Between power and powerlessness in the euro zone crisis and thereafter

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Abstract: Employing a multidimensional conception of power shows how interaction between EU institutional actors is structured by different kinds of power - coercive, institutional and ideational - and that none of these are sufficient on their own for actors to successfully drive the reform process. We ask not just who leads the euro zone, but how interactions between actors enable the polity to achieve (or not) its goals. This requires thinking of power in terms of both zero-sum and positive-sum outcomes, which reveals the weakness of the polity as a whole, whatever the power of different institutional actors. In this view, key for the long-term sustainability of the euro zone is an economic and political rebalancing among its members borne out at the level of common ideas and institutions and the leadership of the most resourceful member states. Despite significant reforms in wake of the crisis, such rebalancing seems far beyond the horizon.

Introduction

Since the outbreak of the euro crisis in early 2010, students of the euro zone have been occupied by two key issues: First, who are the actors that led the management of the crisis and developed institutional responses? And, second, why have those actors implementing the reforms not been able (or willing) to present solutions that will put the euro zone on a firm footing? For us the question of who leads the euro zone is one of power. Who are the most powerful actors, and why have these actors not provided the necessary institutional reforms? To provide answers requires, first, to consider power from a multidimensional perspective that does not *a priori* privilege certain actors at the expense of others (Carstensen and Schmidt 2016). Power takes various forms – coercive, institutional and ideational – each of which plays a role in accounting for crisis management and reform dynamics. Second, to understand the lack of progress in reforming and sustaining the euro zone it is useful to view power not only as a zero sum game, as the power actor A wields over B against B's interests, but also as a productive force enabling a collective to achieve its goals, i.e. power as a capacity for collective action on the part of a polity (Carstensen and Schmidt 2018a/b). This suggests that the capacity to effect change at an actor level does not automatically translate into a capacity to effect reforms necessary to make the system sustainable in the long term. Much the contrary, we posit that imbalances of power among key actors will tend to increase powerlessness for the polity as a whole. During the euro crisis, these power imbalance dynamics played out, first, in the series of brinkmanship responses that left the euro zone more vulnerable than necessary, most notably related to dealing with the Greek crisis; and second, following crisis stabilization by 2013, as a dearth of reforms addressing the structural problems of the euro zone.

2. Dynamics of power during times of crisis, disintegration and politicization

Understanding the outbreak, development and resolution of the euro crisis requires a rethinking of the assumptions, theories and methods of EU studies. We argue that rather than privileging one or another EU actor with one or another view of their power, we do better to employ a multidimensional approach to power and a more open and plural approach to EU actors. This would offer a more dynamic understanding of power relations, allowing not only for changes in the balance of power between actors but also for differences in which forms of power matter in specific moments of crisis. Our first question is therefore: What is the balance of power among EU institutional actors? In the on-going traditional debates, the intergovernmentalists argue that member-states in the Council dominate EU decision-making through the exercise of coercive power based on asymmetrical bargaining and superior resources (Schimmelfennig 2015). The supranationalists maintain instead that the European Commission and other EU level administrations and agencies influence decision-making through the exercise of institutional power via functionalist dynamics of spillover and entrepreneurialism (Ioannou et al. 2015). In today's newer debates, the 'new' intergovernmentalists insist against both sides of the traditional debates that member-state governments in the European Council predominate through the exercise of ideational powers of persuasion in consensus-seeking deliberation (e.g., Bickerton et al., 2015; Puetter and Puntscher Riekmann 2020). The 'new' supranationalists contend to the contrary that the Commission and the European Central Bank retain control via their powers of ideational innovation and discretionary enforcement (e.g., Bauer and Becker 2014; Kudrna and Wassefallen 2020).

The benefit of these debates, old and new, is that the different sides lend major insights into the many different powers and responsibilities of 'their' EU actor vis-à-vis the other EU actors. The drawback is that they are naturally more focused on demonstrating the significance of a given EU institutional actor exercising one kind of power rather than in shedding light on the overall picture: EU actors have all become more dynamically interactive in EU level governance, exercising many different kinds of power (Schmidt 2018). It is not just that asymmetric bargaining in the Council enabled powerful member-states to impose their will on weaker ones. It is equally the case that despite such asymmetries, more powerful member-states also agreed to policies in the search for consensus and/or in response to persuasive ideas that could not have been 'rationally' anticipated as in their interests (Matthijs 2016). This occurred not just within the Council, but also between it and the Commission or the ECB. The Commission and the ECB supplied ideas to the Council that, once agreed, resulted in greater enhancement of these supranational actors' ability to act autonomously or with discretionary authority. At the same time, however, some member-states in the Council also raised political objections and even threatened legal action in order to constrain such supranational actors' autonomous or discretionary action. This is not just about power, then, it is also about politics.

We can in fact no longer talk about the exercise of power in EU governance without considering the effects of politics. National level politicization of EU issues, as elucidated by post-functionalists (e.g., Hooghe and Marks 2009), has also had bottom-up effects on EU member-states' exercise of power in the Council, producing not just a 'constraining consensus' but even in certain cases a 'destructive dissensus' (Hodson and Puetter 2019). Equally importantly, however, politicization 'at the bottom' and 'from the bottom up' has been accompanied by the politicization of all EU actors' actions and interactions 'at the top.' This has made for a 'new' power dynamics in an EU governance that has become more political in every way (Schmidt 2019).

The new power dynamics is best illustrated with the case of the euro zone crisis. In the euro zone crisis, during the fast-burning phase of the crisis (Seabrooke and Tsingou 2019; cf. Boin et al. 2009), we find many instances of the exercise of coercive power. First, Germany, the 'reluctant hegemon,' delayed taking any action on 'saving Greece,' supported by its coalition of Northern European allies (such as Finland and the Netherlands). The German government's reasons included economic self-interest related to fearing the creation of a 'transfer union' in which the country would have to pay the most as well as political self-interest connected to potential electoral repercussions in regional elections in May 2010. Moreover, with the Greek loan bailout and separate contagion loan bailout funds, Germany with France (as 'Merkozy'—Merkel plus Sarkozy) could be seen as having exercised coercive power as they sought to satisfy domestic economic interests by transferring the full costs to countries in the periphery in order to spare their own banks' losses through ‘haircuts’ on their risky loans. Later, the duo’s coercive power was also in evidence at the time of the Deauville summit of 2011, when Merkozy imposed their agreement for a European Stability Mechanism on the Council as a whole (concocted by them alone in their famous walk along the beach).

Here, we could add that the ‘excessive intergovernmentalism’ (Fabbrini 2013) of crisis management in the fast-burning crisis was also a by-product of the Council’s institutional power, which alone in such a crisis was capable of pledging national resources for the loan bailouts. But ideational power was also in play, for example, when French President Sarkozy finally managed to persuade Chancellor Merkel to act in May 2010; or again in 2012 when President Obama along with Sarkozy sought to convince Merkel that a second Greek bailout was necessary, as the markets continued to raise the costs of servicing Greek sovereign debt. We could also characterize the differences more generally as a political battle of ideas between the German proponents of austerity, fueled by ordo-liberal ideas of stability, and the more pragmatic French, supportive of neo-Keynesian stimulus (e.g., Blyth 2013; Brunnemeier et al., 2016).

Supranational actors during this time period seemed to be subordinated to the Council, as argued by the intergovernmentalists, new and old. The Commission was certainly treated mainly like a secretariat, and the ECB insisted that the Council was the one that needed to act, since its mandate limited its ability to act as a lender of last resort. And yet, the Commission nonetheless exercised institutional entrepreneurial power (according to traditional supranationalists) and ideational power (new supranationalists) when it got the Council to create the European Semester of national fiscal oversight, something it had long wanted but failed to get for over a decade (Bauer and Becker 2014). At the same time, the ECB with the help of the Commission was able to push Germany to agree to Banking Union, using a combination of persuasion via Draghi’s ‘charm offensive’ (Spiegel 2014), institutional clout, and ideational innovation.

Once the crisis entered into its slow-burning phase, all three forms of power were also in evidence. We should note in passing that the very shift from fast to slow burn was itself the purest form of the exercise of ideational power. Draghi’s declaration in July 2012 that he would do ‘whatever it takes to save the euro’ was on its own enough to persuade the markets to stop their attacks on Spanish and Italian debt. But the ECB’s potential for the exercise of coercive power with regard to Spain and Italy was lurking behind these comments, with the threat that they would have to enter a program were market attacks to continue.

With regard to the intergovernmental actors in the Council, this is when the ideational power of consensus-seeking deliberation seemed to be at its peak. Consider the developments over time, as Germany initially resisted but subsequently agreed in 2012 to the push from Italy (with French support) to growth '*and* stability,' as added by Merkel; in 2014 to flexibility *with* stability; and finally to investment in 2015, also pushed by the new president of the European Commission (Schmidt 2019). But although the ideational power of consensus-seeking deliberation may have been the main *modus operandi* for the Council during the slow-burning phase of the crisis, coercive power was not entirely absent. In the case of the negotiation of the third Greek bailout, the bargaining involved represented a 'game of chicken' between Greek Finance Minister Yanis Varoufakis and German Finance Minister Wolfgang Schäuble (Tsebelis 2016), in which Varoufakis mistakenly thought he held the trump card. This certainly sounds like the coercive power of 'harsh dictatorship.' But it is not impossible to argue that subsequently, with Prime Minister Alexis Tsipras conducting the bailout negotiations, the process involved the ideational power of 'deliberative authoritarianism,' as we might also characterize the 2012 Greek bailout with Prime Minister George Papandreou (Schmidt 2020).

With regard to supranational actors in the Commission and the ECB, ideational as well as institutional powers are most in evidence. Subsequent to 2012, the Commission used its institutional powers to exercise increasing discretion in its interpretation of the rules and numbers, and its ideational powers to find innovative ways to ensure better outcomes. But between 2012 and 2015, it did this 'by stealth,' that is, by using a discourse claiming to continue with austerity and structural reform even as it reinterpreted the rules and recalibrated the numbers for member-states in danger of being in violation of the rules—with, for example, repeated derogations for France, Italy, and Spain (Schmidt 2016, 2020). Such exceptionalism did not go unnoticed, however, by certain Northern European members of the Council. In 2016, politicization at the top reached dramatic proportions when the Commission President quipped, when asked about making exceptions to the rules for France in the European Semester exercise, that it is: 'Because it is France' (*Reuters*, May 31, 2016). This led to a political firestorm of accusations by Northern European finance ministers in the Eurogroup that the Commission President was playing politics, while the Commission responded that being a 'political' Commission meant paying more attention to citizen concerns, not playing politics.

3. A powerless polity?

Thinking of power in agency terms is helpful for understanding who got what, when and how. However, it is less useful for getting at the dynamics that produce effects at the level of the polity, or indeed accounting for the lack of output. For this we need a complementary notion of power as the capacity to 'act in concert' in order to obtain collective goals (Arendt 1970), i.e. the 'power to' produce effects that increase the autonomy of a collective. The prosperity of a polity in large part hinges on whether actors are able to build and sustain the institutions and shared ideas and norms necessary for effective collaboration. Put in terms of our distinction between coercive, institutional and ideational power, the collective power of the polity originates in: 1) A's capacity to employ powers of leadership in a way that increases the ability of both A and B to act; 2) in setting up and employing institutions that help reproduce structures beneficial for the collective; and in 3) developing ideas that are broadly shared across the polity and enable communication about common concerns that can lead to collective action for the public good.

As already noted, the euro zone crisis has been ripe with instances of power-wielding between actors, but actors have shown little capacity for developing the European Union polity, and specifically the euro zone, so as to produce greater collective solidarity. One problem has to do with institutional power or, rather, lack thereof. We can see this in the initial structuring of the euro zone, notably with its institutional disconnect between monetary policy at the supranational level and fiscal governance placed at the national level. With no common resolution mechanism in place that could deal effectively with the banking crises that first erupted in 2008, the private debt crisis soon turned into sovereign debt crisis.

But the crisis trajectory was also related to a lack of ideational power. With no common set of ideas about what was in the best interests of the polity as a whole, the politically negotiated response was austerity measures that worked pro-cyclically to worsen the economic fallout of the euro zone crisis. Moreover, without ideational leadership by Germany in particular, which resisted French proposals focused on 'solidarity' in favor of 'stability,' the crisis simply got worse. And to this day, the euro zone remains fragile, without a large enough backstop for the Single Resolution Fund and no European individual deposit insurance, let alone some form of mutual sharing of risks in the form of Eurobonds or safe assets. This also speaks to the coercive power of Germany, the 'reluctant hegemon,' together with its Northern European allies, to block positive measures that could have helped resolve the crisis. It is equally important to note here that coercive power could have provided a positive answer, had Germany acted more as a ‘benevolent hegemon,’ by taking on more of the costs of the crisis for the benefit of all.

Little progress will be made without the development of shared economic ideas that allow for a reevaluation of the nature of the crisis and how to move forward, whether toward deeper economic integration through fiscal union and/or toward greater differentiation by allowing member-states more leeway to pursue different pathways to growth (Schmidt 2018). But such new ideas would need to be promoted by both intergovernmental and supranational leadership, including from the Council, the Comission, and the ECB (along with the European Parliament, we might add). Both possible ways forward the deeper integration or greater differentiation may very well now be blocked, in no small measure because of how the politics of economic crisis management has itself contributed to the rise of populism and political polarization across Europe. In consequence, the challenge for EU leaders is not just to come to agreement on a new economic paradigm that works for all but also to come up with a new political vision that manages to transcend the current political divides. A tall order indeed! But without this ideational power, whatever the various powers of individual EU actors, the EU polity will remain without effective leadership in identifying let alone promoting its common goals.

4. References

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