

The Euro Crisis' Theory Effect

Northern Saints, Southern Sinners, and the Demise of the Eurobond

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September 2014

Revised & Resubmitted for 2015 Special Issue of *Journal of European Integration*

(Editors: Rebecca Adler-Nissen and Kristoffer Kropp)

Abstract

Of the multiple competing crisis narratives that EU policymakers could have chosen from at the onset of the euro crisis in the spring of 2010, why did austerity and structural reform as respective cures for member states' mainly 'national' problems of fiscal profligacy and lack of competitiveness win out over other plausible, and more 'systemic' solutions, like a pooling of sovereign debt or the formation of an economic government? To understand this puzzle, this article draws on the emerging literature on the sociology of knowledge to argue that the response to the euro crisis was heavily informed by broader social logics. These social logics constructed the problem and the solution heavily towards ordoliberal (austerity and the adherence to strict fiscal rules) and neoliberal (importance of structural reform) ideas. Our empirical evaluation takes up the special issue's call for analytic symmetry by examining why the alternative solution of a Eurobond failed to take hold, with its advocates unable to change minds in Berlin. Mapping the fate of the Eurobond proposals in Germany allows us to trace the complex entanglement of economic policymaking and parse out the ways in which social realities are shaped to make particular policy choices seem inevitable when they in fact were the product of social processes.

INTRODUCTION: NORTHERN SAINTS AND SOUTHERN SINNERS

Of the multiple competing crisis narratives that EU policymakers could have chosen from at the onset of the euro crisis in the spring of 2010, why did austerity and structural reform as respective cures for member states' national problems of fiscal 'profligacy' and lack of competitiveness win out over other possible, and more federal, diagnoses (Matthijs 2014a)? The austerity-cum-reform narrative fueled the insistence by Northern lenders and politicians for policies that overwhelmingly emphasized the slashing of public spending in the periphery, joined with politically tough reforms meant to make markets more efficient for future business and investment. Swift implementation of those policies, the argument went, would produce both fiscal discipline and labor market flexibility, and the crisis would gradually go away (Matthijs and Blyth 2015a). Yet the winning narrative and subsequent set of policy prescriptions is puzzling since the 'fiscal sin' explanation only really worked in the case of Greece, and did not fit the facts on the ground in Ireland, Portugal or Spain, let alone Italy. Plausible systemic counter-narratives of what went wrong included the Eurozone's lack of supporting economic governance institutions, or the pressures of persistent trade and financial imbalances, yet neither of those would end up driving the debate, nor the solutions offered. Most strikingly, by far the most potentially efficacious alternative solution to the euro's woes – the introduction and joint issuance of a common debt instrument or 'Eurobond' – received only lukewarm support.

To understand this puzzle, we draw on the emerging literature on the sociology of knowledge to argue that the response to the euro crisis was heavily informed by broader social logics. These social logics constructed the problem, and the solution, towards ordoliberal (austerity combined with the adherence to strict fiscal rules) and neoliberal (emphasis on structural reform) ideas. The dominant analysis of the crisis was shaped by academics, think-tanks, private and public sector actors, specifically German economists and powerful business and financial interests, whose ideas had long underwritten the euro's institutional design at Maastricht and Amsterdam during the euro's formative decade. Berlin, Frankfurt, and Brussels early on fashioned the crisis into a 'normative' morality tale of Southern profligacy versus Northern thrift. Rather than correct the institutional flaws in the euro's design – and building the missing fiscal, financial, and political unions – they doubled down on a strengthened Stability and Growth Pact with quasi-constitutional balanced budget rules, a European Central Bank still mainly focused on price stability and only conditionally acting as a lender of last resort, a half-house banking union without common deposit insurance or a Europe-wide fiscal backstop, and a 'tough love' combination of austerity and reform in the Eurozone periphery.

These wholesale reforms have not yet succeeded, and may not given the political pushback and institutional stickiness of the varieties of capitalism across Europe (Hall 2014). Yet the emphasis on fiscal austerity over economic governance has already been highly consequential for the everyday lives of the so-called sinners in Southern Europe. Austerity policies have only exacerbated the stagnating economic growth and soaring unemployment begun in the wake of the financial crisis, and has fueled a host of anti-Europe parties across the European Union, as put on display during the Eurosceptic

assault on Brussels in the May 2014 elections for a new European Parliament that openly questioned the EU's democratic legitimacy and underscored the lack of trust in EU institutions (Matthijs 2014b).

The dominant euro crisis narrative was not the logical result of inexorable functionalist pressures that dictated austerity as the only answer to the Eurozone's ills. Instead, we argue, the putative answers to the crisis arose out of deeply entrenched social structures that informed economic debates, privileging certain definitions and solutions over others. These social structures were generated out of the interaction of academic theorists with the broader world of bankers, investors, government officials and others with high stakes in the outcome of the euro crisis. As such, they both demonstrate the permeability of the internal/external divide between these worlds, and map the role of power infusing those social structures.

The adoption of either the path of austerity, or the building of a set of European level governance institutions, had major and divergent distributional consequences. As such, the ideas were informed by, but not directly a product of, the various material interests at play. As the editors of this special issue remind us, the field of economics is "a discipline that helped to develop not only economic theories promoting harmonization of the single market and the establishment of the EMU, but also participating in their legitimation and sometimes gaining from their establishment in practice" (Adler-Nissen and Kropp, this volume). When the tsunami of the global financial crisis revealed the shortcomings in Europe's EMU, once again the academic and policy worlds collided to shift the debate in one particular direction.

This article will proceed as follows. The next section draws on the editors' introduction and the volume's overall themes to frame the entanglement of economic policymaking in theoretical terms, and illustrates how academic ideas both serve and structure reality. We then briefly assess how the euro problem was defined early on and how the debate was structured in both Berlin and Brussels towards fiscal austerity and domestic reforms. Our empirical evaluation then takes up Adler-Nissen and Kropp's call for analytic symmetry by examining why the alternative solution of a Eurobond failed to take hold, with its advocates unable to change minds in Berlin. Mapping the fate of the Eurobond proposals allows us to trace the entanglement of economic policymaking and parse out the ways in which social realities are shaped to make particular policy choices seem inevitable when they in fact are the product of social processes. We then conclude with a discussion of what the euro crisis' theory effect portends for the study of European integration.

THE ENTANGLEMENT OF ECONOMIC POLICYMAKING

As with other policy arenas investigated in this journal's special issue, macroeconomic policy is deeply intertwined with certain academic fields of study, most centrally economics, while surprisingly disconnected from others that may seem intuitively appropriate interlocutors. This entanglement is a mutually constitutive

interaction with reciprocal causality between the academy and the policy world. Academic ideas may drive policy developments, but social scientists' ideas are in turn often prompted and conditioned by real world problems. Policy challenges, political realities, and material interests are present in both diffuse and specific ways, even as academic ideas (misleadingly) appear to be developing in their own sphere.

The concept of entanglement opens up the trajectory of response to the Eurozone crisis to a series of important questions. How did the analyses favored by the most powerful private and public actors – be they financial interests, central bankers, German politicians, or EU policymakers – intersect with academic analyses? Who has been successful in exerting definitional monopoly and conceptual legitimacy over the conversation about how to solve the Eurozone crisis? We answer these questions by mapping a specific policy debate, that over the potential introduction of Eurobonds. Eurobonds were a plausible functional response to the ills that plagued Europe's monetary union, yet they were decisively set aside in favor of policies of austerity and structural reform, which initially seemed to make the problem worse. Telling the story of the rise and fall of Eurobonds allows us to map the entanglement of economic policymaking around the euro, a project at the very heart of European integration and critical to its future path. But first, we sketch out more precisely our theoretical framework.

How Academic Ideas Serve and Structure Reality

Our analysis begins with a focus on the social production of knowledge and its impact through actors and shared meanings on EU outcomes. In the introduction to this special issue, the editors emphasize the need to reject the internal/external division of theory versus practice, and to instead situate the study of policymaking in terms of the localism and contextualism that exists in any realm of academic inquiry (Adler-Nissen and Kropp, this volume). To do this, we first note that the arena of European macroeconomic policy can be characterized in terms of Bourdieu's classic notion of a field (Bourdieu 1993). A field, as Mudge and Vauchez write, is a "system of relations in which actors struggle over political authority, partly in the form of authority over policy agendas and governing bureaucracies" (Mudge and Vauchez 2012, 455). This view rejects the notion that there is a set of atomistic actors individually discovering the truth regarding the workings of markets in general, or the euro in particular. Instead, the field perspective portrays the arena in which scholarly work is performed and generated regarding knotty problems of monetary, exchange rate, fiscal and banking policy as a delineated social structure. This social structure is made up of actors whose positions vis-à-vis each other and whose ideas themselves become power resources in the broader world. Lawyers developing international legal norms, environmental scientists working on climate change, or trade economists developing rules around anti-dumping all work in fields intimately connected to the systems of professions they are trained and socialized in (Abbott 1988).

Such fields will inevitably be structured so that one dominant set of actors will acquire a definitional monopoly over the issue at hand. This monopoly is centered on the

ability to construct the problem in a certain way, to define the issues at hand as well as their solutions. In the case of the euro crisis, this power was critical in legitimating social divisions of the Eurozone world into the sober orthodox saints – primarily Germany, but also Finland, Austria, and the Netherlands – and the profligate “PIIGS” – Portugal, Ireland, Italy, Greece, and Spain. Such segmenting, categorizing and classifying can then become a potent power resource for actors on the outside of the academy who want to structure the discourse towards a specific outcome and adopt the legitimated tropes from the professional field (Foucault 1977, Bourdieu 1984, Bourdieu 1993).

The monopoly over the construction of the problem arises from “social movement-like processes in which institutional entrepreneurs mobilize cultural frames – often in response to some real or perceived crisis – in order to initiate, reinvigorate, or redirect Europe building” (Mudge and Vauchez 2012, 454). We will see in examining the Eurozone crisis discourse that these cultural frames tie together the scholarly and the policy world in important ways, as actors undertake the entrepreneurial manipulation of meanings, and the symbolic production and valuation of particular frames over others. For example, concepts that seem self-evident (such as “the market,” “financial sobriety,” or “economic health”) are actually not stable and fixed through time, but rather objects of action whose meanings are contingent on the particular cultural frame and social setting (Fourcade 2009, Knorr Cetina and Preda 2005, Zelizer 1994).

The Co-Production of Knowledge

A parallel set of investigations in the field of Science and Technology Studies (S&TS) deepens our understanding of fields by zeroing in on the co-production of knowledge in particular political and cultural formations, as “the ways we know and represent the world are inseparable from the ways in which we choose to live in it” (Jasanoff 2004, 2). This approach reminds us that “scientific knowledge is not a transcendent mirror of reality. It both embeds and is embedded in social practices, identities, norms, conventions, discourses, instruments and institutions – in short, in all the building blocks of what we term the *social*” (Jasanoff 2004, 3). A stylized model of the co-production of knowledge flows forward in four steps: (1) the emergence and stabilization of new objects or phenomena, which involves the recognizing, naming, marking off from other phenomena; (2) the framing and resolution of controversy; (3) the intelligibility and portability of products of science and technology or knowledge, which implicates the standardization of measures and tools; and finally (4) cultural practices of science and technology that endow their products with legitimacy and meaning in an “enculturation of scientific practices” (Jasanoff 2004). We will see this process playing out in the debates around the euro crisis, shaping the outcome away from Eurobonds and towards austerity and reform.

Fields and the co-production of knowledge within particular cultural and political settings combine to produce what the editors of this special issue have called the “theory effect.” With the theory effect, a particular vision of the social world transforms that world, as practices conform to the representation advanced in the theory (Mudge and Vauchez 2012, MacKenzie 2006). Theories get performed by actors and call into being

the very thing they seem to merely represent (Butler 1993). Although many political scientists have explored the impact that particular ideas of agents have on outcomes (Berman 1998, McNamara 1998, Blyth 2002, Parsons 2003, and Matthijs 2010), here we are arguing something different. Instead of ideas, we focus on more fundamental social structures encompassing agents that define the terms of the debate, legitimate certain frames over others, and create “the given” while defining away the unthinkable.

The literature on the co-production of social knowledge mined in this special issue can help us construct an analytical framework for understanding the path of the Eurozone crisis debate. In particular, it helps explain the social construction of saints and sinners during the crisis, and the ways in which the academic analysis was entangled with the very real material and political interests at play. Rather than seeing material logics and social logics as competing explanations, we argue for an interaction of the two logics in the field of economic policymaking. Only then can we fully explain the Northern saints’ insistence on policies of domestic austerity and reform for the Southern sinner states of Europe, instead of policies that would have built a comprehensive system of European governance to frame the single currency with Eurobonds as its centerpiece.

Below we offer an empirical analysis of the euro crisis debate in Germany and its entanglement between the scholarly and the political worlds, demonstrating how fields and the co-production of knowledge led to the legitimation and the adoption of particular ways of diagnosing the crisis. Those policies have put Europe on a path that pushes the Southern European states towards a German model of economic institutions. This in turn creates a politically combustible set of economic hardships and a contentious rhetoric of saints and sinners, both of which are fraying the European integration project. Rather than seeing this outcome as the inevitable result of the laws of economics, we should more correctly understand it in terms of an actual theory effect: the favoring of the austerity and reform narrative at the national level over one emphasizing the need for Eurobonds, economic governance and institutional embeddedness at the European level (Matthijs and Blyth 2015a, McNamara 2015).

THE STRUCTURING OF THE EUROCRISIS DEBATE

Why did the chosen strategies for coping with the Eurozone crisis take the shape they did? Why were the national solutions of fiscal austerity and structural reform chosen over the systemic solution of a Eurobond and debt pooling, which could have been the precursor of a more federal economic government for the single currency? In process tracing the narrative that evolved over time during the euro crisis, we focus on the path the debate over Eurobonds took in terms of the model of co-production of knowledge that weaves through the micro histories of individual scholars and policy makers in Germany, as well as the role of Germany’s ordoliberal tradition and stability culture in shaping the field of economics and understanding monetary unions. Academic economists and think tank public intellectuals established a foundation for the narrative, but there were key points or critical junctures in which the debate could have gone a different way. Seeing

how the field connected to the context of political and material incentives at work helps make sense of the ultimate rejection of Eurobonds as a solution to the crisis.

The myriad explanatory narratives of the Eurozone debt crisis soon emerged in a process of recognition, naming, and marking off from other phenomena that split between largely ‘systemic’ accounts and mainly ‘national’ accounts. Systemic accounts of the euro crisis pointed to the euro’s flawed institutional design and the many missing unions that were never constructed (economic, fiscal, political, financial, debt and banking). In this construction of the crisis, the solution then becomes to actually build EU institutions in those areas and to introduce some kind of ‘Eurobond’ (a common debt instrument), an economic government (an actual fiscal union), and a political and democratically much more legitimate European government (McNamara 2015). This systemic solution would have the single currency more fully embedded in common social and political institutions allowing for market stability (Polanyi 1944).

National accounts, on the other hand, focused on failings within the individual member states, and thereby turned the euro crisis narrative into a ‘morality tale’ (Fourcade 2013). Hard work, prudent savings, moderate consumption, wage restraint, and fiscal stability in Germany were seen as Northern virtues, and were juxtaposed to the Southern vices of low competitiveness, meager savings, undeserved consumption, inflated wages, and fiscal profligacy in the Mediterranean. The solution to the crisis accordingly became one of ‘necessary’ pain and atonement in the countries of the periphery. The inevitable adjustment hangover after the party excess meant the sinners needed to start behaving more like the saints. If they did, all would be well with the single currency’s future. Instead of rebuilding the Eurozone from the top down (with supranational solidarity mechanisms), this strategy in effect tried to transform Europe’s complementary varieties of capitalism from the bottom up. This strategy would force the Eurozone as a whole onto a path towards some kind of *Modell Deutschland* writ large, by making wage and price flexibility in the periphery into the main shock absorbers during future crises (Matthijs and Blyth 2015a).

The debate over Eurobonds should be seen within this ideational context: Berlin’s rejection of ‘systemic’ Eurobonds – due to the risk of moral hazard – was framed in such a way as to further strengthen the case for ‘national’ austerity: you cannot keep throwing more good money after bad (Newman 2015). Early support for austerity and structural reform in Germany as a solution to the Greek crisis, and later to the Eurozone debt crisis overall after contagion set in to the rest of the periphery, spread across the public sphere and the German establishment’s steadfast and enduring rejection of Eurobonds as a ‘quick fix’ to the debt crisis held firm. The legacy of German orthodoxy not only underlined the permeability of the internal/external divide between academia and policy, but also the key role of ‘contextualism,’ i.e. the German cultural disposition towards a certain way of seeing the crisis and therefore its potential solutions.

The fact that several key actors – what Mudge and Vauchez refer to as strategically positioned ‘avatars’ – in favor of Eurobonds were present in Brussels and elsewhere in Europe did not prove to be enough to tilt the debate in the field in favor of

the European level solution (Mudge and Vauchez 2012). The arguments in favor of Eurobonds may have gotten a favorable hearing with the European Commission and, to some extent, the European Council, they would never get the upper hand in Berlin (Matthijs and Blyth 2015b). Instead, German thinkers, opinion writers and policymakers played a pivotal role in making the diagnosis of the euro's ills as well as in stipulating its cure, framing and ultimately 'resolving' the crisis (Jacoby 2015, Newman 2015).

German power in this process was not simply material but also ideational. When asked as to 'what went wrong,' the answer from Berlin very quickly became fiscal profligacy and a lack of competitiveness in the euro periphery. To the question of 'how to fix it,' Germany responded with budgetary austerity and structural reform. German Finance Minister Schäuble put his government's view most rigidly in an opinion piece in the Financial Times with the title "Why austerity is only cure for the Eurozone." In it, he wrote: "it is an indisputable fact that excessive state spending has led to unsustainable levels of debt and deficits that now threaten our economic welfare. Piling on more debt now will stunt rather than stimulate growth in the long run. Governments in and beyond the Eurozone need not just to commit to fiscal consolidation and improved competitiveness – they need to start delivering on these now" (Schäuble 2011). By favoring the 'positive' causes of fiscal profligacy and lack of competitiveness over others, and by stressing the risk of moral hazard in throwing ever more good money after bad, the narrative was structured in such a way that European or federal level solutions, most notably Eurobonds, were off the table. But did it have to be that way?

WHY NO EUROBONDS? DEFINING, RESOLVING AND LEGITIMATING AUSTERITY

While Merkel initially dug in her heels in December 2009 over fiscal austerity and structural reform, affirming in a press conference that "Greece must accept its responsibility for reform," and again in February 2010 when she reiterated her government's well-known mantra that 'the rules must be followed,' it soon became clear that reform in Athens alone was not going to make the Greek problem go away (Jones 2010b, 21). Fears of contagion to the rest of the Eurozone periphery – including Ireland and Portugal, but also Spain and Italy – started to haunt sovereign bond traders and financial markets. A more systemic solution to the Greek predicament would be essential if Brussels were to avoid a bond market run and safeguard the overall integrity of the euro. However, the cultural foundations for such a systemic solution were not necessarily in place, as a survey of the key voices in the Eurobond debate makes clear.

Early Proposals for Eurobonds

While the history of European monetary union has been marked by an emphasis on German ordoliberal and Anglo-Saxon neoliberal policy consensus (McNamara 1998), the field that structured the euro crisis debate included some dissenting voices that gained legitimacy from the seemingly endless rounds of financial contagion sweeping over Europe, even though their proposals ultimately faltered. Over the course of the Greek

crisis, between September 2009 and June 2010, there had been a series of independent policy proposals by at least three different think tanks to establish a common debt instrument – a Eurobond – that could strengthen the overall macroeconomic governance framework of the Eurozone. John Springford, a researcher at the British liberal think tank *CentreForum* trained in international relations and economic history was the first to launch the idea of a common Eurozone bond as a way to strengthen the flawed Stability and Growth Pact, but the idea was seen as premature at the time and not picked up in policy circles (Springford 2009).

In March 2010, in a policy brief for the Italian think tank ISPI or *Instituto per gli Studi di Politica Internazionale*, the U.S. born political economist Erik Jones, based at Johns Hopkins University's Bologna Center in Italy, launched another Eurobond proposal “to promote stability and liquidity while preventing moral hazard” (Jones 2010a). Jones was mainly concerned with the flight to safety out of Greek bond markets into other mainly Northern European bond markets, which only aggravated Athens' liquidity problems. A Eurozone bond would guarantee that investors could swap one set of ‘national’ Greek obligations for another set of Greek ‘Eurobonds’ – underwritten by the Eurozone as a whole – thereby keeping capital in Greece and avoiding a liquidity crisis and slow moving bank run in the struggling member state.

The Eurobond proposal that got by far the most attention was the one suggested by two researchers at Bruegel, the influential Brussels-based economics think tank. Bruegel has a broad funding base that includes subscriptions from most of the EU states, major multinational corporations such as Deutsche Bank, Google and Novartis, and large project-based grants from the EU itself, among others. The researchers' professional pedigrees also reflected a broad intellectual profile, with Jacques Delpla holding a French masters in economics with experience in private banking and the French Finance Ministry, and Jakob von Weizsäcker, a former World Banker as well as venture capitalist, who received higher degrees in economics and physics from France. Their outsider views of what to do about the crisis were tempered by the insider position of Bruegel in the field of European economic policymaking.

Bruegel's “Blue Bond Proposal” addressed the common German concern of moral hazard by making the case for the introduction of two types of sovereign debt in the Eurozone: blue bonds and red bonds. The senior “blue bonds” of up to 60 percent of GDP for each member state would pool sovereign debt among participating countries and be issued under joint and several liability, while the junior “red bonds” would keep debt in excess of 60 percent of GDP as a purely national responsibility. Any national red debt beyond a country's blue debt would have clear procedures for default, which would increase the marginal cost of public borrowing. As red debt would remain the sole responsibility of the member state, this would further enhance fiscal discipline, as financial markets would surely want a significant interest premium to buy those riskier bonds (Delpla and von Weizsäcker, 2010).

Delpla and von Weizsäcker further suggested the establishment of a so-called “Independent Stability Council” for the Eurozone with representatives of national

parliaments to oversee the annual allocation of blue bonds and to uphold member states' fiscal responsibility. The authors of what became known as the "Bruegel Proposal" went out of their way to emphasize that this was not meant to be a quick fix. Instead, they saw blue bonds as an incentive-based and sustainable way out of the Eurozone's sovereign debt crisis that would "prepare the ground for the rise of the euro as an important reserve currency, which could reduce borrowing costs for everybody involved" (Delpla and von Weizsäcker, 2010). For them, it was win-win. Smaller Northern member state countries, such as Finland and Austria, would gain from the higher levels of liquidity of the blue bond, while Southern member states with high existing levels of sovereign debt, such as Italy and Greece, would have a strong incentive for fiscal adjustment. Europe as a whole would become a more attractive place to invest, as the blue bonds would be equally attractive safe havens as United States treasury bills.

Both Delpla and von Weizsäcker came from backgrounds not based in the orthodox doctoral study of economics. Having had experience in international organizations, private banking, and both the French and German finance ministries, had socialized them with finding practical solutions to real economic problems. As we will see, while their proposal received substantial attention in the policy debate, and had a lot of supporters within the United States economics profession, as well as within EU policy circles, it got nowhere with the German political establishment.

The Commission Gets Involved

In May 2010, the idea of a Eurobond, however structured or appealing, clearly seemed premature. The main objection in Germany remained that of 'moral hazard' and the Bruegel proposal was simply dismissed by German opinion leaders. The policy focus remained on implementing spending cuts and enacting fiscal reform, along with the establishment of a European Financial Stability Facility (EFSF), which combined loans from Eurozone member states, collateral from the European Commission, and funds from the International Monetary Fund to marshal a \$1 trillion response. Despite this, and after further bailouts for Ireland in the fall of 2010 and Portugal in the spring of 2011, the crisis spread to Italy and Spain during the summer of 2011, giving the Eurozone crisis truly systemic proportions.

It was therefore no surprise that the idea of a common Eurobond would resurface. This time, however, new proposals would not just be floated in think tanks, university classrooms or the opinion pages of the Wall Street Journal and the Financial Times. In November 2011, the European Commission – well aware that the term "Eurobond" had become toxic in the German popular press – itself presented a Green Paper assessing the feasibility of introducing what they carefully termed "Stability Bonds" (European Commission 2011). As stability has been a key precept of postwar German economic and political culture, the Commission was attempting to use their prominent position in the debate to reclassify and re-label the solution so as to structure the economic reality differently and legitimate their approach, just as the co-production of knowledge approach would suggest.

The Commission Green Paper set out three broad approaches to the common issuance of Eurobonds, based on the degree of substitution of national issuance – full or partial – and the structure of the underlying guarantee of the bonds – joint and several liability or several (i.e. no joint guarantees). The first option was full Eurobonds with joint and several liability, which would replace each member state’s entire national debt with Eurobonds. Clearly, as the Commission itself admitted, this held by far the highest risk of moral hazard and was therefore deemed politically unrealistic at the time. The second option was to have partial Eurobonds with joint and several liability, up to a certain percentage of GDP, which would also need a change to the Lisbon Treaty. This second option echoed a proposal made two weeks earlier by the German Council of Economic Experts, which continued to oppose Eurobonds in principle, but had recommended the establishment of a European Redemption Pact (Franz et al 2011). The third option, partial Eurobonds without joint guarantees, would again cover only parts of the debt and would impose strict entry conditions for a smaller group of countries to pool some of their sovereign debt and allow for the removal of countries that do not meet their fiscal obligations. Unlike the first two approaches, this would involve ‘several but not joint’ government guarantees and could therefore be implemented relatively quickly and without any treaty change (European Commission 2011).

The European Commission believed the introduction of its proposed Stability Bonds “could potentially quickly alleviate the current sovereign debt crisis, as the high-yield Member States could benefit from stronger creditworthiness of the low-yield Member States” (European Commission 2011). But therein lay also the rub. While countries in the Eurozone periphery would clearly gain from a Eurobond, the effects of joint debt issuance were not seen to be as benign in the core countries that were not affected by the euro crisis. Not just in Germany, but also in Finland, Austria and the Netherlands, many people failed to understand why they should help a group of states – which in their minds had borrowed excessively and broken the common rules of the Stability and Growth Pact – borrow even more via jointly guaranteed Eurobonds? Despite the Commission’s efforts to restructure the terms of the debate to legitimize a more federal approach, national level solutions of austerity still won out among the Northern states. Germany’s growing position of structural power within the Eurozone only further enhanced the power of its orthodox ideas.¹ The debate was now in full swing, and it would be especially heated – and prove crucial for the actual outcome – in Berlin.

The Debate in Germany

The interaction of economic theory, material interest and political strategizing was evident in the “contextualism” of German discourse. The debate in the media was highly animated and drove home the saints and sinners dichotomy with its inevitable rejection of Eurobonds. Some media – especially Die Welt, Bild Zeitung, and the Frankfurter Allgemeine Zeitung (FAZ) – seized on the controversy over Eurobonds to force politicians from all parties to declare their stance. In a special issue on Eurobonds, a Bild editorial read as follows: “What are these euro bonds in the first place? Put simply,

¹ Even Polish Foreign Minister Radoslaw Sikorski, in a speech in 2011, referred to Germany as Europe’s “indispensable nation,” adding that he feared German inaction less than German power (Sikorski 2011).

instead of a single country the entire EU is liable for the debt. There is only one interest rate for all euro area countries. The debt sinners (i.e. Greece) pay MUCH LESS interest – because Germany guarantees everything with its good name. We pay MUCH MORE – because the credit markets across the EU are weaker compared to Germany alone. Experts expect up to 47 billion euro in additional costs for the German taxpayers – every year!” (Bild 2012). In another editorial, the FAZ put its opposition to Eurobonds only slightly less colorful: “The community does not expect a better future, if the sweet life is continued on credit at the expense of the last solid debtors in Europe, until even those solid debtors collapse. Euro bonds create such perverse incentives” (FAZ 2012).

Other newspapers were more nuanced. For example, the TAZ, a left-leaning newspaper, reported on the distinction between red and blue bonds, and used a tone that was a lot more sympathetic towards Eurobonds (Hermann, 2011). Some bloggers and commentators followed this nuanced stance, as summarized by Schuseil in a blog post for Bruegel’s website (Schuseil 2011). For example, Claus Hulverscheidt in the *Süddeutsche Zeitung* approvingly quoted FDP politician Rainer Brüderle saying that “introducing Eurobonds now” would be the same as “giving whiskey to an alcoholic,” but that their introduction may be possible in the long run, but only as the final step of the European integration process (Hulverscheidt 2012).

Financial Times columnist Wolfgang Münchau supported the introduction of Eurobonds from the very beginning and lamented in *Der Spiegel* that the SPD did not have the courage to claim “real” Eurobonds and thereby missed an opportunity to advance the European integration process due to its “lack of killer instinct” (Münchau 2012). André Kühnlenz agreed that Eurobonds could help the exodus of capital from the European periphery, but agreed with the Bundesbank that a fiscal union was necessary first (Kühnlenz 2012). However, commentators who opposed Eurobonds generally dominated the debate in the German media. In the most important German business daily *Handelsblatt*, Thomas Hanke and Wolfram Weimer argued that Eurobonds should by no means be introduced. They would not help to achieve growth in Europe and constituted nothing else than the socialization of national debt at the expense of Germany (Weimer 2012).

Most politicians and political party leaders in Germany spoke out against Eurobonds. CDU Chancellor Merkel put it most succinctly in a speech to the FDP parliamentary group in June 2012 by simply stating: “As long as I live there will be no Eurobonds” (Merkel 2012). Wolfgang Schäuble, her finance minister, warned against setting disincentives in the absence of a common fiscal policy in the EU, pointing out that “a single euro country cannot decide to go into debt and make everyone else pay for the risk” (Schäuble 2012). Alexander Dobrindt, the former secretary general of the CSU, the Bavarian sister party of the CDU, was more blunt by saying that his party “continues to refuse the adoption of debts from other euro countries... prior to any further support for Greece or any other Dolce Vita country, which are characterized by exuberant debt, we need to say: you have to pay your debt yourself” (Dobrindt 2011). The FDP, Merkel’s pro-market liberal coalition partner between 2009 and 2013, also vigorously opposed Eurobonds and seemed ready to sacrifice the government coalition over the issue. Rainer

Brüderle, head of the FDP parliamentary group, called Eurobonds “interest rate socialism, for which Germany and other successful countries would have to pay a lot” (Die Welt 2012c).

The position of the social democratic SPD and the Greens was more ambiguous. Originally, they had supported the introduction of Eurobonds, but both parties made a significant U-turn on the issue in May 2012, when Merkel relied on the votes of the SPD to ratify the Fiscal Pact in the *Bundestag*. The social democratic party’s speaker in the *Bundestag* Thomas Oppermann said that “we oppose the uncontrolled pooling of debt... there is absolutely no need for general Eurobonds” (Die Welt 2012b). Instead, the SPD supported the introduction of measures to generate growth and fight youth unemployment in Europe. The Green party followed the stance of the SPD and also rejected Eurobonds in May 2012. Die Welt quotes Jürgen Trittin as saying that while he agreed with the economic principles behind them, they were the wrong solution at the time, not least because it would require changing the EU Treaties (Die Welt 2012a). Die Linke was the only political party in Germany to consistently support the introduction of Eurobonds. A number of popular opinion polls suggested a large majority of Germans in almost hostile opposition to the idea of instituting Eurobonds (Hawley, 2011).

As for the commercial sector, most German interest groups, business lobby associations, banks and financial institutions supported Merkel’s opposition to Eurobonds. Hans-Peter Keitel, president of the Federation of German Industries (BDI) stated “I hope very much that Ms. Merkel will stick to her position and resist demands for Euro bonds” (Rheinische Post 2011). Martin Wansleben, president of the Association of German Chambers of Industry and Commerce pointedly declared: “Euro bonds are the wrong way. For what kind of signal would this send? Only that one wants to make it easier to take on debt” (Handelsblatt 2011). Others noted that common European debt vehicles blurred the lines between liability and incentives, while Thomas Mayer, chief economist of Deutsche Bank summed up the debate by noting: “it’s enormously difficult to have common liability without a political union... We could have a European Tea Party that takes up the battle cry: no taxation without representation.” Only the German exporters’ association had a different stance during the depth of the crisis in August 2011 when it argued that “all alternatives to Eurobonds will cost us even more money in the end” (Walker 2011).

What about the academic and think tank world? Most economists and economic think tanks in Germany also came out firmly against the idea of Eurobonds, once again underscoring the porousness of the internal/external divide, whereby ideas in German academia and preferences in Germany’s policy community only mutually reinforced one another. The most vocal opponent was the Munich-based Center for Economic Studies or Ifo Institute, led by influential economist Hans-Werner Sinn. The Ifo Institute calculated that the introduction of Eurobonds would cost the German taxpayer up to €47 billion per year due to the higher interest rates Germany would face on its own sovereign debt. Consequently, it concluded: “Even in the case of the proportionate liability for the eurobonds on which we based our calculations, the Ifo institute strongly advises against the introduction of Eurobonds. Even if Europe had the strength to form a federal state, it

would make no sense to communitarise the liability for government debt that has been taken on... The principle of liability is the basic principle of any rational economic activity and one of the cornerstones of a market economy. Whoever abandons this places Europe's future in jeopardy" (Ifo Institute 2011).

Many other economists in Germany broadly supported the Ifo's position vis-à-vis Eurobonds. Even the German Institute for Economic Research (DIW), which is often seen as a left-leaning economic think tank, did not support the introduction of Eurobonds. Ansgar Belke, Professor at the University Duisburg-Essen and Research Director for International Macroeconomics at the DIW argued: "although Euro bonds can provide short-run relief for some countries, in the long-run they will lead to disaster, because they open the door for even more debt." Consequently, in Belke's opinion, Eurobonds would only be viable if there were a common fiscal policy, but such a common fiscal policy would undermine the democratic sovereignty of each member state (EurActiv.de 2011). There were, however, a few other voices in Germany that saw Eurobonds as a last resort to solve the euro crisis. Thomas Straubhaar, for example, the Director of the Hamburg Institute of International Economics, argued that if individual countries were not able to borrow money on the capital market under "reasonable conditions," Eurobonds could help those countries to ease access to credit.

As mentioned earlier, the German Council of Economic Experts in early November 2011 argued in favor of a European Redemption Pact, around the same time of the European Commission proposals for the introduction of Eurobonds. In the official German 2012 Annual Economic Report of the economics ministry, however, both the federal government and the Council of Economic Experts continued to outright reject the idea of Eurobonds. Yet, the report left some room for maneuver by mentioning again the possibility of setting up a debt redemption pact if the stabilization measures already agreed at the EU level were to prove inadequate (German Federal Ministry of Economics and Technology 2012). The Bundesbank remained a bastion of opposition to Eurobonds. In an interview with *Le Monde* in May 2012, Jens Weidman, its president, stated in no unclear terms that "believing Eurobonds would solve the current crisis is an illusion... you do not confide your credit card to someone without any possibility to control his expenditures" (Weidman 2012).

In the end, the German 'national' arguments against the introduction of Eurobonds carried the day against the European 'systemic' arguments in favor during the euro crisis. While especially the Bruegel proposal benefited from a favorable audience in Brussels, making it into both the European Commission and European Council's blueprints for a 'genuine' Economic and Monetary Union, it faltered in the face of frontal assaults by the German academic, media, and policy establishment. It is striking how Eurobonds play a central role in almost any think tank's blueprint for the future of the euro, including proposals by the British-based Centre for European Reform and the French-based Eiffel Group, but are notably absent in the EMU blueprint of the German-based Glienicke Group, which is made up of eleven German economists, political scientists and legal scholars (Matthijs and Blyth 2015b). While German journalists played a key role in framing the debate on Eurobonds, Germany's growing power and structural

position within the Eurozone decision-making bodies proved decisive in putting all ideas of sovereign debt pooling on the back burner for the foreseeable future.

CONCLUSION: THE EURO CRISIS' THEORY EFFECT

Merkel's tough stance against Eurobonds, as well as her overall economic policy towards the Eurozone crisis would be vindicated during the September 2013 elections, when she won the largest share of the vote for her CDU since the 1950s. The thorny issue of the introduction of a common debt instrument has remained off the table in Germany, and Europe, since then. The whole debate over Eurobonds during the most acute phases of the euro crisis demonstrated the strength of the German economics profession and the dominant view of the euro as an economic problem with mainly national economic solutions. Alternative views of the crisis could paint a functional picture of governance as the major issue, where a single currency disembedded from the standard historical institutions of nation-states would create serious problems no matter what the policies of the individual member states were (McNamara 2015).

The role of European integration studies as a 'weak field' joined the material and political interests opposing a federalized European debt instrument, and made it unsurprising that such proposals got such little traction while national level economic prescriptions of austerity were legitimated (Mudge and Vauchez 2012). European Union studies have been promulgated and funded by the European Commission just as has been the case for historical nation-building projects, but the social power of political scientists, sociologists, historians and anthropologists of the EU is miniscule compared to the role of economists in the public sphere.

Instead, the theory effect that unfolded in the Eurozone crisis was situated squarely in the vision of ordoliberalism and neoliberalism that has illuminated the German public policy sphere throughout the post war era. Even the potentially catastrophic stresses of the EU wide contagion unleashed by the Greek fiscal insolvency and subsequent financial crisis could not dislodge the view that 'national' problems of fiscal profligacy and weak competitiveness were the source of the problem. Eurobonds stood no chance of being adopted, despite their functionality in addressing the euro's woes, given the ways in which the ideas about Northern saints and Southern sinners both served and structured the reality of the euro crisis.

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