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**“Adjusting to the corporate consensus:
Corporate power and the resolution of the Eurozone crisis”**

Christakis Georgiou

Global Studies Institute
10, rue des Vieux-Grenadiers
1205 Geneva
<https://www.unige.ch/gsi/fr/>



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Abstract:

The literature on the Eurozone crisis overlooks two defining features of the crisis, namely the initial attempt to rely on Private Sector Involvement and financial repression in order to deal with liquidity crises in member states. This paper argues that these gaps stem from the neglect of the concept of corporate power by the literature and offers an analysis of how the crisis emerged and was ultimately resolved in 2008-12 that instead revolves on an account of how corporate structural power determined the outcome of the crisis.

La littérature sur la crise de la zone euro ignore deux dimensions déterminantes de cette crise, à savoir la tentative initiale d'avoir recours au Private Sector Involvement (les restructurations des dettes) et à la répression financière, pour traiter les crises de liquidité dans les États-membres. Ce working paper soutient que ces lacunes sont dues au fait que la littérature ignore le concept de *corporate power* (pouvoir des grandes entreprises). Il propose par conséquent une analyse de l'apparition et de la résolution de la crise en 2008-12 qui repose sur un récit de la manière dont le pouvoir structurel des grandes entreprises a déterminé le cours des événements.

Keywords: Eurozone crisis, corporate reconstruction, corporate power, fiscal liability mutualisation, financial repression

Author: Christakis Georgiou

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**Adjusting to the corporate consensus:
Corporate power and the resolution of the Eurozone crisis**

Christakis Georgiou¹

Sciences II, Quai Ernest-Ansermet 30, CH - 1211 Genève 4

Global Studies Institute, University of Geneva, Switzerland

Christakis.georgiou@unige.ch

+ 41 22 379 90 82

Author biography: CG is a post-doctoral fellow of the Centre de Compétences Dusan Sidjanski en Etudes Européennes at the Global Studies Institute of the University of Geneva. His research focuses on corporations and the political economy of European integration. He is the author of *Les grandes firmes françaises et l'Union européenne*, Le Croquant. His articles have appeared in *Economy & Society* and *Historical Materialism*.

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Deauville is the moment when the ontological integrity of the Eurozone is called into question ... Sarkozy and Merkel made a historic mistake.

Emmanuel Macron, deputy secretary general to French president François Hollande in 2012-14 and French president since 2017, in 2013.

Trichet had seen the pattern: Elected leaders were inclined to act on behalf of a united Europe only when the markets forced them to. So the ECB was going to sit back and let the markets do their job.

Neil Irwin *The Alchemists: Inside the Secret World of Central Bankers*, London, Headline, 2013, 305

[Financial markets] forced Europe to do what ha[d to be done] ... what has happened in the last five years is tremendous ... in terms of political integration ... And that ... only has been triggered via the financial markets and by no one else. There's no politician who stood up and said we have to change that. Not one.

Joseph Ackermann, Deutsche Bank CEO and International Institute of Finance president, 2002-12, in June 2012

The Eurozone crisis constitutes a major event in the European Union's history. Its fallout has continued to make waves and since the election of Emmanuel Macron as French president, the issue of Eurozone reform is again the top item on the European policy agenda.

The consensus view among social scientists is that the crisis exposed the faulty design of the Eurozone. The lack of fiscal and banking federalism destabilised sovereign bond markets and European banks and gave rise to a “doom loop” between banks and member states. All of a sudden, much of the Eurozone's stock of hitherto risk-free assets and the banks holding them came to be seen as risky. Consequently, expert opinion once again points to the need for fiscal federalism and a common banking policy in order to cushion asymmetric shocks, guarantee the provision of a “safe asset” and relieve fiscally overburdened member states from the liability of bailing out domestic banks that have grown far too big for them to safely backstop. This is, indeed, the official agenda for Eurozone reform debated at the European Council since 2011.

Most scholarship on the Eurozone crisis adopts the view that, like previous crises, it has acted as a catalyst for further integration¹. The literature, however, has two glaring gaps that, I argue, stem from the fact that the established EU integration and IPE theories it relies upon fail to incorporate the dimension of corporate power in their accounts of how the crisis emerged and was resolved. Instead, scholarship almost exclusively focuses on the intergovernmental dynamics that determined the policy decisions made by the European Council and the ECB and evacuates the

possibility that there might have been conflict between the corporate community and political leaders – including among actors from the same member state – about aspects or even the overall thrust of policy, let alone that such conflict might have been a defining feature of the crisis.

This is where the two glaring gaps come in. The literature ignores corporate opposition to the German government's insistence on private sector involvement (PSI - which was agreed upon at the October 2010 Deauville meeting) and the refusal by banking corporations to go along with the parallel solution of reinforcing financial repression and the link between banks and their home member states. My claim, instead, is that these were the defining features of the crisis.

These conflicts crystallised the major political-economic and institutional issues thrown up by the crisis. The first was whether sovereign risk would become a feature of the Eurozone's financial system and materialise (through losses for bondholders) as a solution to sovereign liquidity crises. Given that the prohibition of monetary financing of sovereigns in the Eurozone meant that individual member states were shown to be incapable to guarantee on their own the risk-free status of their debt, eliminating sovereign risk necessarily entailed the (at least partial) mutualisation of member states' fiscal liability through the creation of new Eurozone institutions.

The second issue was whether the Eurozone's financial system would be renationalised and cross-border finance scaled back, thus eliminating one of the most tangible benefits and a key objective of monetary union. During the crisis, it gradually emerged that the only way to avoid the throwback to the pre-euro financial configuration was to create a centralised system for banking policy (known as banking union).

Key decision makers share this assessment. Former European Council president Herman van Rompuy admitted that the Deauville decision was the “biggest mistake of th[e] crisis”, thus sharing Macron's assessment with which this article opens². This is a view shared by former ECB president, Jean-Claude Trichet³. Xavier Musca (economic adviser to French president Nicolas Sarkozy in 2009-12) told me in an interview that allowing sovereign risk to emerge by questioning the creditworthiness of deficit member states was a “catastrophe”⁴. ECB president Mario Draghi has claimed that the June 2012 European Council was the “game-changer” that allowed the ECB to intervene through the Outright Monetary Transactions (OMT) programme⁵. Other major actors such as Mario Monti (Italian premier in 2011-13) and Lorenzo Bini Smaghi (ECB executive in 2005-11) also agree with this assessment⁶.

Had those two policies not been reversed, the Eurozone crisis would not have acted as a catalyst for deeper integration. Had the Deauville decision been implemented, the need for fiscal liability mutualisation would have much diminished. When Merkel pushed for PSI at Deauville, she saw it as a way to avoid extending beyond 2013 the facility set up earlier in 2010 to bail-out member

states⁷. This amounted to a German attempt to row back from the commitment to fiscal liability mutualisation and to restore the “no bail-out” clause that Germany had insisted upon when the Maastricht treaty had been drafted. The clause was meant to make sure that market discipline would govern sovereign debt. Investors would constantly be assessing the creditworthiness of member states and pricing their debt accordingly, thus acting as an economic policy police enforcing sound fiscal and macroeconomic management. Deauville was thus an attempt to reinstate the system created at Maastricht – to go backwards, not forwards through greater integration.

And had financial repression not been effectively defeated through banking union⁸, financial corporations would have further increased the home member-state bias in their balance sheets, deepening the process of financial disintegration witnessed in 2009-13. Instead, the geographic diversification of bank balance sheets has now become an avowed objective of policy and banks’ cross-border exposure has been on the rise again.

Consequently, the Eurozone crisis and in particular the aforementioned conflicts can be seen as a critical juncture in the history of the Eurozone, where certain paths were rejected in favour of others that lead to a significantly greater degree of integration. If such is the case, understanding exactly which actors pushed in which direction and who won out through which tactics can tell us a lot about the political dynamics of Eurozone reform.

This lack of attention to the interaction between corporate actors and policymakers is all the more surprising in view of the recent resurgence of studies of corporate power spawned by the 2008 financial crisis⁹. However, these studies have mostly focused on the 2008 bank bailouts and issues of bank regulation. This is understandable in as much as “too big to fail” banks emerged as such a major policy issue. But there is no reason not to extend the purview of corporate power inquiries to other instances of acute financial stress such as the Eurozone crisis and, indeed, to the issue of institutional design geared towards eliminating the systemic causes of such stress.

Two recent accounts apply the concept of corporate power to aspects of the Eurozone crisis. Manolis Kalaitzake has examined¹⁰ the pivotal role played by the Institute of International Finance – the international big bank association dealing with sovereign debt issues – in the negotiations over the restructuring of Greek debt in 2011-12. Similarly, Greece is one case study in Jerome Roos’s broader examination¹¹ of the evolving dynamics of sovereign defaults and the increasing structural power of the big international financial corporations that dominate sovereign debt markets. These two studies focus on the most extreme case of the broader standoff between private international creditors and Eurozone debtor member states. As such, they shed precious light on the power dynamics at the heart of the Eurozone crisis, in particular the structural advantage the creditor-debtor relation in highly financialised contemporary economies grants

private creditors. However, they do not deal with how the exercise of corporate power during the crisis determined the broader policy response and in particular the institutional innovations that were introduced in order to deal with the two key issues that were identified above, namely the emergence of sovereign risk and the financial fragmentation of the Eurozone. As such, then, they have little to say about how the crisis has acted as a catalyst for deeper integration.

Roos, however, provides an insight that is directly relevant to the case of the Eurozone:

“the accumulation of foreign government debt on the balance sheets of an ever-decreasing number of systemically important private financial institutions has meant that a disorderly default in the periphery now risks triggering a deep financial crisis in the creditor countries. As a result, a systemic need arises — from the perspective of global finance and the creditor states — for an international lender of last resort capable of “bailing out” distressed peripheral borrowers in order to prevent contagion towards the over-exposed banks and institutional investors of the core countries.”¹²

This goes to the heart of the Eurozone crisis and in particular the issue of the risk-free status of sovereign debt. However, I argue that in this case what this entailed was far broader in scope than an international lender of last resort: the issue was to provide risk-free sovereign debt through the mutualisation of the fiscal liability of member states, thus opening the way for the development of centralised fiscal policy-making in the Eurozone.

Roos’s theoretical framework is also useful in clarifying another issue, namely the extent to which one can conflate large financial corporations with the more anonymous concept of “bond markets” or “financial investors”. Roos argues that one of the major transformations of global finance since the mid-1970s has been the “vast increase in the concentration and centralization of international credit markets”, which “has led to a situation in which the liabilities of peripheral borrowers are held by an ever-smaller circle of systemically important and politically powerful private banks and financial institutions in the advanced capitalist countries”¹³. Roos sees this growing concentration and centralization of sovereign creditors as a major factor in the vastly increased structural power of global finance because it has allowed a relatively small number of investors to coordinate their actions in relation to sovereign debtors and therefore “form a relatively coherent international creditors’ cartel” capable of threatening debtors with credit strikes. Indeed, the case of the Greek PSI bares this out. The PSI was negotiated by a private creditor committee (set up by the International Institute of Finance) comprising the Eurozone’s biggest banks and insurers (but only two UK banks and two US investment banks)¹⁴. Zettelmeyer, Trebesch and Gulati estimate that around 40% of Greece’s privately held public debt was held by the members of this committee (this is based on BIS estimates for the third quarter of 2011, namely almost two years after these creditors had started unloading their holdings of Greek debt). The authors note that “The rebirth of the creditor committee was likely due to the fact that much of Greece’s outstanding debt was held by large western banks.”

Addressing the corporate power gap in the literature on the Eurozone crisis entails incorporating this dimension into theorising about European integration. One of the aims of this paper therefore is to make such an attempt through an account of the Eurozone crisis that shows how the exercise of corporate power was central to its resolution. Accordingly, the paper begins by outlining the theoretical framework and generating relevant hypotheses. The following section outlines the mainsprings of the Eurozone crisis in an attempt to sketch out how the theoretical framework can explain why the Eurozone was set up as a flawed monetary union at Maastricht and to show the continuity between the two episodes as this underscores the key role of corporate preferences in forcing policy action. The paper then shows how the overall response to the crisis fits the European corporate elites' preferences. The following section is the critical empirical section where I use process tracing to show how this overall response came about after the exercise of structural corporate power against the policy choices of PSI and financial repression. The section traces the evolution of government-corporate interaction relating to the handling of the crisis from October 2008 to September 2012, the period that encompasses all the major policy decisions that determined the final outcome. The paper concludes with a short reflexion on how to take further research into corporate power in the EU. In terms of sources, I rely on interviews conducted in 2017-18 with around twenty policymakers and corporate leaders, well-informed journalistic accounts, publicly available documents and surveys of corporate executive opinion.

Corporate reconstruction of European capitalism and corporate power in the EU

The main established theories of European integration – neo-functionalism and liberal intergovernmentalism – start from the same basic premise, namely that the fundamental driver of integration is deepening economic interdependence among European member states. Neo-functionalists believe that this creates a “spillover” effect from one integrated policy sector to the other and that transnational actors (business, other civil society associations, political parties and elites) and the supranational institutions (the Commission, the ECB and the Court of Justice) are the vectors of this basic dynamic. Liberal intergovernmentalists argue instead that the dynamic is mediated through intergovernmental bargaining and the member states to which civil society actors still owe their primary political allegiance. Moreover, both these theories share a pluralist understanding of the structure of power in contemporary Europe that is at odds with a corporate power framework.

The structural link between European integration and corporate power

The starting point for challenging their pluralist assumptions is to revisit their understanding of economic interdependence. While undoubtedly the key element in integration, these theories simply accept it as a macroeconomic reality and fail to identify its microeconomic drivers.

These drivers are familiar to historians of the corporate form of business organisation (in particular, Alfred D. Chandler Jr.¹⁵) and IPE scholars concerned with the role of large corporations, scale economies and cross-border value chains in the setting up of regional trading blocs¹⁶. Chandler showed how the technological innovations of the second industrial revolution triggered the transition from entrepreneurial to corporate capitalism, through the potential for economies of scale and scope based on continental-scale integrated markets dominated by oligopolistic firms. The “visible hand” of the elites controlling these corporations has become the organizing principle of economic activity. Similarly, the advent of corporate capitalism also led to the reconfiguration according to corporate preferences of the legal and regulatory infrastructure undergirding economic activity.

But while the second industrial revolution happened simultaneously in Europe and America during the last quarter of the nineteenth century, it was the United States that led the transition to corporate capitalism¹⁷. In Europe, the political-economic fragmentation resulting from the multiplicity of nation states hampered the transition. European integration is thus about overcoming this fragmentation with the aim of facilitating the process of corporate reconstruction and the development of oligopolistic market and industrial structures as well as, crucially in the case of the Eurozone crisis, the recasting of economic governance institutions along lines congenial to the development of a pan-European corporate economy.

At the same time, these transformations result in the emergence of an European corporate elite as the dominant social group in the new Europe. Just like the corporate reconstruction of American capitalism resulted in the advent of a federal polity dominated by corporate elites¹⁸, the same process can be expected to play out in the case of the EU. This allows for the adoption of a corporate dominance theory of power.

Adopting these building blocks, (integration as corporate reconstruction and corporate dominance of power) leads to a clear hypothesis regarding the actors most closely associated with economic interdependence and therefore expected to constitute the main proponents of integration. This produces the following research agenda: identifying the development strategies of corporations and the extent to which markets have Europeanized as well as identifying the corporate preferences generated by these developments and demonstrating that once a corporate

consensus based on a synthesis of these preferences has been arrived at, it dominates the integration process. Chase shows, for example, how the Europeanisation of industrial corporations in the 1980s lay behind the push to complete the single market and the Single European Act and other authors¹⁹ have documented the key political role played by these corporations' executives in that push.

Applied to the Eurozone crisis, the theory's hypothesis is that its successful resolution must reflect the basic set of preferences expressed by corporate elites. In this view, the micro-management of the speculative crisis in 2010-12 and the more long-term plans for new Eurozone institutions are part of the same sequence whereby the corporate consensus in favour of a new round of integration takes shape.

However, if this framework is to be applied to the very compact sequence of the 2010-12 crisis, a few further qualifications are necessary that incorporate insights from the recent literature on corporate power and generate hypotheses about the dynamics of government-corporate interaction. (These are summarized in table 1).

Limits to corporate dominance

First, the above does *not* mean that corporate preferences completely dominate the policy process under all circumstances. Incorporating this point has been a key feature of the recent literature. I follow Pepper Culpepper's²⁰ hypothesis that corporate power is constrained when issue salience is high. The more removed from public purview policy issues are, the less contentious they become and accordingly the capacity of corporate elites to shape policy outcomes increases.

The expectation in relation to the Eurozone crisis that flows from this is that when particular dimensions of the policy response became highly salient in public debate in key member states, governments had to accommodate the pressures emanating from public opinion, potentially leading to variance between the policy response and the corporate consensus.

Modes of corporate power

The fact that European integration is geared towards establishing a pan-European corporate capitalism with appropriate institutions obviously does not evacuate political conflict and the need for corporate actors to exercise in different ways the political power they derive from the dominant position in the economy of the organisations they lead.

I follow the distinction between instrumental and structural business power. Instrumental power is the wielding of resources extrinsic to the core economic activities of corporations. Lobbying, campaign contributions, the existence of corporate-friendly policymakers and the “revolving door” between public and corporate positions all amount to instrumental power.

Structural power, in contrast, involves precisely such core activities – in its original formulation from the 1970s, it refers to corporations going on a capital strike by scaling back investment. The market behaviour of corporations – or simply the threat to alter such behaviour – amounts to structural power. In the case at hand, the capital strike largely took the form of a credit strike in that financial corporations exercised their structural power by ditching their holdings of peripheral member state bonds and not subscribing to new issues of such bonds. (Roos, in *Why not Default*, theorises extensively how such market behaviour can be considered as a particular form of a capital strike – a credit strike.)

Given the point made above about the limits to corporate dominance, instrumental power is most likely to be deployed when public opinion pressures do not constrain policymakers to pursue policies opposed by corporate actors. This is the “everyday mode” of corporate power. But when that does happen, structural power in the form of market behaviour is likely to kick in. This is the “crisis mode” of corporate power. These are also the cases when corporate power can be most easily observed because corporate preferences and policy or government intentions are not spontaneously aligned. My empirical strategy, then, hinges on those cases where corporate preferences and policy were not aligned (PSI and financial repression).

In relation to the Eurozone crisis, the prediction is that when policymakers tried to accommodate public opinion pressures by implementing policies opposed by corporations, then the latter exercised their structural power by going on a credit strike, creating market conditions that constrained policymakers to revert back to policies that enjoyed broad corporate support.

Splits along national lines, transnational corporate consensus and neo-functional policymaking

Apart from cases of limited corporate dominance, there are also cases where the corporate community is itself split. Since the initial structure of European capitalism involved a multiplicity of nation states and national business communities, I expect at least some heterogeneity in corporate preferences along national lines. This is especially so regarding institutional reform in policy domains that have hitherto remained organized along national lines and in cases where the market position of firms varies in line with differences in member state economic and financial

conditions, as the creation of new supranational institutions and policies can be expected to differentially benefit corporations according to the circumstances of their home member states.

Such splits along national lines must have an impact on corporate influence over policymaking. The existence of a corporate consensus cannot therefore be taken for granted but must be demonstrated empirically and the theoretical framework has to offer hypotheses for how the degree of corporate consensus plays out in the field of policymaking.

To do this, I incorporate insights from federalist theory²¹, which analyses polities with multiple levels of government as driven by a tension between functional and territorial logics. In the EU, the functional logic corresponds to the “community interest” (e.g. preserving the Eurozone as a functional monetary union) whereas the territorial logic corresponds to “national interests” (e.g. reserving national fiscal resources for national instead of community welfare or putting up regulatory barriers to the free movement of capital and liquidity within the Eurozone). The functional logic is most clearly advocated by the supranational institutions whereas the member states express the territorial logic. I expect corporate preferences, if and once these have overcome nationally determined positions to forge a transnational corporate consensus, to be most closely aligned with the positions of the supranational institutions. Here I converge with neo-functionalism notions about the political and institutional dynamics of integration. In such circumstances, bargaining power asymmetries between member states become almost irrelevant.

The general expectation flowing from this is that there is a strong correlation between the degree to which corporations have Europeanized and a European corporate elite has taken shape and the degree to which decision-making power is centralized within supranational institutions giving expression to the functional as opposed to the territorial logics within an overall federal framework.

The hypothesis in relation to the Eurozone crisis is that when splits along national lines within the corporate community were overcome to form a transnational corporate consensus on how to resolve the crisis, this must have been aligned with the preferences of the Commission and the ECB and outcomes must not necessarily reflect the relative bargaining power of member-states.

Prevalence of national splits, lack of transnational corporate consensus and relevance of intergovernmental bargaining

Finally, when a transnational corporate consensus fails to emerge, the national splits in the corporate community should find expression in political conflict among member states. Intergovernmental bargaining dynamics and power asymmetries should therefore dictate the

outcome. In such cases, the policymaking pattern predicted by liberal intergovernmentalism should obtain.

The hypothesis in relation to the Eurozone crisis is that the differential impact of the crisis on member-states must have split Europe’s corporate elites along national lines on at least some of the measures envisaged to deal with the crisis. In particular, and since the crisis was at its core a balance of payments crisis, corporate executives in deficit member-states from which capital was fleeing must have had different preferences than executives in surplus member-states into which capital was flowing. The former must have advocated more decisive measures of fiscal liability mutualisation than the latter.

Table 1 Expectations about Eurozone crisis

Theoretical building blocks	Hypotheses about Eurozone crisis
Corporate dominance of policymaking	Crisis resolution matches corporate consensus
Limits to corporate dominance due to high issue salience	Policymakers likely to stray from corporate consensus
Modes of corporate power	Structural power used to force reversal of non-corporate-friendly policies
Predominant transnational corporate consensus	Neo-functionalist pattern of policymaking
Limited transnational corporate consensus	Splits among member states and intergovernmental bargaining

The mainsprings of the Eurozone crisis and the core elements of its resolution

Before examining the 2009-12 crisis, it is useful to lay out its mainsprings. I argue that the Eurozone’s institutional deficiencies are the legacy of the initial round of corporate activism in favour of EMU. Moreover, the decentralization of banking policy that enabled the policy of financial repression in 2009-12 can be explained as resulting from the weak integration of banking markets and the limited Europeanisation of big banks during the 1990s.

Why corporate elites left unfinished business when setting up the Eurozone

Until the 1970s, the corporate reconstruction of European capitalism essentially entailed member states using all kinds of policy tools to build up national champion firms²². As a result, levels of commercial and especially productive and financial integration remained relatively subdued. This strategy came up against its inherent limits during the 1970s, as various industrial national champions started Europeanizing and disseminating their investments across the single market²³, thus beginning to forge pan-European oligopolistic market structures.

As former industrial national champions Europeanized (i.e. as they restructured their supply chains to integrate them across the European market), they generated deeper financial integration among member states and by the early 1990s capital controls were lifted and a set of banking directives laid down the legislative infrastructure for the Europeanisation of banking national champions. However, deeper financial integration also led to deepening macroeconomic imbalances between a bloc of surplus member states around Germany and a bloc of deficit ones around France as well as to greater speculative capital movements that repeatedly wreaked havoc in currency markets²⁴.

Jeffrey Frieden²⁵ has shown how these developments led to a reformulation of corporate preferences in favour of a single currency. “Higher levels of cross-border trade and investment increase the size and strength of domestic groups interested in predictable exchange rates. Firms with strong international ties support a reduction of currency fluctuations. These effects are especially important to banks and corporations with investments throughout the EU”. Pan-European corporations gradually came to attach a higher premium on monetary stability over domestic policy autonomy, which by 1989 led them to forge a consensus in favour of a single currency. As summed up in a first-hand account by two managing directors of the Association for the Monetary Union of Europe, the corporate lobby set up in 1987 to campaign for the euro, “Practical men in Europe were confronted with high costs due to monetary instability. Given the growing degree of European market integration they favoured exchange rate stability”²⁶.

But because the corporate community's preoccupation was solely with currency risk, it stopped short of advocating fiscal and banking union to go along with monetary union. The AMUE's research director told me²⁷ that

“The main gist was that we wanted the euro to go through and we were aware that overcharging the project might sink it ... There was within AMUE a kind of neo-functional understanding of how monetary union would lead to fiscal and political union. We would have monetary union first, and at some point a crisis would force the move to fiscal union too”²⁸.

Once monetary union was achieved, the AMUE thus chose to dissolve itself because it felt its objective had been fulfilled²⁹. The corporate community was therefore indifferent to proposals that began emerging about fiscal integration. Consequently, despite the extremely close collaboration between the AMUE and the Commission in the 1990s, the former failed to provide any support for de Silguy's proposal in 1998 to create a European Treasury and mutualise the debt issuance of Eurozone member states. Lacking the powerful instrument of corporate leverage on member state governments, the proposal fell by the wayside³⁰.

Banking corporations, moreover, were still largely nationally oriented in the early 1990s and still enjoyed various forms of national regulatory forbearance and assistance and were thus opposed to the Europeanisation of banking policy³¹. This led to the "single passport" principle, where banking policy would be the responsibility of the home member state while any national banking license would suffice to run operations anywhere in the single market.

How the unfinished business laid the ground for the Eurozone crisis

The euro's introduction in 1999 was greatly facilitated by the expansionary macroeconomic consequences of German reunification. The German economy registered for the first time in the post-war period current account deficits for a prolonged period (from 1991 to 2001), whereas the French current account was continually in surplus from 1993 to 2004 (Ameco data). This helped stabilise currency markets after the exchange crisis of 1992-93 and allowed traditionally deficit member states to fulfil the Maastricht criteria for joining the Eurozone.

However, this period was a long parenthesis in post-war European macroeconomic history. The reunification shock also operated at the labour market level where it exercised a strong downward pull on German wages. Starting in the mid-1990s, Germany implemented a competitive disinflation policy via the decentralization of wage bargaining and the threat of outsourcing to Eastern Europe entire links of the value chains operated by German firms³². The result was the re-emergence of the traditional pattern of macroeconomic imbalances within the Eurozone: German and Northern European surpluses mirrored in deficits in France and other Southern member states.

Two further developments in market structure and regulatory politics combined with the accumulating imbalances to produce the conditions for the Eurozone crisis. First, during the 1990s and 2000s, banking national champions began Europeanizing aggressively. This initially involved investment-banking activities³³ and then in the 2000s it began affecting commercial banking as well³⁴. A small number of pan-European banks had emerged by the time the Eurozone crisis

erupted. And just as in the past, the Europeanization of important markets furthered the degree of intra-Eurozone financial integration, leading to deeper imbalances that could be financed for longer without triggering capital flight³⁵. On top of that, many banking corporations grew disproportionately big in relation to their home member states' potential fiscal capacity.

Moreover, the behaviour of banking and financial corporations during 1996-2009, when risk premia on public debt securities issued by Eurozone member states all converged to the German benchmark, indicates that corporate elites failed to price in the risks associated with continued and ever deepening macroeconomic imbalances. This has been acknowledged by leading figures in the corporate community such as Ackermann. In June 2012, he admitted “that was different before, because everybody felt [sovereign bonds were] risk-free assets”. He also admitted that “the first 10 years were so successful that we forgot a little bit to really push for [...] much more integration [...] some sort of fiscal union or political union”³⁶. This was also encouraged by the ECB’s “one bond” policy of affording equal treatment to member state bonds as collateral for refinancing purposes, which “implied an implicit European guarantee for even the weakest borrowers”³⁷.

Second, the “structure of banking supervision in Europe and its fragmentation in line with national borders encouraged moral hazard and excessive risk-taking by banks”³⁸. The regulatory politics of “banking nationalism”, where member state banking policies were partly designed to bolster local banking corporations vying for position with banks from the rest of Europe in the context of the Europeanization of banking markets, led national supervisors to give implicit guarantees and allowed banks to operate on the basis of a lax interpretation of regulatory standards. In other words, the competitive dynamics among Europeanizing banking national champions led to regulatory competition resulting in a slackening of micro-prudential supervision. This further fuelled various credit bubbles (in particular in property and consumption lending) thus saddling banks with too many bad assets.

The re-emergence of financial risk as sovereign and banking risk and the mutualisation of member state fiscal liability as a policy response

The notion that the single currency could function smoothly without some degree of fiscal and banking federalism was dispelled by the outbreak of the Eurozone crisis. At its core, this was a typical balance of payments crisis: the previous pattern of capital flows reversed and investors fled the deficit member states for the safe haven of the surplus member states. The 2008-9 recession resulted in soaring public indebtedness in all member states. Because borrowing from

abroad had become concentrated in the public sector, the creditworthiness of deficit member states came under intense scrutiny. When it became obvious that Greece was incapable of honouring its signature, panic ensued and investors began unloading their bonds.

This exposed financial corporations to sovereign credit risk. As a result, the valuations of bank equities melted away as confidence in the solidity of Europe's banks was profoundly shaken. Banks in the deficit member states also run into difficulties funding themselves in the interbank markets. In turn, as confidence in the banks collapsed, sovereign bond markets were further destabilised because of the expectation that the sovereigns would have to backstop their domestic banking systems. The negative feedback effects between banks and sovereigns became known as the "doom loop" and came to define the 2010-12 crisis.

In this way, the institutional set-up of the monetary union led to the financial risk stemming from growing imbalances re-emerging in the shape of sovereign and banking risk, whereas previously such risk had taken the shape of currency risk. And just as in the past corporations with operations across the EU were exposed to this currency risk, this time they were exposed to sovereign risk. This exposure was not limited to financial corporations. Industrial and services corporations that acted as suppliers to deficit member states were also exposed to default, especially in member states with primary budget deficits, as these accumulated arrears to suppliers to make room for repaying bondholders.

Deficit member states, and by extension their corporate creditors, thus came to depend on the fiscal solidarity of the member states enjoying the greatest credibility on bond markets for protection against sovereign risk. This fiscal solidarity is the "international lender-of-last-resort" theorised by Jerome Roos in the case of the Eurozone. In a word, Germany and the other creditworthy member states could "lend" their credibility to deficit member states by backstopping their fiscal liabilities. This gave German authorities vast leverage, which they used to impose a policy of disinflationary structural adjustment in deficit member states.

Fiscal solidarity among member states can be more or less extensive. The five cases implemented or publicly debated during the crisis were, in ascending order of liability mutualisation, the following: bilateral loans (the first rescue package for Greece in 2010 through the Greek Loan Facility); a temporary fund endowed with limited borrowing capacity and fiscal resources in the shape of guarantees by member states (the EFSF set up in 2010); a permanent fund endowed with borrowing capacity and fiscal resources in the shape of paid-up capital that could also buy member state bonds on primary and secondary markets (the ESM that subsumed the EFSF in 2012); a priori mutualisation of member states' fiscal liability through joint liability and a common public debt instrument (Eurobonds); a fiscal union with a Eurozone Treasury headed

by a finance minister enjoying full fiscal powers (to tax, spend and borrow). At each speculative turning point, the extent of fiscal liability mutualisation increased, stopping short of Eurobonds and a federal Treasury, although these featured in debates in the European Council on long-term policy options.

The setting up of the ESM represents *ad hoc* fiscal liability mutualisation, limited to the specific task of preventing sovereign defaults and recapitalising struggling banks. This came with *ad hoc* centralization of the revenue and spending dimensions of fiscal policy through the role played by the Eurogroup in monitoring and vetting those policies in assisted member states. Similarly, bank supervision, resolution and the contingent fiscal liability for recapitalisations is now centralised through the new institutions created by banking union. Banking union also entails an element of fiscal union, in that resolution and recapitalisation entails fiscal resources.

However, there has crucially been another way in which fiscal liability mutualisation and protection against sovereign risk materialised, namely through the balance sheet of the ECB. The ECB's capital is subscribed by the member state central banks (which belong to the national Treasuries) in proportion to each member state's share of the Eurozone's population and GDP. As a result, profits and losses made by the ECB are apportioned to each member state according to the Bank's capital key³⁹. When the ECB takes sovereign bonds on its balance sheet through open market operations – as it did intermittently in 2010-11, as it promised to do in an unlimited way through its OMT programme in September 2012 and as it has been doing since it launched quantitative easing in 2015 – it is ultimately putting on the line the balance sheets of member states and so enacting a form of fiscal liability mutualisation by stealth⁴⁰. By taking sovereign bonds on its balance sheet, the ECB took on the role of lender-of-last-resort to the Member States⁴¹. The legacy of the ECB's taking on this new role is that 16.6% of outstanding Eurozone sovereign debt was sitting on its balance sheet in 2017⁴². By any standard, in particular by the standards set in the Maastricht treaty that sought to prevent the ECB from becoming a lender-of-last-resort and from mutualising fiscal liability, this has been a momentous institutional innovation.

ECB executives did not openly admit this during the crisis, but the Bank of England governor, Mervyn King, openly explained the financial dynamics involved in a joint press conference with Draghi in November 2011⁴³. Bundesbank president Jens Weidmann went as far as claiming that ECB bond buying was “synonymous with the issuance of euro bonds”⁴⁴. Naturally then, as the issue of how much fiscal liability mutualisation was needed and what form it should take became a highly salient issue in handling the crisis, a tussle developed between the ECB and the member states over who was going to do the mutualisation.

The broad fit between the policy response and the transnational corporate consensus

The policy revolving around structural adjustment for the deficit member states and some fiscal liability mutualisation (including through the ECB taking on the role of lender-of-last-resort for sovereigns and the Europeanisation of banking policy) closely matches the preferences expressed during the crisis by European corporate elites.

The starting point of the corporate response was the need to preserve the Eurozone. Acknowledging that this entailed deeper integration, corporate elites quickly advocated decisive institutional reform. The European Round Table of Industrialists called for emergency measures to eliminate sovereign risk and a reform of the institutional architecture⁴⁵. In a high-profile public letter, 50 leading Franco-German CEOs argued in June 2011 that the euro was a success because “a common market endowed with a single currency and without exchange rate fluctuations has materialized, thus creating prosperity and wealth”⁴⁶. Finally, Grant Thornton, a consultancy, has been publishing since 2012 an annual survey summing up the results of interviews with corporate executives. In 2013 and 2014, respectively, 94% and 93% of the 1,350 executives of Eurozone-domiciled corporations favoured the preservation of the euro.

The broad contours of the crisis-management policy received explicit corporate support. The fifty Franco-German CEOs considered that the deficit member states “must be assisted in order to regain their financial independence ... In exchange for this assistance, efficient measures must be introduced”. In a September 2012 statement, the peak organizations of France, Italy, Spain and Germany expressed their support for the key policy choices (the ESM, structural adjustment programs and the OMT programme) and called on “political leaders [to] launch ... process with the aim of bridging the gaps in the architecture of the economic and monetary union” and “propose initiatives with a view to a greater economic and political integration of the European Union”⁴⁷. In both 2013 and 2014, the Grant Thornton surveys showed that 89% of Eurozone corporate executives supported a greater degree of integration.

The political conflicts that surrounded the process of cobbling together these measures, revolving largely around the extent of fiscal liability mutualisation, with deficit member states advocating extensive mutualisation and surplus member states the opposite, is also reflected in the differentiated preferences of European corporate elites on this issue that reflect splits along national lines. Corporations from deficit member states were more heavily exposed to sovereign risk and accordingly keener on more extensive forms of direct fiscal liability mutualisation such as Eurobonds. The French peak employers' organization, Medef, cautiously supported the idea in a press release on 7 August 2011 and its Italian counterpart did so explicitly in December 2010⁴⁸

whereas the German BDI was much more reserved, judging in a press release of 28 November 2011 that such a financial instrument should only be introduced in the long-term. In the 2014 Grant Thornton survey, 85% of Spanish, 78% of Italian, 63% of French but only 22% of German corporate executives supported Eurobonds (the Eurozone average was 55%). A final indication of the split along national lines is provided in a 2011 survey by Booz&Co, the European Executive Council and INSEAD⁴⁹. This showed a strong correlation between the support voiced by corporate executives for boosting the capacity of the ESM and the ratio of public debt to GDP of the member states in which the corporations under their management were domiciled. The rationale for the position of executives in surplus member states was made explicit by Ackermann in his June 2012 speech: “We [the Germans] know that maybe we have to do more, but we should maintain the pressure on the countries to do the necessary structural reforms [...] But I can assure you that if it comes to the worst, before the Eurozone collapses, everything will be done to bail the Eurozone out”.

In contrast, the transnational corporate consensus on structural adjustment and fiscal retrenchment was much stronger. In January 2011, the ERT called for a “quick and orderly return to sustainable public finances”⁵⁰. The 2012 survey carried out by Booz&Co showed strong majorities among corporate executives in all member states in favour. 83% of Eurozone executives were in favour, ranging from 96% of German executives to 67% of Spaniards and Greeks, 74% of Italians and 87% of French.

The limited corporate consensus on the extent of direct fiscal liability mutualisation (as opposed to mutualisation by default through the ECB’s balance sheet) corresponds nicely to the split among member states and the supranational institutions and the outcome of the bargaining process on the issue. The bloc of surplus member states led by Germany continually resisted all maximalist proposals. When Eurobonds were discussed at the December 2011 European Council, Merkel opposed the push by the deficit member states and the Commission to consider them as a long-term solution⁵¹. Similarly, at an informal European Council on 23 May 2012, Germany, the Netherlands, Finland and Austria resisted the push by France, Italy, Spain and the Commission for Eurobonds⁵². As predicted above, when a transnational corporate consensus failed to materialise, the process of intergovernmental bargaining and its outcome conform to the liberal intergovernmentalist model. Bargaining power asymmetries meant that the German-led bloc largely dictated the outcome of the debate on the extent of direct fiscal liability mutualisation.

Similarly, the French-led bloc was not successful in challenging the corporate consensus on structural adjustment. The dynamics of government-corporate interaction in this case were different. Governments in deficit member states were under intense pressure from public opinion

to limit the extent of fiscal retrenchment. In this case, a strong transnational corporate consensus had formed and coincided with the stance taken by the Commission and the ECB as well as the bloc of surplus member states.

Dissolving the variance between the corporate consensus and the initial policy response – structural corporate power in action in 2010-12

The observation of the fit described above is neither enough to prove the decisive influence of corporate power on the way the crisis was resolved nor does it reveal the extent to which the policy response was initially at variance with corporate preferences. A closer look at the empirical record of the 2008-12 period reveals that the policy response described above was only arrived at after a lengthy process of groping by political leaders which crucially involved a stand-off between the corporate community and the member states as well as a stand-off between the latter and the supranational institutions (in particular the ECB). The corporate community and the supranational institutions were largely aligned; indeed, it can be argued that they forged an alliance of convenience to force the governments to backtrack. More than that, my claim is that the 2010-12 speculative crisis was the very means by which the alliance of the corporations and the ECB forced the governments – in particular Germany – to do so. I see the speculative crisis as a credit strike led by financial corporations – big banks and insurance firms – in retaliation to the decision by the November 2010 European Council to include PSI in future bail-outs of member states in line with the Deauville agreement between Merkel and Sarkozy. Crucially, the financials broke two commitments they had secretly made in spring 2009 and spring 2010 to the governments, namely to use ECB emergency liquidity to continue buying member states' debt securities and to keep hold of the bonds they already held, in exchange for a commitment that sovereign risk would not be allowed to materialise.

Once the cooperative game between the financials and the governments (and the ECB) came unstuck in November 2010, the stand-off crystallised in three interrelated issues (abandoning PSI; ending financial repression and severing the doom loop; providing a potentially unlimited commitment to fiscal liability mutualisation). These were successively dealt with between late 2011 and September 2012, after the credit strike by financial firms reached its climax in the autumn of 2011 and industrial corporations joined in by going on an investment strike during the second half of 2011.

The rest of this section traces the successive stages in government-corporate interaction during the period stretching from October 2008 to September 2012, when all the major decisions

pertaining to the Eurozone crisis were made. By doing so, I chronicle the credit strike that began in November 2010 and ended in September 2012 and which broke the resistance of the German government to decisive steps in the direction of fiscal and banking union in response to the crisis. (I provide at the end of the paper a chronological overview of the events to help the reader get their bearings.)

Abandoning Private Sector Involvement as a general principle governing Eurozone sovereign debt

The first issue that crystallised the conflict between corporations and governments was the German and other Northern member states' push for a solution that would involve bondholders of assisted member states taking losses. The German government had, from the very beginning, been under intense pressure from a “moral hazard” coalition demanding that German fiscal resources not be used to prop up deficit member states or struggling banks. This coalition came to dominate public debate in the surplus member states. Its demands were the mirror opposite to public opinion pressures in deficit member states against fiscal retrenchment; its backbone were SMEs under family control⁵³ and fiscally conservative voters, but it also received support from the Bundesbank and the web of cooperative and savings banks that have privileged relations with *Mittelstand* firms as well as the majority of professional economists. Its attitude was in stark contrast to that of German big business. The association of family businesses (*Die Familienunternehmen*) disagreed strongly with the BDI on all the issues relating to the management of the Eurozone crisis. It opposed the Greek bail-outs, the setting up of the ESM, the ECB's sovereign bond buying schemes and categorically ruled out Eurobonds under any circumstances. Its general stance was that “Europe does not need a centralized economic government but an economic system with clear regulatory principles”⁵⁴. The German government's preference for including losses for investors in plans for financial assistance to member states was, therefore, an attempt to accommodate the demands of the “moral hazard” coalition. Had the latter prevailed, the prospect of banking and fiscal union would not be on the table⁵⁵.

The German government waived this prerequisite for the first Greek bail-out agreed in May 2010⁵⁶ in exchange for a commitment from European banks to keep hold of peripheral sovereign bonds for three years⁵⁷. Bastasin tells of a meeting in May 2010, just after the Greek deal was struck, between German banks and insurers and Wolfgang Schäuble (the German finance minister), where the former were asked to keep hold of their peripheral sovereign bonds. He further claims that all Eurozone finance ministers formulated the same request⁵⁸. For the French case, this was confirmed to me in interviews with Ramon Fernandez (French Treasury director 2009-14) and Denis Duverne

(Axa chairman since 2016)⁵⁹. Duverne further claimed the request entailed an implicit promise that all Eurozone sovereign debt would be honoured in full.

However, the German government kept insisting on PSI until at the October 2010 Deauville meeting Merkel convinced Sarkozy to agree to it. This was a concession from the president to the chancellor designed to “help” her deal with domestic opposition⁶⁰. But the deal immediately triggered powerful opposition. Sarkozy's chief economic adviser Xavier Musca⁶¹ was opposed, as was the French Treasury (Fernandez interview), but the biggest challenge from policymaking circles came from ECB president Jean-Claude Trichet at the European Council meeting that followed Deauville in November 2010, who said the politicians did not understand how the markets would react and that the decision would “kill the euro”. In her press conference after the meeting, Merkel said “the ECB president above all wants that markets be able to see the Eurozone with calm. But we also need to take into account our population”⁶². In her Bundestag speech that followed the November European Council meeting, she used even stronger language to highlight the conflict between public opinion pressures and corporate preferences: “Do the politicians have the courage to make those who earn money share in the risk as well? ... This is about the primacy of politics, this is about the limits of the markets”⁶³.

Table 2 Top ten private financial institutions in terms of seats in ECB advisory groups

(adapted from Corporate Europe Observatory Open door to the forces of finance)

Rank	Financial institution	No. of seats
1	Euroclear	23
2	Deutsche Bank	18
3	BNP Paribas	17
4	Société Générale	16
5	UniCredit	15
6	Citi; Commerzbank	13
7	Clearstream	12
8	Crédit Agricole; Intesa Sanpaolo; Nordea	11
9	Santander; Monte Titoli;	10

	BNY Mellon	
10	HSBC; ING	9

When the deal became public, corporate opposition to it was quick to materialise. Duverne told me that the deal “destroyed the relation of trust between the public authorities and the private sector”. Ackermann publicly criticised it⁶⁴. Europe’s seniormost banker⁶⁵ lobbied van Rompuy and Barroso and held two face-to-face meetings with Merkel. When he and the other opponents of the Deauville deal finally lost out and the European Council formally agreed upon PSI the following November, “banks broke the hidden agreement with their governments not to sell the public debt of Greece, Ireland and Portugal. The landslide began to accelerate ... The Deutsche Bank moved quickly and extended its sales to Spanish and Italian bonds, with fateful consequences”⁶⁶. Duverne confirmed that Axa also began shedding its holdings of peripheral Eurozone debt whereas Fernandez concurred, explaining the situation in the following way: “private creditors – and I can understand them – agreed to keep hold of that risk so long as the politico-public side considered that the debt should not be restructured and therefore it could also play this collective game. If the game was no longer played, then it was every man for himself, which was what we wanted to avoid” (Fernandez interview). The sell-off became known as the “Merkel crash” among investors and the speculative crisis snowballed from that point onwards. November 2010 thus marked the beginning of the credit strike by financial corporations, following the breakdown of the cooperative interaction between governments and corporations.

Over the following twelve months, the ECB would leverage the credit strike at two key turning points⁶⁷. Together with the Greek PSI deal in July 2011, this would create conditions of an open corporate revolt against the political leaders’ handling of the crisis in the autumn of 2011.

Already in May 2010, the ECB had waited for the European Council to come up with the funds for the first Greek bailout and the agreement on the EFSF before launching on 10 May its bond-buying scheme (the Securities and Markets Programme - SMP). The ECB had not intervened in bond markets until then on purpose, realising that the market reaction by investors would force the member states to agree on some kind of fiscal liability mutualisation scheme⁶⁸. Following the Deauville deal, the ECB asked the member states to step up the extent of fiscal liability mutualisation by allowing the EFSF/ESM to buy sovereign bonds on the secondary markets (just as the ECB had been doing through SMP). When the March 2011 European Council instead decided to strengthen the commitment to PSI and rejected the ECB’s demand, the ECB secretly reneged on the SMP in order to allow markets to ratchet up the pressure on the member states⁶⁹.

At that point, the credit strike gained further momentum as American investors began shorting Eurozone sovereign debt and heavyweights among them – such as PIMCO’s Bill Gross and hedge fund owner John Paulson – went public with their new strategy⁷⁰.

The next turning point came with the decision to implement a PSI for Greece in June-July 2011. The decision seemed to confirm to investors the fact that PSI would now be a core feature of the Eurozone architecture and the lack of any credible arrangement (greater ESM capacity or unlimited ECB bond buying) for underwriting sovereign bond markets only reinforced this perception. Investors stepped up their efforts to reduce their exposures to deficit member state debt, in particular that of Italy. Deutsche Bank again led the way, having cut its exposure to Italy by a staggering 88% in the first half of 2011 alone, and others followed⁷¹. Moreover, institutional investors such as pension funds, which pursue a risk-averse investment strategy, also began reallocating their portfolios⁷², a clear sign that the risk-free status of sovereign debt was by now decisively damaged. All in all, ECB economists have shown that between end-2009 and end-2011, investors from the Eurozone reduced their holdings of peripheral member states’ bonds by a total of around 750 billion dollars, i.e. almost a third of the initial holdings, whereas non-Eurozone investors decreased their holdings by 138 billions (19% of initial holdings)⁷³.

The ECB reactivated the SMP in August 2011, in exchange for a secret commitment by the Italian and Spanish governments to implement structural adjustment measures. When the Italian government backtracked during the following months, the ECB again scaled back its bond purchases, letting investors pile up the pressure on Silvio Berlusconi who resigned in November 2011.

When the credit strike peaked in November 2011, corporate preferences were clearly at odds with the policy response and the rift had extended from the banks and insurers to the broader corporate community. Based on a survey of executives in major industrial corporations, *The Economist*⁷⁴ commented that “Europe’s industrial bosses oscillate between fear, anger and disbelief [...] Company bosses long to shout “You’re fired!” at any number of European politicians. They find it inconceivable that Greece [...] has been allowed to send the system spinning out of control.” Indeed, by late 2011, the credit strike extended to a proper investment strike in the productive sector as gross fixed capital formation across the Eurozone, which had begun recovering in early 2010 from the 2008-09 recession, started declining again from mid-2011⁷⁵.

The credit strike forced the German government to gradually retreat. PSI as a generalised policy response was ruled out as early as the 21 July 2011 European Council that decided the Greek PSI. The aim was to show that Greece was a unique case. PSI was then completely ditched at the December 2011 European Council meeting.

The decision contributed to reversing corporate sentiment about the governments' intention to do what was necessary to prevent sovereign defaults. But despite the assurances given, the credit strike was not stemmed as investors began asking for tangible guarantees that there was a potentially unlimited backstop for sovereign bonds. It was no longer enough for politicians to promise that there would be no losses for investors; they had to make good on that promise in the here and now before investors decided to renew their trust in sovereign debt and again increase their exposure to it.

It would, therefore, take two other key decisions by political leaders to bring the policy response in line with the corporate consensus and thus decisively open the way for quelling the crisis. One was the issue of financial repression and the other was to provide a tangible backstop in the form of potentially unlimited fiscal liability mutualisation.

Abandoning financial repression and severing the doom-loop between banks and sovereigns

The second issue that demonstrates the variance between the corporate consensus and the policy response during 2008-12 was the tendency of national banking supervisors and policymakers to pursue a policy of financial repression and the associated commitment to preserving member state responsibility for banking systems. Véron⁷⁶ defines financial repression as “governments harnessing national financial systems to reduce their own financial difficulties to the detriment of savers and other users of financial services”. Examples include national supervisors telling banks to maintain lending levels in their home markets, decrease their exposure to foreign markets or buy up even more sovereign bonds issued by their home member state, all cases of what happened during the crisis and contributed to the dynamics of intra-European financial disintegration.

The origins of this policy go back to the 2008 bank rescues. At the time, the French government touted the idea of a “Euro-tarp” – a European fund that would mutualise the costs of recapitalising Europe’s banks. Presciently, French finance minister Christine Lagarde justified the proposal by questioning the capacity of small member states to deal with bank failures, thus anticipating the problem of the doom-loop⁷⁷. The German government killed the proposal before it was even seriously discussed⁷⁸, despite Ackermann and Germany’s big banks supporting it⁷⁹. A year later, the idea of centralising banking supervision was discussed in the de Larosière group⁸⁰, but only timid progress was achieved, despite Europe’s big banks supporting the principle for some time. As Epstein⁸¹ has argued, the Europeanisation of banking national champions during the 2000s weakened their ties to their home states, leading them to attach a higher premium to a centralized framework for banking policy and a lower one to political and regulatory support from

their home authorities. Accordingly, Europe's major banking corporations would vigorously campaign for a fully-fledged banking union after 2012.

Bastasin argues that a Grand Bargain was struck by member states with the banks and the ECB as early as March-April 2009 after meetings between bank CEOs and government ministers whereby the latter used “moral suasion” to get the banks to channel additional ECB liquidity to their home member states. “Several top bankers concede the huge pressure they received from their national regulators about specifically subscribing national debt.”⁸² Indeed, ECB monthly data from individual bank balance sheets has shown that domestic sovereign bonds went from 2% to 5% of the total assets of Eurozone banks between end of 2008 and end of 2012. The increase was even greater for banks in the peripheral member states, at around 7% at end of 2012. The same study has confirmed that moral suasion was the main reason for this⁸³. Moreover, national banking regulators had started asking banks to ring-fence their national assets and set aside capital for each separate member state market in which they were operating, thus turning back the regulatory clock to the pre-single passport era. The pressures on investors intensified after May 2010 and indeed the greatest part of the rise in holdings of domestic sovereign debt occurred after that date, in particular during 2011.

The recourse to financial repression did not sit well with top financiers. Relations between the German banks and the German finance minister, Wolfgang Schäuble, had soured because of “what they called financial repression”⁸⁴. Although speaking about the request to keep hold of deficit member state debt, Duverne was emphatic that during the crisis investors faced financial repression⁸⁵.

The extent to which such financial repression was being relied upon by policymakers was highlighted in December 2011 when Sarkozy stated in an interview on French radio that the ECB's new liquidity support measures (the Long Term Refinancing Operations LTROs⁸⁶) should allow member states to turn to their own banks who would now have ample liquidity to buy their bonds. This became known as the “Sarko trade”. The governments’ strategy at that point seemed to be the following: unable to provide a credible commitment to guarantee the risk-free status of sovereign debt with fiscal resources, they wanted to convince the banks that the unlimited liquidity provided by the ECB should be seen as a substitute.

Investors would not continue to be swayed, however. A few days after Sarkozy's December 2011 comments, the *Financial Times* commented that “Plenty of observers are sceptical that banks will fall for the trick this time. Indeed, the story of recent months has been of banks falling over themselves to shed sovereign debt”⁸⁷. Indeed, the banks welcomed the additional ECB liquidity

support in the form of the LTRO's, but since it did not deal with sovereign risk or the doom loop they saw it only as a "painkiller" according to Commerzbank's chief economist, Jörg Krämer⁸⁸.

Accordingly, while interbank market tensions eased off following the LTROs in December 2011 and February 2012, the failure of the policy of reinforcing the doom loop became obvious in the spring of 2012 when the Spanish banking crisis erupted after the collapse of Bankia. Capital fled Spanish banks and sovereign debt in massive amounts as it became obvious that the standard recipe of having the local sovereign borrow the funds on bond markets to recapitalise the local banks was not credible⁸⁹. Lagarde's 2008 premonition was now materialising, only the member state concerned was the Eurozone's fourth largest economy. The problem was thus much greater in scale than the earlier proponents of a European bank recapitalisation fund had imagined.

The corporate bankers stepped up their campaign for banking union, with Ackermann publicly arguing in early June 2012 for direct recapitalisation of the Spanish banks by the ESM and the decoupling of banks and sovereigns⁹⁰. Once again, the ECB backed the corporations' demands. Draghi forcefully argued that the decentralised system of banking supervision had failed⁹¹. There is also evidence that the ECB threatened to carry out its own bank balance sheet assessments and condition access to its refinancing windows on them if the politicians did not act⁹².

Again, this alignment of forces moved the German government to relent. Sarkozy had again raised the issue of bank recapitalisation with European funds in October 2011 when the Franco-Belgian bank Dexia collapsed⁹³ and the French government was already open to the idea of common bank supervision as a *quid pro quo*⁹⁴. The deal was struck in Rome on 22 June 2012 at a summit of the Italian, Spanish, French and German leaders after Merkel argued that common supervision was a prerequisite for bank recapitalisation by the ESM⁹⁵. The 29 June 2012 European Council decided to launch banking union and a deal was agreed with the Spanish government whereby the ESM provided the funds to recapitalise Spanish banks in exchange for a binding agreement on the restructuring of the Spanish banking sector to be supervised by the Commission. Unsurprisingly then, the meeting was generally judged as a painful defeat for Merkel in Germany⁹⁶.

In the ensuing negotiations over banking union, a pattern similar to the one described above over PSI took shape. Under pressure from the "moral hazard" coalition and the domestically oriented banks in particular, the German government led a camp of surplus member states opposed to extensive powers for the single supervisor and extensive forms of resolution funding mutualisation. Pitted against it was a coalition comprising the Commission, the ECB, the French-led bloc of deficit member states and the major banking corporations, including the German ones (Deutsche Bank and Commerzbank). Again, despite apparent bargaining power asymmetries in favour of the German-led bloc, Germany made concessions across the board, accepting an

extensive scope for the single supervisor (i.e. that it will have ultimate authority over German savings and cooperative banks), a single resolution authority with a single resolution fund and direct bank recapitalization by the ESM. As argued by Epstein and Martin Rhodes “It is one thing to resist appeals for greater solidarity from the weak peripheral member states (a position that Germany has shared with the Commission and the ECB), and quite another to fight and win against a much larger coalition comprising the Commission, the ECB and the European Parliament, as well as the largest European banks and their European-level associations”.⁹⁷

Providing a potentially unlimited commitment to fiscal liability mutualisation

The June 2012 European Council opened the door for the final decision that would fully align the policy response with the demands of the corporate community. As mentioned in the introduction, it is widely seen as the “game changer” that allowed the ECB to act as forcefully as it did during the following months.

The rescinding of the Deauville deal in December 2011 had offered the promise that sovereign risk would not be allowed to materialise again and that member state sovereign debt would be restored to its status as the Eurozone’s safe asset *par excellence*. The commitment to sever the doom loop between sovereigns and banks through banking union lent some credibility to that promise in that it entailed the mutualisation of the contingent fiscal liability for bank rescues necessary to avoid banking troubles dragging down the sovereigns. Moreover, it provided the institutional underpinnings necessary to reverse the policy of financial repression that was driving the process of financial disintegration in the Eurozone.

But the commitment to neutralise sovereign risk was not fully credible to the extent that a potentially unlimited backstop for sovereign debt was not in place. Although the German government, at the same time as it relented on PSI, also made tentative steps towards granting the ESM greater capacity, this was still not seen as credible by investors. To begin with, in July 2011, the leaders decided to allow the EFSF/ESM to intervene in bond markets, just as the ECB had been calling for. But the total resources of the EFSF/ESM were perceived as being nowhere near enough for the task at hand and politically, such intervention was still toxic in Germany. The rest of 2011 was spent in negotiations on how to increase the fund’s resources, either by granting it a banking licence so that it could leverage ECB liquidity or even by pooling Eurozone member states’ Special Drawing Rights (the IMF liquidity)⁹⁸. This became known as the debate on the Eurozone’s missing “bazooka”, a term used by US Treasury secretary Timothy Geithner who had persistently sided with the French in arguing that investors had to be offered rock-solid guarantees for the crisis

to be contained⁹⁹. The conclusion of the debate was to raise, in March 2012, the EFSF/ESM's capacity from 500 to 800 billion euros, a sum that remained unconvincing in relation to the contingency of having to underwrite Italian and Spanish sovereign debt. By spring 2012 then, the situation seemed to be completely deadlocked.

Draghi and other central bankers had become increasingly alarmed during the first half of 2012 by the way investors were reacting¹⁰⁰. They had expected investors to reverse their credit strike on bond markets after a firm commitment by deficit member states to structural adjustment had been achieved in late 2011 through the signing of the Fiscal Compact; instead, investors were conveying to the central bankers in face to face meetings that an unlimited backstop was required¹⁰¹.

Consequently, the only available option that commanded corporate support and that was sufficiently obscure in technical terms for it to remain a relatively low salience issue was to once more use the ECB's balance sheet. Crucially, using the ECB's balance sheet did not require the Bundestag's approval, as such approval had come to crystallise the political difficulty of getting surplus member state public opinions to agree to fiscal liability mutualisation. And Draghi and the ECB had been satisfied by the June 2012 European Council that the political leaders were sufficiently committed to substantial further integration.

Accordingly, Draghi liaised with the German government in the summer of 2012 and obtained its backing for the critical move that he made on 26 July at a global investor conference in London, announcing that the ECB would "do whatever it takes" to preserve the Eurozone. The German government had come to accept that agreeing to let the ECB commit its balance sheet in an unlimited way was the politically least costly solution in relation to raising the ESM's capacity to the trillions of euros, for which Merkel was convinced she could not find a Bundestag majority. The French government, in contrast, had always supported such a solution. Draghi's commitment materialised at the 6 September 2012 meeting of the ECB's governing council and came in the form of the Outright Monetary Transactions programme. Draghi took care to specify in his press conference that day that the OMT would be unlimited in scope and his "message was clearly heard in the financial communities"¹⁰². Draghi has been clear about investor pressure forcing him to act. On 31 July 2012, he told Geithner that his "whatever it takes" remarks had been prompted by the deep scepticism he had sensed in his audience of hedge fund managers¹⁰³. A few months later, in an interview with the *Financial Times*, the journalists pointed out that "All the top financiers were saying that they've got to have unlimited ECB capacity". Draghi replied "What I thought was that the markets should know what our stance was ... I said the markets underestimated the leaders' determination and the amount of political capital they have invested in the euro"¹⁰⁴.

Table 2 Instances of corporate power observed during Eurozone crisis

Corporate preferences	Instrumental power	Structural power
Opposition to PSI	<ul style="list-style-type: none"> i. Lobbying and public advocacy ii. Corporate-friendly policymakers (ECB, French Treasury, Commission) iii. Revolving-door (ECB, French Treasury, Commission) 	Credit strike on sovereign bond markets
Opposition to financial repression	<ul style="list-style-type: none"> i. Lobbying ii. Corporate-friendly policymakers (ECB, Commission) iii. Revolving-door (ECB, Commission) 	Refusal to use ECB liquidity to support sovereign bond markets (credit strike)
Support for structural adjustment	<ul style="list-style-type: none"> i. Lobbying and public advocacy ii. Corporate-friendly policymakers (ECB, German government, Commission) iii. Revolving-door (ECB, Commission) 	Credit strike on sovereign bond markets putting pressure on deficit member-state governments
Support for potentially unlimited fiscal liability mutualisation	<ul style="list-style-type: none"> i. Lobbying and public advocacy ii. Corporate-friendly policymakers (ECB, French Treasury, Commission) iii. Revolving-door (ECB, French Treasury, Commission) 	Credit strike on sovereign bond markets putting pressure on surplus member-state governments

Very quickly, the investors' credit strike was suspended and sovereign bond markets normalised¹⁰⁵. The Eurozone crisis was over. The member states – in particular the surplus ones – had performed the about-turn that led to the alignment of the policy-response with corporate preferences: they finally accepted the need for a credible fiscal guarantee that bondholders would be made whole under any circumstances and the need to carry out bank recapitalisations with European funds, which also entailed that they would have to relinquish their firm regulatory grip on the banking sector.

Conclusion

The account provided above of the Eurozone crisis is in line with the expectations generated by the theoretical framework set out at the beginning of this paper (summarized in table 1). The overall policy response was in line with corporate preferences. The crisis indeed erupted after policymakers went down paths strongly opposed by corporate elites due to public opinion pressures regarding highly salient aspects of fiscal policy. As soon as that happened, corporate elites changed gear and went on a credit strike, no longer relying on their instrumental power and exercising structural power instead. That reaction reached its peak when industrial corporations joined their financial counterparts in complementing the ongoing credit strike by an investment strike in the productive sector. The corporate reaction was leveraged by the supranational institution best placed to influence the course of events, namely the ECB, which very quickly realised that its own capacity to persuade the politicians was limited and that they would only listen if confronted by the full force of corporate structural power.

One counterintuitive conclusion from the above is that the bloc of surplus member states led by Germany found itself on the losing side of policy making much more often than is usually acknowledged by the literature – and on fundamental issues for that matter. Indeed, it was the corporate reaction that prevented the relapse to the Maastricht system based on market discipline for sovereigns and no fiscal liability mutualisation, the solution initially favoured by the German government. Similarly, it was the credit strike and the corporate refusal to fund the Spanish bank restructuring scheme that forced the same government to take the necessary steps to sever the doom loop between banks and sovereigns, thus Europeanising bank policy and reversing the policy of financial repression.

A mixed pattern of policy-making can be observed – one in which the supranational institutions got most of what they wanted. On some issues (structural adjustment)

intergovernmental bargaining power dynamics saw the bloc of surplus member states win out while on others (PSI and financial repression) such dynamics failed to dictate the outcome.

The case of the Eurozone crisis is instructive because corporate power most clearly comes to the fore during times of crisis when policy is most likely not to spontaneously align with corporate preferences and corporations resort to structural power to get their way. Just as corporate power analyses of the 2008 financial crisis have been used to reveal the nature of power in contemporary capitalist societies, this paper's analysis of the Eurozone crisis can contribute to shed light on the reality of power in the EU and, more specifically, on how the corporate dominance of power is structurally linked to the deepening of integration and ultimately the building of a new federal polity.

The Eurozone crisis can indeed be seen as a critical juncture that has demarcated the possible paths down which the future development of the EU can go – namely by creating a path dependency that should ultimately lead to some kind of fiscal union (the pinnacle of which must be the provision of a safe asset around which the Eurozone's financial system can be organised) and full banking union. Scholarship about the EU, then, needs to take seriously Ackermann's 2012 statement with which this paper opens.

This paper is an initial attempt to do so. As crisis conditions have subsided so has the exercise of structural power. This paper has only flagged examples of instrumental power. As the reform of the Eurozone is now being negotiated under normalised conditions, it is necessary to dig deeper into the many subtle ways in which corporations exercise instrumental power to shape the policy agenda and the policymaking process.

This has long been a preoccupation of some NGOs like CEO, but scholarship has ignored it. One recent encouraging example is Sylvain Laurens's¹⁰⁶ socio-history of the links between the Commission bureaucracy and representatives of business interests. Sociologists have also highlighted for decades the deep unity of French corporate and administrative elites and this paper has shown how this unity has had an impact on the resolution of the Eurozone crisis. I have also shown how the proximity between big banks and the ECB was another major factor accounting for the central bank advocating corporate-friendly policies. Why the same appears not to be true in Germany is clearly of fundamental importance. Some of my interviewees suggested this is because German finance ministry officials are lawyers and career bureaucrats that sociologically stand at some distance from corporate boardrooms. Another possible explanation is that top finance ministry jobs are politicised in Germany, as opposed to France, and that the constitutional constraints on the executive branch are greater due to extensive Bundestag oversight, jealously preserved by the Justices of the German Constitutional Court. The French executive knows of no

such constraints, to the extent that Treasury officials could commit billions of French fiscal resources without even letting the National Assembly know. In acknowledging and trying to better understand this disparity between the ECB, the French and the German financial bureaucracies, integration theories need to historicise corporate-state relations and better understand how these differ across member-states and supranational institutions. In other words, applying corporate power theory to EU studies needs to come with a historical-sociological approach of the way such power has been constructed and is exercised in Europe. All these aspects of the European political economy need to be better understood if the attempt to incorporate the concept of corporate power into theorising and empirical analysis about the EU is to be fruitful.

¹ The literature on the crisis is vast. For representative political economy treatments, see the 2016 special issue of *Comparative Political Studies* 49(7) and the 2015 special issue of *Journal of European Public Policy* 25(2).

² Leparmentier *Ces français*, 10.

³ Remarks at conference “L’avenir de la zone”, held at the University of Geneva on 8th March 2019.

⁴ Interview in Paris, 12 March 2018. Musca became deputy CEO at Crédit Agricole upon leaving the French presidency in 2012. He had previously been the French Treasury’s director (2004-09) and had been closely involved in the drafting of the Maastricht treaty. I provide this information as illustration of the kind of instrumental corporate power (on which see the following section) in evidence in the case of the Eurozone crisis.

⁵ Nicolas Véron “Europe’s Radical Banking Union”, *Bruegel Essay and Lecture Series*, 2015, 18.

⁶ Bini Smaghi moved to the private sector upon leaving the ECB executive board and has been chairman of Société Générale since 2015. For Monti’s views, see Carlo Bastasin *Saving Europe: Anatomy of a Dream*, Washington DC, Brookings Institution Press, 2015 (2nd edition), 387. Bini Smaghi interview in Paris, 22 November 2017.

⁷ Bastasin *Saving* (2012, 1st edition), 222.

⁸ I borrow the idea that banking union was the alternative to financial repression from Nicolas Véron “Banking union or financial repression? Europe has yet to choose” *Vox CEPR’s Policy Portal* 26 April 2012.

⁹ See the special issue “Structural Power and the Study of Business”, *Business and Politics* 17(3), 2015. Other notable examples include Cornelia Woll *The Power of Inaction: Bank Bailouts in Comparison*, Ithaca, NY, Cornell University Press, 2014; Pepper D. Culpepper and Raphael Reinke “Structural Power and Bank Bailouts in the United Kingdom and the United States” *Politics & Society* 42(4), 2014, 427-454.

¹⁰ “The Political Power of Finance: The Institute of International Finance in the Greek Debt Crisis” *Politics & Society* 45(3), 2017, 389-413.

¹¹ *Why Not Default? The Political Economy of Sovereign Debt*, Princeton, Princeton University Press, 2019.

¹² *Ibid*, 26 [verify].

¹³ Ibid, p25.

¹⁴ See Table 2 in p9 of Jeromin Zettelmeyer, Christoph Trebesch and Mitu Gulati “The Greek Debt Restructuring: An Autopsy”, *Peterson Institute of International Economics Working Paper* 13-8, August 2013.

¹⁵ See in particular his *Scale and Scope: The Dynamics of Industrial Capitalism*, Cambridge MA, Harvard University Press, 1990.

¹⁶ Kerry A. Chase *Trading Blocs: States, Firms and Regions in the World Economy*, Ann Arbor, Michigan University Press, 2005.

¹⁷ Alfred Chandler, Franco Amatori and Takashi Hikino “Historical and Comparative Contours of Big Business”, in Chandler, Amatori and Hikino (eds) *Big Business and the Wealth of Nations*, Cambridge, Cambridge University Press, 1997.

¹⁸ C. Wright Mills *The Power Elite*, Oxford, Oxford University Press, 1956; G. William Domhoff *Who Rules America? The Triumph of the Corporate Rich*, New York, McGraw Hill (7th edition), 2013.

¹⁹ Bastiaan van Apeldoorn *Transnational Capitalism and the Struggle over European Integration*, London, Routledge, 2002.

²⁰ *Quiet Politics and Business Power: Corporate Control in Europe and Japan*, Cambridge, Cambridge University Press, 2011.

²¹ For an application to the EU, Alberta Sbragia “The European Community: A Balancing Act”, *Publius: The Journal of Federalism*, 23(3), 1993, 23-38.

²² Jean-Christophe Defraigne *De l'intégration nationale à l'intégration continentale*, Paris, L'Harmattan, 2004.

²³ Lawrence Franko *The European Multinationals: A Renewed Challenge to American and British Big Business*, London, Harper and Row, 1976.

²⁴ Harold James *Making the European Monetary Union*, Cambridge MA, Harvard University Press, 2012, 1-28.

²⁵ “The Impact of Goods and Capital Market Integration on European Monetary Politics”, *Comparative Political Studies*, 29(2), 1996, 202.

²⁶ Stefan Collignon and Daniela Schwarzer *Private Sector Involvement in the Euro: The Power of Ideas*, London, Routledge, 2003, 50. Both Etienne Davignon (chairman of the AMUE in 1991-2001 and a former vice-president of the European Commission) and Yves-Thibault de Silguy (European commissioner for economic and monetary affairs in 1995-99 and later director of the French concessions and construction giant Vinci) told me that monetary union was necessary to preserve the single market and that this was the primary motive of corporate executives campaigning for it. Davignon interview in Brussels, 12 January 2018 and de Silguy interview in Paris, 24 November 2017.

²⁷ Telephone interview with Stefan Collignon, 28 February 2017.

²⁸ Davignon broadly confirmed this.

²⁹ Davignon interview.

³⁰ De Silguy interview. De Silguy was emphatic about the AMUE's leading role and the closeness of the relationship he had forged with Davignon. He was also keen to point out that the ESM is similar in spirit to his unsuccessful proposal.

³¹ Rachel Epstein “Choosing the Lesser of Two Evils: Explaining Multinational Banking Groups' Push for Supranational Oversight in the EU”, *Cahiers du CERIU Working Paper* 2, 2014.

³² Christian Dustmann et al “From Sick Man of Europe to Economic Superstar: Germany's Resurgent Economy”, *Journal of Economic Perspectives*, 28(1), 2014, 167-188.

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- ³³ Daniel Mügge *Widen the Market, Narrow the Competition: Banker Interests and the Making of a European Capital Market*, Colchester, ECPR Press, 2010.
- ³⁴ Nicolas Véron “Is Europe Ready for a Major Banking Crisis?”, *Bruegel Policy Brief 2007/13*.
- ³⁵ James *Making*, 11.
- ³⁶ Ackermann speech at Atlantic Council.
- ³⁷ Adam Tooze *Crashed: How a Decade of Financial Crises Changed the World*, London, Allen Lane, 2018, 100.
- ³⁸ Véron *Europe’s Radical*, 21.
- ³⁹ For details <https://www.ecb.europa.eu/ecb/orga/capital/html/index.en.html>.
- ⁴⁰ On this, see Waltraud Schelkle “Fiscal Integration by Default”, Philipp Genschel and Markus Jachtenfuchs (eds) *Beyond the Regulatory Polity? The European Integration of Core State Powers*, Oxford, Oxford University Press, 2014, 105-123.
- ⁴¹ Paul de Grauwe “The European Central Bank as Lender of Last Resort in the Government Bond Markets”, *CEISifo Economic Studies* 59(3), 2013, 520-535.
- ⁴² Bank for International Settlements *87th Annual Report*, 2017, 72. By comparison, the Federal Reserve held 11.8% of outstanding US sovereign debt.
- ⁴³ Niels Pratley “Hard Truths about the Euro from Mervyn King”, *The Guardian*, 16 November 2011.
- ⁴⁴ *Spiegel Online* “Germany’s Central Bank against the World”, 15 November 2011.
- ⁴⁵ European Roundtable of Industrialists “Euro Crisis: European Industry Leaders Call for Coordinated Actions to Reinforce EMU”, Press release, 12 October 2011.
- ⁴⁶ Cercle de l’Industrie “Pas de crise de l’euro, mais une crise de la dette”, Franco-German position on the Euro, 20 June 2011.
- ⁴⁷ BDA, BDI, CEOE, Confindustria and Medef “Nous avons confiance en l’Europe et dans l’euro”, Joint statement, 5 September 2012.
- ⁴⁸ Vittorio da Rold “Eurobond, per guardare oltre la crisi”, *Il Sole 24 Ore*, 8 December 2010.
- ⁴⁹ “Revitalising the European Dream: A Corporate View”, 2012 edition.
- ⁵⁰ Daniel Schäfer “Industry Warns Europe on Competitiveness”, *Financial Times*, 31 January 2011.
- ⁵¹ Bastasin *Saving Europe*, 358.
- ⁵² Oisín Gilmore “Disagreements and Progress on Eurobonds at EU Informal Dinner”, *Institute for International and European Affairs* blog, 28 May 2012.
- ⁵³ *The Economist* “Europe’s companies are preparing for the worst. It will change them”, 8 October 2011.
- ⁵⁴ Philine Schuseil “The German Industry and the Euro” *Bruegel* blog post, 5 July 2012.
- ⁵⁵ When I put this to Jean Lemierre – French Treasury director in 1995-2000, special adviser to BNP-Paribas’s chairmen in 2008-14 and chairman since 2014 himself and finally one of the two IIF negotiators of the Greek PSI in 2011-12 – he agreed. He further remarked that the Deauville decision and the whole debate on PSI crystallized one of “the problems not dealt with when the euro was created and which was dealt with during the crisis, namely whether there is a string that holds the whole system [of sovereign debt] together, whether there is solidarity and what conditions it comes with. Deauville ... is a true political debate”. Interview in Paris, 14 March 2018.
- ⁵⁶ According to Philippe Legrain, former Commission president José-Manuel Barroso’s chief economic adviser, this happened after intense lobbying by German and French banks (<https://www.youtube.com/watch?v=kbZxS6uHFXc>). This is one instance of instrumental

power observed during the crisis. The public statements cited above are another. There is also evidence of the presence of corporate-friendly policymakers and the revolving-door in the French government, the ECB and the Commission. ECB executives regularly meet corporate bankers – even before announcing key monetary policy decisions (Claire Jones “ECB officials met bankers before key decisions”, *Financial Times*, 2 November 2015). Of the twelve ECB executive board members since 2010, the two presidents are members of the Group of 30 that brings together central and corporate bankers (on which see Eleni Tsingou “Club Governance and the Making of Global Financial Rules”, *Review of International Political Economy*, 22(2), 2015), four had a background in the corporate sector and four went through the revolving door upon leaving the ECB. Two have also been members of an IIF committee dealing with sovereign debt restructuring. The NGO Corporate Europe Observatory recently (*Open doors for finance at the ECB*, 2017) showed that 98% (508 out of 517) of the members of the ECB’s 22 advisory committees come from the private financial sector with the Eurozone’s biggest banks having the most representatives. The NGO has also documented the extensive revolving-door linking the Barroso Commission to the corporate sector (<https://corporateeurope.org/revolvingdoorwatch>, see also Yorgos Vassalos “Le pantouflage financier à la Commission européenne”, *Savoir/Agir* 41(3), 2017) as well as the corporate dominance of the Commission’s own advisory groups, in which 70% of the seats are taken by corporate interests (<https://corporateeurope.org/expert-groups/2017/02/corporate-interests-continue-dominate-key-expert-groups>).

⁵⁷ Bastasin *Saving Europe*, (2012 edition), 3-5.

⁵⁸ *Ibid*, 217.

⁵⁹ Fernandez interview in Paris, 24 October 2018. Duverne interview in Paris, 23 October 2018.

⁶⁰ Leparmentier *Ces français*, 21.

⁶¹ See endnote 1 on Musca. The extent to which top financial bureaucrats alternate positions in the top echelons of the French bureaucracy and those of national financial champions is solidly documented in sociological literature on French elites. Many policymakers suggested in interviews in 2013-14 with the *Financial Times* that this explains why French officials adopted corporate-friendly positions, contrary to their German counterparts who tend to be career bureaucrats (<http://podbay.fm/show/878656889/e/1400257800?autostart=1>). Musca told me that coordination between policymakers and France’s top bankers was extremely close during the crisis and that the actors knew each other very well, whereas the same was not true in Germany because of a fragmented policymaking system and banking industry and because actors weren’t “from the same walk of life”. Interview in Paris, 12 March 2018. This proximity qualifies as instrumental power.

⁶² Leparmentier *Ces français*, 20-22.

⁶³ Gerrit Wiesmann “Merkel seeks to pull bondholders into rescues”, *Financial Times* 24 November 2010.

⁶⁴ *New York Times* “Deutsche Bank’s Chief Casts a Long Shadow in Europe”, 11 June 2011. Ackermann was generally acknowledged at the time as an influential unofficial adviser to the chancellor. In 2008 he had been the first major figure in Germany to call for public bank bail-outs and directly negotiated with Merkel the 2008 rescues of Commerzbank and Hypo Real Estate, forcing her to put up public money to complement a rescue by private banks by threatening to sit on his hands otherwise and let the two banks collapse (Bastasin *Saving Europe*, 2012 edition, 16-20). His earlier success at wielding instrumental power stands in sharp contrast with his failure (and that of French financial elites) to prevent the Deauville decision and is a

useful illustration of the limits of instrumental power during the Eurozone crisis.

⁶⁵ Deutsche Bank was Europe's top bank by assets in 2011 and 2012

(<https://www.relbanks.com/top-european-banks>). The two previous years, the top rank was occupied by France's BNP-Paribas, whose chairman, Michel Pébureau, was also regarded as Sarkozy's foremost unofficial adviser with a direct hand in designing the 2008 bank rescues but also the EFSF and the ESM. See Anne Michel "Michel Pébureau, le banquier dans les coulisses de l'Elysée", *Le Monde* 1 December 2011 and Florence Autret "Michel Pébureau, une excellence à la française", *Au fait* 3, September 2013. As I show in the following sub-section, Pébureau and BNP-Paribas were also instrumental in pushing the idea of banking union.

⁶⁶ Bastasin *Saving Europe* (2012 edition), 5 and 232.

⁶⁷ When I asked Bini Smaghi whether there had been an "alliance of convenience" between the ECB and the financial corporations, he said "At the end, yes, the markets said 'if there isn't a regime change, the system risks exploding'. And the ECB said more or less the same thing. These were different pressures. ... the aim was the same". But he also claimed that "certainly, it was the market pressures that woke up the political decision makers". Interview in Paris, 22 November 2017.

⁶⁸ Irwin *The Alchemists*, 222-230. Bini Smaghi interview.

⁶⁹ Bastasin *Saving Europe* (2012 edition), 254.

⁷⁰ Tooze *Crashed*, 379.

⁷¹ Richard Milne and James Wilson "Deutshce Bank hedges Italian risk", *Financial Times*, 26 July 2011.

⁷² Tooze *Crashed*, 385.

⁷³ Roland Beck, Georgios Georgiadis and Johannes Gräß "The geography of the great rebalancing in euro area bond markets during the sovereign debt crisis", *ECB Working Paper 1839*, August 2015. Unfortunately, the data on bondholdings reports end-of-year positions only – ideally, one would want to calculate the reduction between November 2010 and September 2012.

⁷⁴ "Europe's companies are preparing for the worst."

⁷⁵ *ECB economic bulletin*, issue 7 "Business investment developments in the euro area since the crisis", 2016, 48-70.

⁷⁶ Véron "Banking union or financial repression?"

⁷⁷ Tooze *Crashed*, 186-187.

⁷⁸ Musca interview. Musca was director of the French Treasury at the time.

⁷⁹ *Zeit online* "Banken fordern Hilfe vor der EU" 2 October 2008 and D Gow "Greece's deposit guarantee deepens EU financial rift" *The Guardian* 3 October 2008.

⁸⁰ Jacques de Larosière was another former French Treasury director (as well as former IMF managing director and Banque de France governor) who was special adviser to BNP-Paribas chairman Michel Pébureau. Pébureau had in fact privately floated the idea of centralizing banking supervision in 2006 in Brussels when he was speaking in his capacity as European Banking Federation chairman (Autret "Michel Pébureau").

⁸¹ "Choosing the Lesser of Two Evils".

⁸² Bastasin *Saving Europe* (2012 edition), 96-99. When I asked him, Bini Smaghi agreed there had been moral suasion (interview).

⁸³ Steven Ongena, Alexander Popov and Neeltje van Horen "The invisible hand of the government: 'moral suasion' during the European sovereign debt crisis", *ECB Working Paper 1937*, July 2016. See also Bo Becker and Victoria Ivashina "Financial Repression in the European

Sovereign Debt Crisis”, *Review of Finance* 22(1), 2018, 83-115.

⁸⁴ Bastasin *Saving Europe*, 204.

⁸⁵ Duverne interview.

⁸⁶ The LTROs offered cheap long-term (three year) ECB liquidity in unlimited amounts to the banks and were decided in December 2011 after a meeting on 16 November 2011 between Draghi and 25 CEOs of leading European banks. The CEOs wanted action to stem the credit crunch on the interbank market that had developed in parallel to the credit strike in sovereign debt markets (Ralph Atkins “Eurozone crisis: A deft way to buy time” *Financial Times* 7 February 2012).

⁸⁷ Richard Milne “Sarkozy plan to prop up sovereigns is worrying” *Financial Times* 11 December 2011.

⁸⁸ Atkins “Eurozone crisis”.

⁸⁹ Claire Jones, Patrick Jenkins and Miles Johnson “Spain reveals €100bn capital flight” *Financial Times* 31 May 2012.

⁹⁰ In his Atlantic Council speech already cited. Ackermann argued that it was better to eliminate sovereign risk than allow it to devalue banks’ balance sheets and then recapitalize them. This can be seen as an open threat to governments: the ongoing credit strike, by depressing bond prices on secondary markets, would force the banks holding them to write down those assets and thus generate a need for fresh capital that would need to come from fiscal resources. Either way, then, the governments would have to act.

⁹¹ Jones, Jenkins and Johnson “Spain reveals €100bn capital flight”.

⁹² Bini Smaghi interview.

⁹³ Bastasin *Saving Europe* (2nd edition), 363.

⁹⁴ Musca interview.

⁹⁵ Bastasin *Saving Europe* (2nd edition), 380.

⁹⁶ *Spiegel Online* “How Italy and Spain Defeated Merkel at EU Summit” 29 June 2012.

⁹⁷ “International in life, national in death? Banking nationalism on the road to Banking Union” *KFG working paper 61*, 2014.

⁹⁸ Peter Spiegel “How the euro was saved” *Financial Times* 11 May 2014.

⁹⁹ Fernandez interview.

¹⁰⁰ Brian Blackstone and Marcus Walker “How ECB Chief Outflanked German Foe in Fight for Euro” *Wall Street Journal* 2 October 2012.

¹⁰¹ Bastasin *Saving Europe* (2nd edition), 360. Bini Smaghi agreed that investors were asking for a potentially unlimited backstop and suggested that policymakers had not understood this early enough. He also argued that had he had prior experience as a private banker, his awareness of corporate demands would have been sharper and that in Draghi’s case (who had spent three years at Goldman Sachs), that prior experience had certainly been very useful. Bini Smaghi interview.

¹⁰² Bastasin *Saving Europe* (2nd edition), 417.

¹⁰³ Tooze *Crashed*, 440.

¹⁰⁴ Lionel Barber and Michael Steen “Interview with Mario Draghi” *Financial Times* 13 December 2012.

¹⁰⁵ Beck et al “The geography”.

¹⁰⁶ *Lobbyists and Bureaucrats in Brussels: Capitalism’s Brokers*, London, Routledge, 2018.

Chronology of the Eurozone crisis

	Decisions by political leaders	Corporate reaction	ECB course of action
October 2008	France proposes a European bank recapitalisation fund (euro-tarp); rejected by Germany	Big banks support euro-tarp	
Spring 2009	First “grand bargain” between governments, ECB and financials: the latter agree to use ECB emergency liquidity to continue buying sovereign bonds	Financials reluctantly agree	ECB reluctantly agrees
May 2010	Second “grand bargain”: governments agree to prevent sovereign defaults in exchange for a commitment by financials to keep hold of sovereign bonds	Financials reluctantly agree	ECB does not intervene on secondary sovereign bond market until governments agree to put up fiscal resources to prevent sovereign defaults; launches SMP on 10 May
Autumn 2010	October, at Deauville, France and Germany agree to introduce PSI in the future; November, European Council endorses decision	Financials lobby against Deauville; then begin credit strike by starting to unload sovereign bond holdings of peripheral member states	ECB opposes Deauville; asks European Council to allow ESM to intervene in secondary sovereign bond markets
March 2011	European Council decides to strengthen PSI provision and refuses to allow ESM to intervene in secondary sovereign bond markets	2 nd stage of credit strike as American investors join in	ECB secretly decides to stop SMP purchases in order to leverage credit strike
Summer 2011	European Council decides to implement PSI for Greece; allows ESM to intervene in bond markets	3 rd stage of credit strike; spreads to institutional investors	ECB opposes Greek PSI; reactivates SMP purchases
Autumn 2011	France renews call for European bank recapitalisation scheme after Dexia collapse; debate on “bazooka” to stem credit strike intensifies	Credit strike spreads to productive sector as business investment scaled back	ECB again stops SMP purchases to put pressure on Italian government
Winter 2011 – 2012	European Council formally rescinds PSI provision; adopts fiscal compact;	Banks welcome LTROs but do not	ECB launches LTROs to stem

	Sarkozy openly calls for banks to channel LTRO liquidity to their sovereigns	respond favourably to Sarkozy's call	interbank market crunch
Spring 2012	Stalemate on "bazooka" debate	Financials call for European bank recapitalisation scheme for Spain after Bankia collapse; continue calling for potentially unlimited guarantee against sovereign risk	ECB publicly urges banking union in reaction to Spanish banking collapse
June 2012	European Council takes crucial step towards banking union with Spanish bank recapitalisation scheme and decision on single supervisor		
Summer-September 2012	German government signals support for ECB unlimited guarantee		ECB decides June 2012 European Council a game-changer; fully commits its balance sheet through OMT program
Autumn 2012		Financials satisfied with OMT; end credit strike	