaimer applies.

Funding

The author(s) received no financial support for the research, authorship and/or publication of this article.

Supplemental material

Supplemental material for this article is available online.

Note

1. Data on exports and imports are calculated from https://stats.oecd.org/Index.aspx?DataSetCode=MEI_BOP6#

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