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A Critical Juncture in EU Integration?

The Eurozone Crisis and Its Management 2010–2012

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Introduction

The Eurozone crisis articulates, to date, as the sovereign debt crisis of states in the European Union (EU) periphery that hold large current account deficits. It first surfaced in late 2009 when, after a change in government, the level of Greece's government debt was fully revealed and concern arose among investors that the Greek government might fail to service its debts. Successive downgrading of the creditworthiness of Greece sparked speculation on its default and the devaluation and breakup of the Euro currency. Greece was a likely first target of speculative attacks given its persistently high government debt, the little credibility of the Greek government in managing public finances, and the relative insignificance of the Greek economy both in the Single Market and global markets (Lapavitsas et al. 2012, 6). Had it occurred in isolation outside the currency union, the Greek sovereign debt crisis could have been resolved in ways similar to sovereign debt crises discussed in the other chapters of this volume—by devaluating the country's currency in combination either with government default or with loans from the International Monetary Fund (IMF) and other partners.

Yet the Greek sovereign debt crisis emerged in a monetary union that establishes a globally traded currency but lacks unitary fiscal and economic policies. The Greek crisis occurred in conjunction with sovereign debt crises of other Eurozone members such as Ireland, Portugal, Spain, and, later, Italy. These countries were considered to be under default risk after they had taken on excessive guarantees for ailing financial sectors and/or suffered stark recession in the aftermath of the 2007–2008 North-Atlantic financial crisis. Most of them also saw their financial accounts turned upside down with the halt of foreign capital inflow. As members of the currency union, these so-called PIIGS (Portugal, Ireland, Italy, Greece, and Spain) could not buffer downgrading by devaluation. Instead, their increased default risk showed in rising spreads in yields on their government bonds measured against the benchmark of German bonds. The appreciation of the Euro, which had allowed the public and private sectors in these countries to borrow at similarly low costs in the 2000s, regardless of differences in economic performance and government debt levels, no longer applied. Borrowing costs shot up in correspondence to new estimations of default risk that now priced in structural weaknesses of the economy, high national debt, recession, and little tax revenue as well as liabilities taken over from the financial sector. The downgrading of the government bonds of the PIIGS also affected holders of these bonds, most of them based outside of the PIIGS in EU countries such as the Netherlands, France, Germany, or the UK.[1] The mutual exposure of banks and states within the Eurozone translated into high volatility in bond markets and contagion via credit default swaps on government bonds and bank liabilities. These turbulences conjured up the threat of a domino default of the PIIGS and alarmed those holding government bonds of the PIIGS as well as those investing in and relying upon the stability of the Euro.

It is against the backdrop of this Eurozone “debt bomb” that EU governments got together in May 2010 and hectically set up rescue action for insolvent states and banks. They had to start from scratch. Until its reform launched from 2011 onwards, the Economic and Monetary Union (EMU) did not provide for short-term management and long-term prevention of sovereign debt crises. It stipulated that member states had to observe the criteria of the Stability and Growth Pact, notably the provision that government debt should not exceed 60 percent and public deficit should remain below 3 percent of a country's GDP. However, these criteria were neither consistently enforced nor bolstered by joint fiscal and economic policies. Automatic fiscal transfers or joint bailout funds, common in other currency unions for balancing the solvency problems of members, were ruled out by the "no-bailout" clause of the EU treaties. In addition, the competences of the European Central Bank (ECB) were restricted to targeting inflation in the Eurozone, while public debt targeting was left to national governments. Moreover, no provisions were in place to oversee and resolve large banks that operated transnationally within the Single Market, so that decisions on how to bail out these banks when they ran into difficulties during the North-Atlantic financial crisis were left to the discretion of the hosting countries.

The limitations of the EMU have attracted a great deal of attention among scholars who search to grasp and explain the Eurozone crisis, as have the contradictory strategies of the dominant intergovernmental player, the German government (Salines, Glöckler and Zbigniew 2012; Bulmer and Paterson 2010). This chapter seeks to introduce another line of inquiry. We argue that calamities in the Eurozone have challenged the regime of European economic integration as a whole. The Eurozone crisis marks a critical juncture of that regime in that it introduces uncertainty and opens avenues for fundamental revision. The fact that the adopted measures of crisis management locked in established policy sets, which match well with the interests of transnationally operating finance and business, is not only the result of German representatives' unilateralism. The particular outcomes of Eurozone crisis management reflect how actors, which emerged with economic integration, engage in ad hoc and institutionalized EU decision making. The outcomes also reflect dominant crisis narratives generated across contexts of multilevel political communication.

The argument is developed in five steps. The ensuing step, Analyzing the Eurozone Crisis as Critical Juncture: Premises and Concepts, introduces the theoretical perspective from which we derive our argument, a combination of cultural political economy, international political economy, and discursive-institutionalist study of European integration. In the third step, The Political Economy of European Integration and the Eurozone Crisis, we will explicate in what respect the Eurozone crisis exposed and challenged the existing framework of European economic integration, reconstructing the political economy of European integration and the Eurozone crisis. The fourth step, The Course of Eurozone Crisis Management, recapitulates the responses to this critical juncture. In the fifth section, An Opportunity for the "Usual Suspects"?, we explore two strands of explanation for the policy outcome: actor constellations within the multilevel setting of the EU and crisis narratives developed in multilevel political communication. In the conclusion, the argument will be taken up again for final discussion.

Analyzing the Eurozone Crisis as Critical Juncture: Premises and Concepts

The analysis starts from the assumption that financial and economic crises imply more than cyclical deteriorations of business cycles. Crises of the scope of the Eurozone crisis render the taken-for-granted coherence of the economic regime problematic in which they occur, undermining how profit was generated and the way in which accumulation was institutionalized and believed to function (Kutter forthcoming a). Such crises may trigger either a rupture, in which a new regime is introduced, or a period of experimental transition, in which different forces struggle over future patterns of coherence (Jessop 2002). The Eurozone crisis, in many ways a continuation of the North-Atlantic financial crisis, exposed EU-internal current account imbalances and unsustainable growth models based on them. It cast doubt on the rationality of the EMU and produced a moment of profound disorientation as crisis-management routines were missing. Thus, the Eurozone crisis marks a critical juncture as understood in historical institutionalism: a situation in which the structural (economic, cultural, ideological, organizational) influences on political action are significantly relaxed for a relatively short period and the range of plausible choices open to powerful political actors expands substantially (Capoccia and Kelemen 2007, 243).

However, to account for the policy choices made in that moment, looking into powerful actors' motivations and constraints will not suffice. Which opportunities actors see emerging with a crisis, and which preliminary fixes for crisis management they envisage will largely depend on the particular selectivities of the conjuncture they find themselves in: the politico-economic development, the policies and institutionalized routines they are aware of, and the constellation of actors they deal with. In addition, actors will employ representations of crisis and imaginings of economy that reduce the complexity of actual economic activities, practices, and regimes and their crisis tendencies so as to render them manageable objects (Jessop and Oosterlynk 2008). Crisis narratives are discursive selectivities as they attribute relevance to some phenomena of crisis rather than others and relatively unambiguously identify causes and responsibility for failure and remedy (Hay 1999).

In the context of the EU, selectivities will have a "multilevel" face. Actor-constellations and narratives emerge in a distinct hierarchical setting of codepending territorial levels and differently integrated policy fields. This multilevel arena makes up the institutional context and actor constellation of Eurozone crisis management. Crisis narratives will emerge from nationally integrated, but *Europeanized*, mass media that selectively translate proposals from the various arenas of decision making into terms of domestic political debate, thereby often amplifying intergovernmental polarization (Kutter, forthcoming b).

In the following, we will use these assumptions to reconstruct the political economy of the Eurozone crisis and the approach of crisis management adopted so far, as well as to consider explanations for its adoption. The analysis draws on secondary sources and primary analysis of EU policy documents (Heinrich 2012; Bieling and Heinrich 2013) and crisis narratives developed by the German press and government (Kutter, 2012).

The Political Economy of European Integration and the Eurozone Crisis

At the heart of the Eurozone crisis lies the divergent development of national economic performances and current account imbalances within the EU. Thus, the crisis is deeply rooted in the European integration process itself and certainly has a longer history, too.

With the breakdown of the international monetary and financial system of fixed exchange rates and nationally orientated (Keynesian) policies in the 1970s, the so-called Dollar Wall Street Regime (DWSR) emerged—a global system dominated by the dollar as the world currency and the Wall Street (with its outliers) as the leading global financial market (Gowan 1999). Carried by a strong market-liberal consensus of economic and political elites, barriers to the flow of goods, capital, and labor have been continuously removed, putting the attraction of global capital and its investment as primer policy aims of national and regional economies (ibid; Gill 2003). In this environment of expanding and liberal global markets, export-driven and finance-dominated (credit-based) accumulation strategies emerged as the dominant ways to generate economic growth (Stockhammer 2009; Becker and Jäger 2011). These two growth models complemented each other and led to a sharp increase of financial assets and investments managed by big financial players, such as investment banks, institutional investors, hedge funds, and private equity funds. Hence, financial claims in the form of interest rates, dividends, or property holdings became ever-more important, opening up the possibility to generate profits and overcome economic stagnation by the expansion of financial services and innovations (Huffschmid 2007).

European economic integration has to be seen in this global context. Starting with the introduction of the European Single Market in the late 1980s, European economies underwent neoliberal reorganization: provisions on the Single Market pushed the liberalization and deregulation of European markets to intensify European trade and direct investments. They introduced a method of regional integration that seeks to foster industrial productivity by means of competition, through negative integration and the abolition of nationally specific legislation (Ziltener 1999). This method was later on coupled with the doctrine of improving international competitiveness. The EMU further established a strict framework of monetary and fiscal discipline in which low inflation and high interest rates attract global capital. The European Financial Action Service Plan adopted in the 1990s set the basis for a further restructuring of European financial markets in line with Anglo-American strategies of shareholder-value-oriented accumulation and financial innovation (Bieling 2010, 216). Thus, European economic integration was and is primarily focused on restructuring the European economy in line with the DWSR. Consequently, existing national economic regimes within the EU transformed along the lines of globally dominant growth regimes. Today, European economies can be partitioned into three groups, organized around export- or finance-oriented accumulation strategies (Becker 2011, 13; Bellofiore, Garibaldo and Halevi 2010, 121):[2]

- The first group includes EU countries from northern and central Europe (Germany, Netherlands, Belgium, Austria, Finland, Sweden, and Denmark), which all have a substantial current account surplus mainly due to an export-driven economy with high productivity measures, enforced by strict wage regimes, restrictive and/or corporate forms of labor-market regulation and social-welfare systems.
- The second group comprises the United Kingdom, Ireland (partially) and France. Their current accounts are rather balanced, but remain precarious due to the weight of the financial sector. They tend towards a trade deficit (UK and Ireland) or surplus (France). This group is characterized by elite-driven financial accumulation, which is combined with mass-based financialization of private debt in UK and Ireland. Correspondingly, industrial production is weak and less competitive.
- And the third group in so-called European (inner) periphery includes new EU members in central-eastern Europe, as well as countries in the South (Portugal, Spain, Greece, and, partially, Italy), which count for a big current account deficit and a high amount of finacialized household or private debt, while economic performance and national industrial production are weak. This group is highly dependent on foreign capital inflows and either linked to the first group via production chains, or to both groups via transnational trade and financial relations.

The gaps in economic performance and competitiveness between deficit and surplus countries have intensified within the EMU, not least because members could not adjust macroeconomic imbalances via national exchange rates, tariffs, or nontariff barriers (Schulten 2011). Thanks to competitive deregulation however, surplus countries continuously increased their intra-European exports to the detriment of the price competitiveness of products from remaining EU countries, which could not keep up their productivity through a "race to the bottom" of wages, labor, and social-welfare regulations. Instead, they pushed internal demand, boosting private and household debt through dependent external financialization (Becker 2011, 15).

[INSERT FIGURE 7.1 ABOUT HERE]

Hence, deficit countries with high levels of domestic demand, financialized debt, and weak industries needed huge amounts of foreign credits, portfolio, or direct investments to sustain their economies while banks and multinational companies from EU surplus countries expanded lending, respectively, direct investments, into the EU periphery (Lapavitsas et al. 2012, 46). Consequently (and this is important to note), current account imbalances within the EU are not about trade relations and production only but result in unequal transnational creditor-debtor relations (Bieling 2010). Between 2003 and 2009, the gross external debt position increased by 56.4 percent in Greece, 43.6 percent in Ireland, 60.4 percent in Portugal, and 76.5 percent in Spain (World Bank 2013) and capital imports into all four countries kept rising since 1997 (see Figure 7.1).

[INSERT FIGURE 7.2 ABOUT HERE]

When European interbank lending froze and financial institutions suffered liquidity shortages in 2008, capital inflows into Greece, Ireland, Portugal, and Spain broke down, after financial account surpluses had grown for the past twelve years (see Figure 7.1). European banks stopped investing in the periphery: after steady expansion during the 2000s, foreign claims of

European private financial institutions in Greece, Ireland, Portugal, and Spain fell from $2.3 trillion in 2008 (of $2.5 trillion worldwide) to $1.1 trillion in 2012 (see Figure 7.2). This caused a massive shortage of capital assets. With slacking national economic performance, credibility for foreign investors further decreased and the costs of debt-servicing rose, which sharpened the general liquidity squeeze of these economies even further (Becker and Jäger 2011). Moreover, this vicious circle of low growth and increasing debt, in which deficit countries are caught, escalates crisis within the EU as a whole. The downgrading of the creditworthiness of some EU member states threatens surplus countries via transnational capital and trade relations (by increasing the risk of credit defaults, or demand fallout) and puts the credibility of the entire EMU at stake, as problems to refinance public debts expand to the center (Altvater 2012). In addition, mutual exposure of sovereign and bank risk in highly integrated financial sectors bears the constant threat of renewed banking and sovereign debt crises.

The Course of Eurozone Crisis Management

Proposals for adequate responses to the crisis related to two realms of crisis management: measures of state and bank rescue that aimed to stop the downgrading of the PIIGS' creditworthiness and related feedbacks into creditors' assets and the Euro currency, and EMU reform that would tackle institutional flaws of the currency union and reduce current account imbalances. The proposals played upon known crisis management routines and included suggestions for a fundamental revision of the framework of economic integration. Hypothetical options from which EU decision makers could have chosen to tackle the sovereign debt crises are listed below (Lapavitsas et al. 2012).

- Bridging loans for struggling states (and/or their banks) granted by third parties and coupled with austerity conditionality, which is meant to foster productivity and fiscal credibility so as to restore the creditworthiness of insolvent states (the neoliberal option following the Washington Consensus). The burden of adjustment is shifted on societies in debtor states via cuts in expenditure, tax increase, and fall in real wages; whereas creditors face minor losses as long as default is prevented. Risk of debt-default trap for debtor states with feedbacks into the EU.

- Direct transfers or collective rescue mechanisms such as a European monetary fund or Eurobonds, combined with stimulus that should induce growth and enhance creditworthiness in that way (the Keynesian option). The burden of adjustment rests on the collective and investors in the Euro. Risk of moral hazard and devaluation of the Euro.

- Default, possibly coupled with an exit from the Eurozone, which would charge off debt via haircuts and devaluation and reestablish financial sovereignty. The burden of adjustment rests on creditors and debtor society. Risk of domino default and EMU breakup.

Proposals for EMU reform corresponded to the rescue measures. The first option envisaged enhanced supranational supervision and coordination of otherwise decentralized fiscal and economic policies in order to (better) control current account imbalances and individual states' fiscal discipline and banking supervision. The second advocated a fully-fledged fiscal, transfer and banking union.[3] Finally, the breakup of the Euro into currency zones (a hard "northern Euro" and a soft "southern Euro"), or a roll-back to the European Monetary System were discussed as measures that would allow for devaluation (Peukert 2012; Fuest 2011).

EU representatives categorically excluded default as it was feared to induce domino default among PIIGS; they also did not want to dismantle the prestige project EMU. The approach the governments finally adopted was mixed, even though it favored “bridging loans and austerity conditionality” and “enhanced supranational supervision and coordination of fiscal and economic policy.” Mechanisms for state and bank rescue developed from a first bilateral package of €110 billion for Greece in April 2010 into a temporary rescue fund for states in need of financial assistance, the European Financial Stability Facility (EFSF) in May 2010. The EFSF bundled guarantees by Euro Area members (€440 billion), the European Commission (€60 billion), and the IMF (€250 billion), which were used to back private financial institutions’ interest-paying loans to debtor states. Since interest rates on the Facility’s loans increased faster than expected, EU governments agreed to transform the EFSF into a permanent European Stability Mechanism (ESM) in March 2011 and introduced a legal passage for its activation into the Lisbon Treaty, thereby watering down the “no-bailout” clause. The ESM now got its own supranational structure to bailout states and banks with an (additional) effective capacity of €500 billion (Grahl 2011). In addition, the ECB adopted a pragmatic approach and started purchasing government bonds (in total amount of €210 billion) that were hard to refinance on financial markets, thereby stretching its competences and de facto taking over the role of a lender of last resort.[4]

Provisions for greater supervision and coordination were adopted incrementally, starting with the *Europe 2020* strategy in March 2010. In this document, the European Commission stressed fiscal consolidation and stronger cooperation among Eurozone states as a means to facilitate “smart, sustainable and inclusive growth” (European Commission 2010a). Six comprehensive legislative proposals by the Commission followed in summer 2010 (the so-called six pack), which scheduled tight control measures and a modification of the Stability and Growth Pact (SGP) to adjust economic policies and macro-economic imbalances in the Eurozone (European Commission 2010b). In October 2010, an intergovernmental task force headed by the president of the European Council, Herman van Rompuy, plead for stronger preventive surveillance and the reestablishment of monetary and fiscal discipline in countries with high deficits (Council of the European Union 2010). These interventions eventually fed into adjustments of the EMU in the form of the "Euro-Plus Pact" and the "Fiscal compact" signed by the EU member states (apart from the Czech Republic and UK in the latter case), in March 2011 and 2012 (Council of the European Union 2012). The agreements provided for supranational surveillance and coordination of member states' budgetary, monetary, and fiscal policies, among other things, through automatic sanctions in case of lax fiscal management. Signature states were further obliged to coordinate their financial and economic policies within a "European semester," to bring their structural deficits below 0.5 percent of the GDP per year (Klatzer and Schlager 2011, 62). In December 2012, the European Council further proposed a Single Supervisory Mechanism as a first pillar of a European Banking Union. It grants the ECB direct supervisory powers over most banks in Eurozone countries and is meant to facilitate direct recapitalization of banks without burdening member states.

The adopted measures were never uncontroversial. The French government initially pledged for swift bailout, stimulus, and an encompassing reorientation towards a *gouvernance économique*, but faced fierce opposition by the German government that, in coalition with surplus states, insisted on the "no-bailout" clause as well as on the minimalist-monetary conception of EMU (Crespy and Schmidt 2012). The drastic implications of the Eurozone crisis have given rise to new criticism. While transnational debt relations could be stabilized temporarily, the risk for a deflationary spiral within the EU increased, with cleavages between the European center and periphery effectively deepening (Altvater 2012, 284). So far, costs have been exclusively dumped on the population, wage-earning and precariously employed workers as well as on recipients of welfare and social benefits, especially in the EU periphery. In addition, with institutional reform, supranational technocratic bodies have gained further powers that are not paralleled by structures of democratic control (Urban 2011). Both developments have triggered strikes and protests that question persisting social injustice and power relations within the EU. Hence, the Eurozone crisis deepens the "Post-Maastricht Crisis" of the EU, characterized by increasing factionalism, lack of political leadership, and decreasing legitimacy of the European project itself (Deppe 2011). However, alternatives have been crowded out comprehensively, such as programs of simultaneous democratization and definancialization of European economies, that is through stricter control of financial markets, the taxation of private equity, and a defense of achievements in the field of social and labor policies (Bieling 2011, 190). How and why this disarticulation has been produced will be shown in the next section.

An Opportunity for the "Usual Suspects"? Actors and Narratives

This section explores two lines of explanation for the selection and retention of the EU's mixed crisis management approach: the particular constellation of actors empowered through the EU's model of economic and financial integration and the way these actors made use of the intergovernmental-supranational decision-making procedures (economic-agential selectivities); and dominant crisis narratives that lend plausibility to the chosen approach of crisis management (discursive selectivities).

Reconstructing Actor-constellations and Politico-economic Selectivities

The global and EU-specific restructuring processes of financialization and deflationary competition, described in the previous sections, empowered those economic actors upon which European international export- and financial-market–based accumulations strategies mainly rely. Moreover, the subsequent liberalization and expansion of European markets intensified the regional cohesion of European capital and led to a constant increase in the strategic importance of multinational companies, export industries, as well as transnationally-oriented institutional investors and banks within European state formations and supranational institutions (Holman and van der Pijl 2003, 82, 83; Holman 1992, 19–21). Consequently, the emergence of those actors who serve as the transnational productive base and as external creditors and investors in the European economy also enhanced the dominance of surplus and finance-oriented countries in the center of the EU. Politically, this strategic selectivity is not only expressed in a strong Franco-German leadership but also in the privileged access and interest reflection of transnational business and financial conglomerates in European decision making and institutions (Van Apeldoorn 2002)—a bias, which can be also seen in the EU's reactions to the Eurozone crisis.

European state and bank rescue measures are mainly driven by intergovernmental dynamics, disputes and ad hoc decisions of European member states. This is not only due to a lack of supranational mechanisms and routines in this policy area but also to the profound disorientation and uncertainty of economic and political elites at the beginning of the Eurozone crisis. Accordingly, bilateral rescue packages, as well as the establishment of the EFSF and ESM, were driven by progressive compromises under German and French mediation, with a strong German imprint. German representatives made sure that lending was taken out via guarantees for private bank's loans instead of Eurobonds and that rescue mechanisms were linked to strict austerity conditionality (Young and Semmler 2011; Dyson 2010, 604).

Hence, the rescue mechanisms and payment guarantees must be seen not only as biased in favor of surplus countries, but also as reflecting the interests of European creditors. European banks still had a total exposure of more than $1.7 trillion to banks, public and private sectors in Portugal, Greece, Ireland, and Spain in summer 2010 (see Table 7.1). Thus, state rescue mechanisms are primarily stabilizing transnational credit relations in order to secure the domestic financial system of those countries in the EU center whose banks heavily invested into the EU periphery (mainly Germany and France, but also the UK). Correspondingly, internationalized European banks intensely lobbied for concrete implementations of rescue mechanisms and even set at the table when they were negotiated.[5] As a result, any form of competitive devaluation in the European periphery (which would have threatened the competitiveness of surplus countries' export industries) has been avoided, while European banks have taken only a symbolic haircut to relieve financial institutions in deficit countries.

[INSERT TABLE 7.1 ABOUT HERE]

In contrast, the ECB's monetary policy reactions to the crisis are mainly driven by supranational dynamics and coordinative mechanisms of collectivized institutions. In particular, the ECB has put huge amounts of cheap credits into the European banking system, which banks in turn have used to lend to deficits countries with a much higher interest rate, while successively disposing their Greek, Irish, Spanish, and Portuguese government bonds to European public rescue funds (Richter and Wahl 2011, 11). Between 2010 and 2012, banks from the European center reduced their investments into government bonds of deficit countries by more than 50 percent, while especially bank exposures from Germany, the UK, and France to public sectors in Greece, Ireland, Portugal, and Spain shrank to less than $66 billion in summer 2012 (see Table 7.1). Thus, the ECB policy breaks with old routines of safeguarding internal European price stability and moves towards becoming a lender of last resort for the Euro Area. However, this move is not to support governments in financial trouble, but rather European banks. Hence, it reflects the priorities of European finance and lender states, but actually runs the risk of endangering the disinflationary strategy of export-oriented surplus countries by causing Euro appreciation tendencies—a reason why German Bundesbank representatives openly oppose the widened mandate of the ECB and a final decision about its (new) role is still to come (Reimann 2012).

Finally, the reforms of EMU Governance structures in reaction to the Eurozone crisis are strongly embedded into coordinative European mechanisms and compromise structures in context of the EMU. As such, the reforms taken out in the “Euro-Plus Pact” and the “Fiscal Compact” in 2011–2012 primarily rely on the *Europe 2020* strategy renewing the Lisbon strategy from 2000. Here big European business networks in particular adopted a pace-setting strategy for technocratic surveillance and the coordination of member states’ financial and economic policies in order to enforce European global competitiveness by enlarging strategies of competitive deregulation and austerity policy of surplus countries over the rest of the EU. The public consultation process shows that EU member states were rather divided about the necessity of consolidating public-sector budgets in early 2010 and clearly hold on to existing European instruments of (rather loose) fiscal policy advice (European Commission 2010c, 4, 10). In turn, European business stakeholders consequently requested the restoration of public finances and the promotion of the EU’s global competitiveness. As part of this strategy they argued for cuts in public expenditures, robust monitoring systems and strong peer pressure instruments ate the EU level (ibid, 16, 20, 28; European Rountable of Industrialists 2010; Business Europe 2009, 9).

So, although national governments, especially German and French representatives, clearly push for the implementation of the *Europe 2020* (e.g. in the van Rompuy task force), agenda-setting power in EMU reforms lies much more in the hands of transnational capital groups that interact with the European Commission and technocrats at the European level. According to external research, the European Roundtable of Industrialists (ERT), a conglomerate of European big businesses and multinational capital, played a key role in setting-up the Commissions' "six pack" in summer 2010 (Corporate European Observatory 2011). In addition, many recommendations by Business Europe, an interest group including central industrial and employers' federations of European states, found their way into the aims of the Euro-Plus Pact (Corporate European Observatory 2012). Hence, EMU reforms reflect the strategic priorities of multinational export companies and EU surplus countries by focusing on EU global competitiveness and by advancing the strategy of disinflationary devaluation over the entire Union.

Crisis Narratives in Multilevel Political Communication

The retention of the EU's crisis-management approach can also be related to complexity-reducing crisis narratives, that is dominant ways of accounting for the crisis (regarding origins, responsibility, and remedy) in mediatized public–political debate. In the multilevel context of the EU, such crisis narratives emerge from national mass media that selectively translate proposals from the various arenas of decision making into terms of domestic political debate (Kutter 2012). This section examines crisis narratives in different mainstream segments of the German public-political debate and assesses how they are connected with accounts presented by EU decision makers.[6] Crisis narratives can shape interpretation in three ways: they identify icon events as indicating a crisis tendency (possibly also calling for decisive-authoritative intervention or radical change), which henceforth suggests what events classify as crisis-relevant; they incorporate these events into existing rationalizations, raising truth claims about the causes of the crisis; and they pave the way for burden-shifting when attributing blame (Kutter, forthcoming b).

Default and contagion was not the key event through which representations of the Eurozone crisis developed in the German public, but rather the news that Greece's government had repeatedly fiddled statistics about its budget deficit.[7] This news set the scene and introduced the major protagonists of a heated blame-game between Greeks and Germans. It was scandalized by the tabloid *BILD* and taken up in other media and the German government in mitigated fashion. Greece emerged as the villain and the epitome of a backward, profligate and fraudulent southern European who destabilized the currency union through irresponsible behavior. By contrast, Germany emerged as the hero and the epitome of the prudent and immaculate European with a booming economy of higher virtues (Kutter 2012). This portrayal legitimized the punitive approach towards Greece in the beginning of the crisis. But the blame game could be varied, for example by rehabilitating Greece as victim and vilifying Germany as former violator of the SGP or as profiteer of the periphery's loss in competitiveness (Young and Semmler 2011). Merkel was juxtaposed as the Iron Lady to Sarkozy, the White Knight, who rushed in to the rescue of the humiliated (Crespy and Schmidt 2012). In short, the scandal about the fiddled statistics framed the debate about rescue measures in moral terms. Individual countries and their fiscal-economic policies appeared as the source of trouble, and news and evidence were accumulated to highlight the poor state of their public finances (Kutter 2012).[8]

Two discursive events transformed these causal stories later on: the rapid downgrading of PIIGS' creditworthiness in May 2010 and the revelation of massive exposures of countries in the EU center to the debt of the PIIGS, which Jean-Claude Trichet declared as a "systemic crisis" requiring extraordinary measures in October 2011. The first event set in motion a series of interventions for state and bank rescue and installed supranational actors like the ECB and the Commission as authorities in coordinated action. Through their interventions, the representations of the crisis were recontextualized in existing institutionalized competences and policy frameworks in the field of EU monetary and financial policy. It is not by chance that the first reaction of the Commission to the sovereign debt crisis, published in the *Europe 2020* strategy in March 2010, builds on earlier agreements reached in the Lisbon Treaty. Along with structural reforms fostering employment and education, *Europe 2020* highlighted macroeconomic stability in the Eurozone as precondition for "sustainable, smart and integrative growth." The Commission stressed the necessity to consolidate public budgets and cooperation among Eurozone members in order to overcome imbalances (European Commission 2010a, 24). With this and similar interventions, the Commission and other EU representatives embedded the formerly conflicting national interpretations of the crisis in established rationalizations of EU technocratic discourse that stressed truth claims rather than moral claims. By emphasizing national homemade problems of public expenditure, false competition, and labor market policies as common (rather than specifically Greek) causes for the Eurozone crisis, the Commission established a generalizing story. It implied that problems were endogenous and could be tackled within established policy frameworks of austerity and competiveness (Heinrich 2012).

The German government clearly adjusted to this causal narrative. From May 2010 onwards, rhetoric shifted from blaming Greece to merit claiming for the German government. The German government's actions were presented as using the sacrifice of German taxpayers to support PIIGS' recovery and enhance their competitiveness. In other segments of the German public, the Eurozone crisis was also reduced to issues of fiscal adjustment, whether portrayed as response to (Greek, etc.) fiscal overstretch and "living beyond their means" (German general opinion papers, initial statements of the German government), or to a lack of competitiveness (German think tanks, business and finance representatives and, later, statements of the German government), or as misplaced priority (counterpoint of the financial press, later reinforced by the IMF). Good and bad Europeans now qualified by whether they had done their "homework" in fiscal consolidation. And divergence in fiscal and economic performance was generally seen as reason why stricter control and/or greater convergence in fiscal and economic policies had to be introduced (Kutter 2012). However, general opinion papers and the German government kept endorsing the established design of the EMU (Berghan and Young 2012). Only the financial press advocated a swift and lean supranationalization of fiscal policy and banking supervision early on. It thus preempted suggestions for far-reaching institutional reforms that were embraced by EU decision makers after Trichet, among others, had warned of systemic crash (Kutter 2012).

Common to all these crisis narratives is a view of the Eurozone crisis as problem of fiscal management, competitiveness, and EMU institutional design. The preceding banking crisis and rescue measures, which endangered the public finances of these states in the first place, are not part of the story. The sovereign debt problems of the deficit countries are thus effectively disconnected from the North-Atlantic financial crisis, as well as the crisis tendencies in financialization and the DWRS that it revealed. As a result, current account imbalances appear as a problem of competitiveness only, while the unsustainable involvement of peripheral growth models in the DWRS remains underexposed.

This complexity reduction seems to draw on the streamlining of the experience of the North-Atlantic financial crisis. It blanked out financialization and finance domination by privileging within-system crisis interpretations (the Eurozone crisis is seen to be manageable within established accumulation regimes); by naturalizing depictions of financial markets as opposed to state and politics that were assigned agency; and by shifting causation from systemic aspects of the economy to individuals by way of personalization, i.e. blaming bankers, managers, speculators, and new financial actors (Kutter forthcoming a). Additionally, the reduction of the Eurozone crisis to issues of competitiveness and fiscal discipline apparently rests upon interpretations generated during the debate on regulatory policy and the role of the state that dominated the German public during the years 2008 and 2009. This debate reemphasized the interventionist state (after decades of advocating general state retreat), only to re-introduce its limits (limited to extraordinary circumstances) and underline opposition to a big engaging state. This lean “strong state” has also been projected onto the European level, when stressing the necessity of targeted supranationalization in the EMU or EU budget and deficit oversight. The debate also helped portray the sovereign debt crisis as problem of an overstretched state, thus implicitly justifying a crisis management concentrated on austerity policies and fiscal control. Within such a crisis narrative, protest and strikes appear primarily as an outcry against necessary adjustment and their protagonists as losers of such an adjustment process (Kutter 2013). In short, the narrative of fiscal adjustment and competitiveness not only aligns various segments of the German public, it also disarticulates entry points for alternative vision.

Conclusion

In this chapter, we have advanced a first attempt to reconstruct the Eurozone crisis and its management between 2010 and 2012 from a cultural political economy perspective. In doing so, we explicitly focused on the multilevel articulation of politico-economic and discursive selectivities, as they unfold with the dynamics of European economic integration during a moment of profound policy disorientation.

We have shown that the Eurozone crisis marks a critical juncture that challenges the policy framework of EU economic integration. It questions the way the EU periphery has been integrated into established models of negative economic integration, the conception of monetary union, and enduring restructuring of European financial markets.

A CPE perspective advocates that such revelatory moments unleash both discursive-interpretative and political-power struggles over plausible policy options, which contribute to the formation of new social coalitions or the reinforcement of existing forces. The Eurozone crisis opened up an opportunity to lock in established policy sets, which match well with the interests of transnationally operating finance and business, as well of those EU member states in the European center, which mainly host those actors. This can be put down to a range of selectivities of the conjuncture, in which the Eurozone crisis occurred,

First, policy-reactions to the crisis drew on existing export-oriented and financial-market–based accumulation strategies. However, the fact that far-reaching measures and reforms were implemented that reinforced these strategies related to specific actors' privileged access to decision making. Here, the Eurozone crisis appeared as an opportunity for the usual suspects: a strong axis between Germany and France insisted on further European economic integration in terms of permanent state rescue measures and a perspective European fiscal and banking union. At the same time, strong and mostly informal transnationally organized interest groups and advocacy coalitions pushed for a stretch of the legal competence of European institutions into formerly sovereign national areas of budgetary, macroeconomic, and fiscal policies, by mediating different national interests and ante-chambering the shape of further European economic integration.

Secondly, the adopted approach to Eurozone crisis management corresponds to selectivities of mediatized crisis narratives. They restored the coherence of competition-and-finance-driven accumulation in that they "indigenized" the crisis as a problem of missing competitiveness and rationality in the EMU. By omitting the wider implications of the DWSR and the North-Atlantic financial crisis and by reinvoking the narrative of the overstretched state, they also effectively disarticulated entry points for critique and alternative vision.

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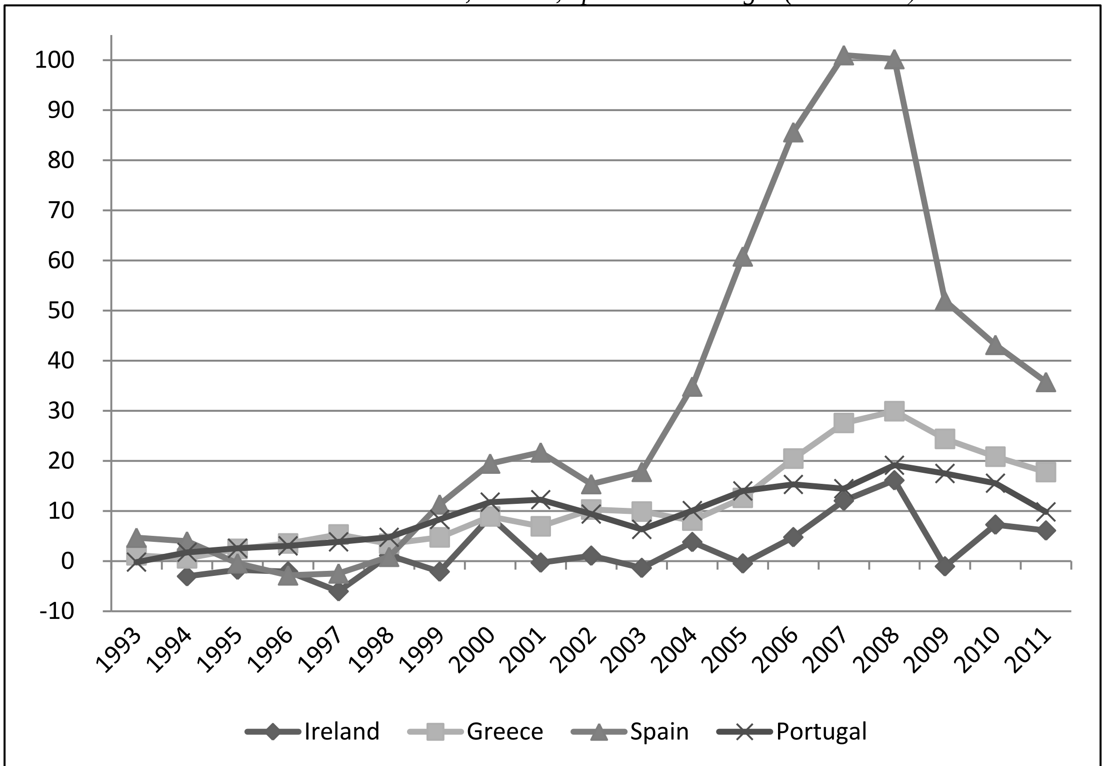
Table 7. 1: *Consolidated international bank exposures to Spain, Greece, Ireland and Portugal (by nationality of reporting bank, in billion $)*

		Bank nationality									
		2010 (Q4)					2012 (Q2)				
Exposu-res to	**Type of exposure**	**GER**	**FR**	**UK**	**AEC²**	**ALL¹**	**GER**	**FR**	**UK**	**AEC²**	**ALL¹**
Spain	Banks	75.4	38.8	21.1	199.3	223.5	38.4	22.8	12.0	110.4	130.2
	Public sectos	28.6	30.3	9.6	88.1	102.4	24.1	16.0	4.5	55.0	70.1
	Other private sectors	77.9	71.5	76.5	344.4	379.8	60.0	74.5	61.4	289.5	323.1
	Total exposures³	*224.0*	*175.5*	*142.3*	*779.1*	*988.6*	*160.3*	*145.5*	*123.9*	*606.0*	*866.4*
Greece	Banks	2.2	2.2	2.6	8.9	10.9	0.1	0.2	0.2	2.0	2.6
	Public sectos	14.7	15.0	3.4	44.3	46.3	0.3	1.0	0.1	3.8	4.1
	Other private sectors	9.1	39.6	8.1	75.1	80.5	5.1	38.9	5.3	61.9	65.5
	Total exposures³	*32.0*	*65.0*	*21.3*	*156.8*	*200.8*	*6.5*	*46.5*	*9.8*	*84.0*	*102.2*
Ireland	Banks	28.5	8.1	18.3	68.8	83.2	14.6	6.7	11.8	41.8	57.8
	Public sectos	3.1	4.0	4.5	15.4	19.3	2.5	1.8	3.7	10.2	12.1
	Other private sectors	86.5	17.5	112.4	290.6	354.9	69.0	19.4	109.8	259.4	321.4
	Total exposures³	*158.5*	*56.0*	*195.3*	*533.1*	*678.7*	*115.4*	*55.5*	*186.1*	*455.7*	*588.5*
Portugal	Banks	15.7	6.1	4.7	39.1	42.0	6.3	3.1	1.1	16.0	17.6
	Public sectos	7.8	8.2	2.1	32.4	34.6	5.9	3.5	1.8	21.7	22.2
	Other private sectors	12.9	12.7	17.5	121.8	124.4	11.7	11.6	15.0	105.2	108.4
	Total exposures³	*50.2*	*32.2*	*31.5*	*246.9*	*297.0*	*31.9*	*23.0*	*29.0*	*189.3*	*250.4*

¹ All reporting countries. ² All European countries. ³ Includes positive market values of derivatives contracts, guarantees extended, credit commitments and unallaocated claims by sector in addition.

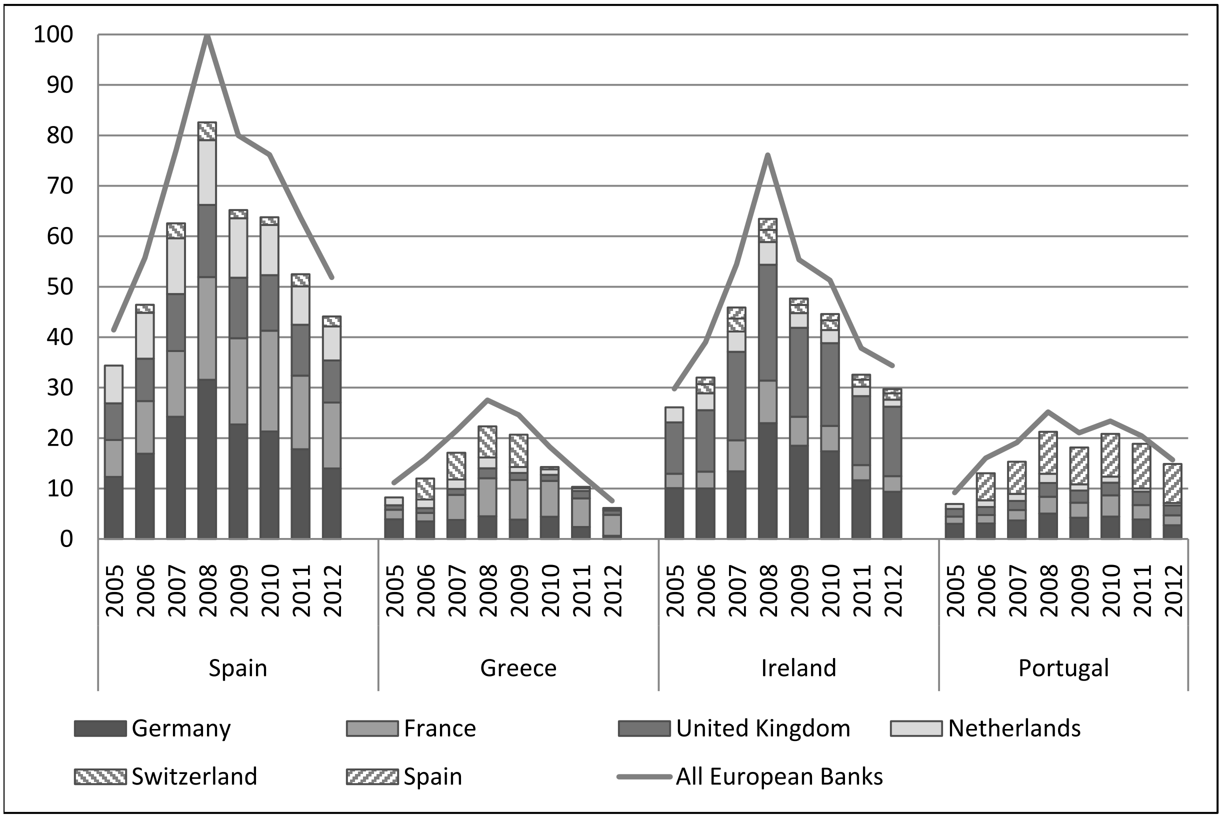
(Source: Bank for International Settlements, *Banking Statistics*.)

Figure 7.1: *Financial Account in Ireland, Greece, Spain and Portugal (in billion €)*



(Source: “Eurostats, *Statistics Database: Balance of payments by country* [Data file] (Brussels: Eurostats), accessed December 30, 2012. http://epp.eurostat.ec.europa.eu/portal/page/portal/ statistics/search_database.

Figure 7.2: *Foreign private bank claims to Spain, Greece, Ireland and Portugal (by nationality of reporting bank, in billion $)*



(Source: Bank for International Settlements, *Banking Statistics: Foreign claims by nationality of reporting banks* [Data file] (Basle: BIZ), accessed January 10, 2013. http://www.bis.org /statistics/consstats.htm.)