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Germany, the problem of leadership, and institution-building in EMU reform

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ABSTRACT

This article examines the extent to which Germany has provided leadership in creating institutions to overcome the euro area crisis. Under which conditions does Germany act as a driver of institutional change, and what are the implications for the Economic and Monetary Union? Germany's leadership record is mixed: while it took the lead in enhancing austerity, it refrained from fostering burden-sharing. As a result, EMU faces a persistent imbalance between enhanced institutions of supervision and insufficient institutions of financial assistance. Moreover, the article points out that current conditions for the emergence of German leadership in the euro area are unfavourable.

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Policy Highlights

- Germany provided leadership in creating institutions of supervision, but refrained from fostering institutions of financial assistance
- Germany's (non-)leadership in EMU is driven by its interest to shift the costs of the crisis to the debtor states
- As leading is costly and Germany profits from the status quo in EMU, the emergence of German leadership is unlikely
- The implications for EMU are "muddling through" and the lack of a credible backstop

1. Introduction

Research on regional integration expects leadership of powerful states to be an important explanatory factor for the success of integration projects. When the Economic and Monetary Union (EMU) entered into crisis, many politicians and journalists called on Germany to assume leadership. Yet, Germany's leadership record is – to say the least – ambiguous (Schoeller 2017). The literature thus referred to Germany as a "reluctant leader" (Newman 2015) or "reluctant hegemon" (Bulmer and Paterson 2013). This article examines the role that German leadership has played in creating institutions as a response to the euro crisis: To what extent has Germany provided leadership in shaping the EU's institutional response to the crisis? Moreover, under which conditions does Germany emerge as a leader, or, in other words, what drives German leadership?

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Drawing on existent leadership research, the article first elaborates a conceptualization of leadership that is applicable to the role of Germany in EMU. Second, it outlines Germany's position as most likely leadership candidate as well as the twofold lack of institutions in EMU. Third, the article analyses four cases of crisis management regarding whether and under which conditions Germany has provided leadership. As a result, it argues that Germany has provided leadership in creating institutions of supervision, whereas it refrained from taking the lead in setting up institutions of financial assistance. While others have argued that Germany's behaviour in EMU is largely determined by ordo-liberal ideas (e.g. Matthijs 2016a) or domestic constraints (e.g. Bulmer 2014), this article submits that Germany's (non-)leadership in EMU is primarily driven by its material interest to shift the adjustment costs of the crisis to the national level and thus to the "debtor states".

2. Conceptualization

The leadership of powerful states is crucial for the success of regional integration projects (see Laursen 2010, 13f). Walter Mattli has pointed out that "successful integration requires the presence of an undisputed leader among the group of countries seeking closer ties" (1999, 56). Such a state can serve as a focal point when countries with different preferences need to agree on one among several options (coordination problems). Moreover, acting as "regional paymaster", a powerful state can ease distributional tensions between member states (distributional problems).

With regard to monetary alliances, Benjamin Cohen has argued that the most important factor for preventing free-riding or exit of states is the presence of a local hegemon, which can make side-payments or apply sanctions. Like Mattli, Cohen submits that this condition is even more important than institutional design features (1998, 87–91).

Focusing on EU treaty negotiations, Beach and Mazzucelli (2007) have shown that bounded rationality, incomplete information, and high bargaining costs can lead to suboptimal outcomes or bargaining failure. A leader can help a group of states to achieve Pareto-optimal outcomes by identifying mutually acceptable deals ("efficiency") and excluding alternatives from the agenda ("distribution").

The article applies these arguments to the question of leadership in euro crisis management. Although there is no generally accepted definition of political leadership, most conceptualizations overlap to the extent that leadership is a *process where an actor in a formal or informal position of power employs her resources in such a way as to guide the behaviour of others towards a common goal.* This definition is built around three crucial features, which can serve as indicators to assess the leadership of states in regional integration:

First, leadership requires *power resources* (Beach 2005, 26–32). *Material* resources provide the leader with a positional advantage compared to her followers, and can comprise military and economic capabilities. *Institutional* resources, in contrast, refer to procedural advantages, which are formal and informal rights of agenda-setting, decision-making, and implementation. *Non-material* resources, finally, vest the leader with non-material advantages, such as privileged information, credibility, legitimacy and reputation.

Second, leadership is associated with the pursuit of a *common goal* (Burns 1978, 425–32). This criterion distinguishes leadership from other ways of exercising power (- and thereby leaders from merely powerful actors). However, as preferences over how to reach a common goal may diverge, there remain relative winners and losers despite the presence of a leader. In the words of Kindleberger: “Leadership may be thought of at first blush as persuading others to follow a given course of action which might not be in the follower’s short-run interest if it were truly independent. … Without it, however, there may be an inadequate amount of public goods produced” (1981, 243). Moreover, as long as we do not consider leadership an altruistic sacrifice, there must be payoffs for the leader, too (e.g. Shepsle and Bonchek 1997, 381). This is the case if the common goal overlaps with the leader’s self-interest (see Skodvin and Andresen 2006, 16), or if the achievement of a common goal yields individual benefits for the leader (see below; Frohlich, Oppenheimer, and Young 1971, 7). The common goal may consist in helping a group find an acceptable agreement, thereby getting closer to the Pareto frontier (“efficiency”) or deciding on one outcome among several options (“distribution”) (Beach 2005, 19).

Third, a leader guides the behaviour of others by making use of *strategies*. On the one hand, these are negotiation strategies enabling collective outcomes that otherwise are prevented by incomplete information, high transaction costs, or free-rider dilemmas (Tallberg 2006, 37–9; Young 1991, 293–8). Such strategies include agenda-management, coalition-building or leading by example, for instance. On the other hand, a leader can provide common knowledge (Young 1991, 298–302). This type of leader exposes the drawbacks of the *status quo*, presents new ideas, and promotes them as solutions to the defined problems.

Hence, in particular in times of crisis, when a group faces a collective action problem and a lack of institutions to deal with it, there will be a great demand for leadership. However, while there is much literature on the function of leadership (demand-side), there is less knowledge about the motivation of collective actors to take on a leadership role (supply-side). Most scholars agree that leaders are not only driven by the pursuit of a common goal, but also by their self-interest (Skodvin and Andresen 2006, 16f). Rational-choice scholars have therefore argued that an actor will supply leadership only if the individual benefits of leading exceed the related costs (Frohlich, Oppenheimer, and Young 1971, 7; Shepsle and Bonchek 1997, 381). In line with this proposition, I conjecture that *leadership emerges only in cases where the leader expects to be individually better off*.

3. Empirical background

3.1. Germany as EMU’s most likely leadership candidate

As leadership requires power resources, it is not surprising that the actor most frequently called upon to take the lead in the euro crisis has been Germany (Jacoby 2015, 189f; Matthijs 2016b, 136). Emphasis is mostly put on Germany’s *economic resources*: As Germany has the euro area’s largest Gross Domestic Product (GDP) and current account surplus in absolute terms – just to name two crucial indicators – its economic resources exceed those of all other member states. In the context of EMU politics, economic resources are particularly relevant as they reflect a state’s capacity to contribute to financial stability in the euro area and to bail out other countries. Hence, material power resources serve the purpose of moving *to* the Pareto frontier ("efficiency"), as they can be invested into a collectively superior outcome, as well as moving *along* the Pareto frontier ("distribution"), as they can be used as bargaining chip in distributive negotiations.

Few accounts of Germany's power go beyond the narrow view on economic resources, and take into account institutional and non-material resources. *Institutional resources* comprise agenda-setting and decision-making powers. As for example Tallberg has shown, such procedural resources are crucial in formal negotiations, where they determine "who gets to say what, when, how, and to what effect" (2006, 31). Thus, with regard to the distinction between "efficiency" and "distribution" (see above), they serve primarily the latter purpose. If it comes to shaping new policies or institutions, Germany has only few institutional resources in EMU. While monetary policy decisions lie in the discretion of the European Central Bank (ECB), Germany's formal voting weights in the Eurogroup or ECOFIN Council are relatively small. Until 2012, they corresponded to 8.4 per cent of all votes and since then they have amounted to 8.2 per cent. Under the ordinary legislative procedure (OLP), Germany's relative institutional power is further diminished by the participation of the Commission and the European Parliament (EP). Outside OLP, Germany's institutional resources are even smaller because member states usually decide by unanimity. Only if it comes to the prevention of decisions, Germany's economic strength provides it with a *de facto* veto (Interviews 10, 11, 13). This permits Germany to avoid unpleasant decisions, but with regard to the exercise of political leadership, it enables little more than agreements on the lowest common denominator.

As regards *non-material resources*, Germany has the biggest claim to a hearing among member states (Interview 2), and thus most legitimacy to take up the lead. As the German Finance Minister Schäuble himself admitted: "At some Council meetings I ask myself, why is it always me who should speak first. Also the others could begin once in a while…"[1] (2011). Moreover, when it comes to making financial commitments, Germany enjoys more credibility than other member states due to its economic and financial performance. This is closely related to Germany's reputation as a country that is strongly committed to ordo-liberal principles and, in particular, monetary stability. Therefore, Germany's non-material resources exceed those of other member states. Non-material resources are particularly relevant when actors lack complete information about possible outcomes or solutions, so that a leader needs to engage in the provision of common knowledge (see above; Young 1991, 298–302). As opposed to institutional resources, they thus serve to find acceptable agreements ("efficiency") rather than determining the distribution of gains.

Furthermore, Germany's power in EMU is bolstered by the relative weakness of other member states in crisis management (Interviews 10, 15, 25, 26; Matthijs 2016b, 137f). Hence, although Germany's role in the euro area is characterized by its *de facto* veto rather than its capacity to shape institutional responses, it occupies an unprecedented position of power. As a German government official admitted: "Germany has become the hegemon of Europe – what we never wanted to be"[2] (Interview 26). Therefore, Germany is the most likely candidate among euro area members to provide leadership in times of crisis, or, as Matthijs and Blyth (2011) have put it: "only Germany can fix the Euro".

3.2. EMU's twofold lack of institutions

Leadership is a way to overcome collective action problems when there are no adequate institutions to deal with them. As for instance D'Erman and Verdun have pointed out, the euro crisis represents such a collective action problem: In the absence of appropriate institutions to deal with its socio-economic and legitimatory implications, "the euro area crisis poses a significant threat to the continued integrity of the union" (2018, 8). In particular, the crisis exposed a twofold lack of institutions. First, institutions to contain EMU's inbuilt *free-rider problem* turned out to be incomplete. Second, there were no institutions regulating EMU's *distributional problem*, which consists in the inevitable mutualisation of risk.

On the one hand, non-optimal currency areas face the problem of moral hazard. Less competitive member states are tempted to borrow "cheap money" in order to finance public spending. In so doing, they may exceed sustainable limits because even in the case of bankruptcy they can expect to be bailed out by the central bank or other members, which have an interest in preserving the single currency. Thus, states with high deficit or debt levels might free-ride at the expense of fiscally more solid members. In order to avoid this free-rider problem, strict fiscal rules are needed. On the other hand, such rules tie the hands of states in times of crises. Maintaining a balanced budget in hard times, or applying austerity measures, worsens the economic situation and can lead to an economic downward spiral that might spill over to other members of the currency union. Therefore, a common backstop is needed to assist member states in times of crisis. Such a backstop can take different forms, ranging from a central bank acting as lender of last resort, via a fiscal capacity or the issuance of common debt, through to a permanent transfer union. This creates a distributional problem which, if it is not regulated by institutions, might jeopardize the existence of the single currency.

EMU's *free-rider problem* was anticipated at the outset and institutional arrangements were laid down by the Treaty on the Functioning of the European Union (TFEU) in articles 123 to 126. Article 123 prohibits monetary financing by the ECB; article 124 denies member states privileged access to financial institutions; article 125 is the so-called "no-bailout clause" which prohibits the Union and its members to assume financial commitments of other members; article 126 contains provisions to avoid excessive deficit (max. 3 per cent of GDP) and debt levels (max. 60 per cent of GDP). Since 1997, the Stability and Growth Pact (SGP) specifies the operationalization of these rules (ECB 2017).

Yet, these "anti-free-rider" institutions turned out to be incomplete when in 2009 the euro crisis broke out in Greece (Buti and Carnot 2012, 900–5). First, there was a lack of surveillance as the Commission missed the means to properly monitor compliance. Second, the institutions lacked credible enforcement mechanisms. Third, the clauses regarding monetary financing (Art. 123 TFEU) and direct bailouts (Art. 125 TFEU) did not have any effect: instead of exerting disciplining pressure on financially less solid states through higher risk premiums, the markets treated all government bonds as virtually risk-free. Finally, the SGP was incomplete as it targeted only governments. However, fiscal risks also stem from unsustainable private behaviour since states may be forced to bail out their banks.

This is different if it comes to EMU's *distributional problem*. While "anti-free-rider" institutions were incomplete, institutions to regulate the mutualisation of risk were almost entirely absent (Verdun 2015, 222–5). The ECB is legally prohibited from assuming the role of lender of last resort. An alternative would be a federal budget with redistributive features (Drudi, Durré, and Mongelli 2012, 894). More far-reaching solutions could consist in the issuance of common debt or a supranational fiscal authority with tax and spending powers (Schelkle 2012, 31–3; Verdun 2015, 224f). However, at the onset of the crisis there were no such instruments, and those that were built up as a crisis response turned out to be insufficient.

In sum, EMU faced a twofold lack of institutions to respond to the euro crisis (Buti and Carnot 2012, 901). A leader would thus have to complement the existing institutions against fiscal free-riding (austerity) and come up with institutional solutions to EMU's distributional problem (solidarity). Therefore, the cases analysed in the following concern either the enhancement of institutions ensuring fiscal discipline (Super-commissioner, Fiscal Compact) or the establishment of institutions regulating the mutualisation of risk (Greek bailout, Eurobonds).

4. Empirical analysis

In this section, I analyse four cases of crisis management regarding whether and under which conditions Germany has provided leadership: the first bailout of Greece, the Fiscal Compact, Eurobonds and the "super-commissioner" proposal. While all cases constitute an institutional response to the euro crisis, they vary with regard to (1) the relevant collective action problem (see above) and (2) their realization. Whereas the Greek bailout and the Fiscal Compact actually materialized, Eurobonds or a super-commissioner have never come into being. Such cases are important to include instances of failed leadership, where leadership was supplied, but failed in bringing about the desired institutional change.

I assess the exercise of leadership based on the three features outlined above. Given that Germany's power resources are invariably large across all cases, the crucial question is whether it translated them into strategies to guide the euro area towards the common goal of overcoming the crisis. As elaborated above, a common goal is necessary, but not sufficient for the emergence of leadership. With regard to the conditions for Germany's emergence as leader, I therefore expect Germany to provide leadership only when this would make it individually better off (see theory section above). Considering EMU's twofold lack of institutions, this leads to the conjecture that

> *Germany provided leadership only in creating institutions of supervision, whereas it refrained from taking the lead in setting up institutions of financial assistance.*

As for example Schimmelfennig (2015) explains, the choice for one or the other type of institutions entails distributional consequences. While institutions ensuring fiscal discipline shift the adjustment costs of the crisis to the national level, institutions of financial assistance mutualize these costs at the European level. In other words, institutions of supervision make the so-called "debtor states" pay for overcoming the crisis, whereas institutions of financial assistance shift the burden to the "creditor states". Hence, the more the institutional response to the euro crisis builds on institutions of solidarity (instead of austerity), the more costly it is for Germany. In line with the conceptualization elaborated above, Germany should therefore deploy its leadership capacity in such a way as to obtain a solution based on the enhancement of fiscal discipline.

4.1. Too little too late: the first bailout of Greece

When in October 2009 the Greek government revealed that its fiscal deficit and debt level were higher than previously reported, bond yields rose rapidly and thus jeopardized the euro area's financial stability. Despite the threat for the entire euro area, it took the other member states more than half a year – until Greece was actually not able anymore to refinance itself – to come to its rescue. Eventually, the euro area members and the International Monetary Fund (IMF) committed themselves to bilateral loans amounting to 110 billion Euro. The eurozone loans were pooled by the Commission in the so-called "Greek Loan Facility". Given that this *de facto* neutralized the no-bailout clause (Article 125 TFEU), it constituted a major institutional change. Thus, the Greek Loan Facility was EMU's first genuine institution of financial assistance.

As Erik Jones (2010) argued, an earlier commitment to bail out Greece would have preserved its refinancing options. The bailout would thus have become cheaper or even unnecessary. Moreover, an early response would have resulted in less contagion, lower government bond yields, sounder balance sheets of euro area banks, and more economic stability. Hence, whereas an early commitment implied several disadvantages for individual creditor states (see below), it would have contributed to the *common goal* of protecting the single currency and maintaining stability in the euro area.

However, instead of taking the lead, Germany denied the need for financial assistance until the very last moment before a Greek default, thereby blocking any decision for a rescue plan. The German Chancellor, for instance, rejected a draft declaration of the Eurogroup in the run-up to the European Council of 11 February, because she considered it too committing with regard to a bailout (Euractiv 2010a). When finance ministers met again on 16 February, the "Irish Finance Minister Brian Lenihan told journalists that some member states – notably Germany – were unwilling to spell out in detail what member states would be expected to do to prop up the Greek economy" (Euractiv 2010b). After Greece had announced its second austerity programme on 3 March, the German Chancellor still reiterated: "I want to say clearly that it is not about aid measures for Greece" (Euractiv 2010c). When asked again after a meeting with Greek Prime Minister Papandreou, Merkel answered that "'this is a question that we do not have to face today' [and that] Europe was not 'going to face in the future'" (Ludlow 2010, 12). Even after Papandreou had openly urged his colleagues to make a decision about financial assistance on 18 March (Ludlow 2010, 16), Merkel insisted:

> "Greece is not insolvent and therefore we do not have to discuss the question of help now … It is the best solution for the euro if Greece solves its problems alone…"[3] (Tagesschau 2010).

Hence, Germany did not take the lead when it came to the first bailout of Greece. This was not irrational, though (cf. Jones 2010). As interviews with closely involved officials working for the Council of the EU, President of the European Council, Commission, Permanent Representation of France to the EU, and German Ministry of Finance revealed, the German government primarily feared that the long-term costs of an early and "cheap" bailout of Greece would consist in Germany becoming the paymaster of the euro area, because any such commitment would create moral hazard in Greece and other member states (Interviews 5, 7, 10, 12, 15, 26, 27). These costs were feared to be much higher than those caused by a last-minute bailout of Greece, even if the latter would result in a spill-over to other member states. Other concerns like electoral costs, a worse bargaining position, and uncertainty over legal and technical aspects only came on top.

With regard to the article's conjecture, this means that Germany made use of its *de facto* veto by blocking any decision until the very last moment before Greek default. Going beyond existing explanations for Germany's refusal to take the lead in the first bailout of Greece (e.g. domestic elections, uncertainty), the interviewees confirmed that Germany's main concern were the long-term costs of creating moral hazard through financial assistance and thereby mutualizing the adjustment costs of the crisis. While it is true that Germany eventually agreed to the bailout because it was considered without alternative, it did so as late as possible in order to shift costs to the debtor states (Greece) and thus away from itself. In other words, Germany avoided the *de facto* establishment of a transfer union at the cost of increasing the crisis in the debtor states.

4.2. A German treaty: shaping the Fiscal Compact

The Fiscal Compact is essentially an institution of supervision. Member states commit themselves to a balanced budget, an automatic correction mechanism established by their national law, and independent national institutions monitoring the compliance with the rules. As compared to the already existing rules of the reformed SGP, the Fiscal Compact thus increases the "national ownership" of rules (Buti and Carnot 2012, 907f; Interviews 6, 10).

As regards the *common goal* of overcoming the crisis, the Fiscal Compact was considered a way to "anchor market expectations regarding the sustainability of public finances in Europe" (Drudi, Durré, and Mongelli 2012, 894). Thus, although it was certainly not the measure preferred by all member states, the treaty was regarded as a contribution to the common interest of preserving the euro ("efficiency"). As Van Rompuy, then President of the European Council, stated: "26 leaders are in favour of joining this effort. They recognise the euro is a *common good*" (President of the President of the European Council 2011, 1, own emphasis). At the same time, the treaty strongly reflects German preferences as a creditor state ("distribution").

The Fiscal Compact was clearly a German initiative. Already in 2010 the German Treasury was developing plans for a European debt brake anchored in national legislations (Schäfer and Hall 2010). By August 2011, the German government had convinced France to write a joint letter to the President of the European Council, in which they define excessive public debt and a lack of competitiveness as the causes of the crisis, and propose a debt brake and regular Euro summits as solution (Bundesregierung 2011). The Euro summit statement of October 2011, whereby euro area leaders committed themselves to a "debt brake", is based on this initiative (European Council 2011; Beach 2013, 117). In the following months, Germany promoted the idea and pushed for a quick realization (Interviews 15, 26). As a French government official put it, "Germany was leading the project of this Fiscal Compact and … this was mostly a German demand" (Interview 5).

Next to promoting the idea, Germany deployed a multitude of negotiation strategies. The German government linked financial assistance from the European Stability Mechanism (ESM) to the approval of the Fiscal Compact (issue-linking), thereby ensuring the signature from debtor countries that were more reluctant with regard to further budgetary restrictions (Interview 10), and it shifted the decision-making process to the level of the European Council and thus away from the community method (arena-shifting). Moreover, Germany conducted pre-negotiations with France and other member states during the agenda-setting phase. Finally, it engaged in coalition-building by pushing for an agreement among the 17 euro area members only, so as to circumvent a potential veto by the UK (Interviews 10, 11). Alongside such classical bargaining strategies, Germany framed the Fiscal Compact as a counter-weight to the mutualisation of risk at the European level, thereby using its economic weight and significance for the survival of EMU as a bargaining chip (Interviews 5, 10, 15, 25).

Hence, the case of the Fiscal Compact confirms the article's conjecture. As this institution of supervision not only served the euro area's common goal, but also Germany's self-interest, Germany took the lead. It did so by defining the alleged problem and promoting a European "debt brake" as solution ("providing common knowledge"). Moreover, the case study identifies a multitude of negotiation strategies which Germany employed to realize the Fiscal Compact ("enhancing collective action"). With regard to the employment of power resources, Germany used its non-material resources to promote a treaty supposed to stabilize market expectations ("efficiency", see above). When it came to the distribution of gains, however, Germany employed its economic resources as bargaining chip to reach an outcome that reflected the creditor states' preferences. By contrast, Germany could not rely on institutional resources as it lacks any formal powers to set the agenda or exclude alternative outcomes.

4.3. As long as the chancellor lives: vetoing Eurobonds

The idea of Eurobonds is older than the crisis. Already Commission Presidents Delors and Prodi suggested the issuance of common debt. As Eurogroup chairman, Juncker repeatedly proposed Eurobonds, too (Juncker and Tremonti 2010; Kleine, Juncker, and Steinmeier 2008). The issue entered the agenda of crisis management in January 2011 when Sylvie Goulard, Member of the EP, demanded the introduction of Eurobonds in a draft report for the six-pack legislation (European Parliament 2011, 22f; Interview 29). As a result of a package deal with the EP in the six-pack negotiations, the Commission issued a Green Paper on Eurobonds in November 2011 (European Commission 2011; Interviews 16, 29). Moreover, Eurobonds were mentioned in the Commission's "Blueprint for a Deep and Genuine Economic and Monetary Union" (European Commission 2012, 12f, 29–31, 49–51) and in the "Four-Presidents-Report" (President of the European Council 2012, 12). However, despite a salient debate, Eurobonds have never made it on the agenda of a formal meeting of the Eurogroup or any preparatory body (Interview 8).

There are manifold proposals of how Eurobonds could be designed (European Commission 2011). However, no matter what design, Eurobonds would be an institution of financial assistance shifting the adjustment costs of the crisis to the European level. The distributional consequences would be twofold: First, "creditor states" would guarantee for "debtor states" (mutualisation of risk); second, those enjoying low interest rates for their government bonds could lose their privileged refinancing options in favour of those paying higher interests.

Although Eurobonds would in the short run be to the disadvantage of single member states like Germany, they would correct some of EMU's inbuilt design failures (European Commission 2011, 4–7; Schelkle 2012, 31–3). Equipped with mechanisms providing compensation to fiscally solid countries and an effective control over national budgets (De Grauwe 2013, 28), Eurobonds would help overcome the crisis and prevent future crises by lowering the funding costs of highly indebted member states. Based on high liquidity and credit quality, they would also provide low benchmark yields and facilitate the transmission of ECB monetary policy (European Commission 2011, 4–7). Hence, Eurobonds would contribute to the *common goal* of preserving the single currency and make the euro area as a whole better off.

However, instead of taking the lead on Eurobonds, Germany rejected the idea outright. Although most German decision-makers have not ruled out Eurobonds once for all, but rather considered them the last step of a fiscal union (Interviews 2, 25), they presented themselves as "most violently against it" (Interview 10). Thus, chancellor Merkel's statement that "there won't be Eurobonds as long as I live"[4] (Spiegel 2012) has become emblematic for Germany's stand in the issue. As a consequence of Germany's veto, also other actors like the Commission refrained from taking the lead on the issue, fearing to be accused of "bad judgement" (Interview 13), to damage the confidence in the EU's capability of responding to the crisis (Interview 2), or to kill the idea once for all (Interview 15). As a directly involved Commission official said: "There is no point to initiate if you know that there will be even no discussion, that [Eurobonds] will be killed right away" (Interview 9).

In sum, the case of Eurobonds – an institution of financial assistance – confirms the article's conjecture. Given that Eurobonds most probably would have terminated the crisis, Germany could have contributed to the euro area's common goal by using leadership strategies to realize the proposal. However, like in the case of the first Greek bailout, Germany not only abstained from taking the lead, but actually prevented Eurobonds from making it on any official agenda by using its *de facto* veto. As the interview answers of several EU officials show, Germany's tough position has ultimately also kept the Commission from taking the lead on Eurobonds.

4.4. A light version of leadership: promoting the super-commissioner

Strengthening the Commissioner for Economic and Monetary Affairs to enhance the supervision of national budgets is originally a Dutch proposal. When presented in 2011, the media coined it "budget-tsar" (Chaffin 2011) or "super-commissioner" (see Karagiannis and Guidi 2014). The German government, and in particular Finance Minister Schäuble, strongly supported the idea (Interview 11; Schäuble 2011). While the Dutch initiative led to a slight empowerment of then-Commissioner Olli Rehn, he neither obtained a veto-right over national budgets nor full discretion in the College of Commissioners, which were the crucial features of the proposal (see Lamers and Schäuble 2014; Schäuble 2011, Schäuble 2014). In October 2012, Schäuble therefore made a new attempt. With the backing of Chancellor Merkel, Schäuble presented the idea to the media and mentioned it repeatedly in Eurogroup meetings (Euractiv 2012a, c; Interviews 2, 7, 8, 13, 25). However, after Commission President Barroso at the European Council of 18/19 October 2012 declared that he had already done everything which could be done without Treaty change to strengthen the Commissioner, the idea was quietly abandoned.

As regards the euro area's *common goal*, the super-commissioner was proposed as a way of preserving the single currency and overcoming the crisis. Schäuble presented the idea as a "master plan for the euro" (Böll 2012), and both Chancellor and Finance Minister emphasized that this would be a step "in the direction of a fiscal union" and a "lasting solution" (Euractiv 2012b). As Schäuble's spokesman said: "A strengthened currency commissioner could stand for greater confidence in the implementation of measures and … in the euro zone itself" (Euractiv 2012b). Thus, the super-commissioner was supposed to bring about not only the consolidation of national budgets, but also more financial stability from which every member would profit (Interview 27).

With respect to the use of leadership strategies, Germany employed a twofold approach. Internally, Schäuble coordinated the initiative in bilateral talks with his Dutch colleague De Jager (Interview 11). Moreover, he promoted the idea *vis-à-vis* his euro area colleagues and the Presidents of Commission, European Council, Eurogroup, and ECB (Böll 2012). The main forum was the Eurogroup:

> "It was more Mr Schäuble saying it from time to time in the Eurogroup. … As a politician he has learned … that by simply repeating something, especially if you are a powerful politician, … it develops a life of its own and gets on to other people's agendas" (Interview 13).

Externally, Germany used the press as a "multiplier" (Interview 2) for promoting the idea. Due to the resistance in the Eurogroup, some German government officials considered the media the "only effective channel" (Interview 25). While the German government thus engaged in the provision of common knowledge, it refrained from the employment of negotiation strategies, because it anticipated that in exchange for a super-commissioner there would be "a very significant counter-price to be paid" (Interview 10). This counter-price could have consisted in the introduction of Eurobonds, for instance (Interviews 13, 27).

Hence, the super-commissioner saga is "a case of attempted, but ultimately unsuccessful, institutional change" (Karagiannis and Guidi 2014, 177) in favour of enhanced supervision. Germany provided a light version of leadership as it restricted itself to the provision of common knowledge, thereby avoiding the more expensive employment of negotiation strategies. In terms of resources, it thus relied on non-material resources to promote the idea – not least Schäuble's reputation in the Eurogroup (Interview 13) – but abstained from using its material resources for side-payments (e.g. Eurobonds) to reach an acceptable agreement. Eventually, the German government abandoned its initiative because it anticipated a costly defeat. Especially after the ECB's announcement of Outright Monetary Transactions (OMT) had eased the pressure for action, reluctant states were less dependent on Germany and could thus afford to object the proposal (cf. Fiscal Compact).

The largely unexplored case of the failed super-commissioner proposal confirms the article's conjecture. Like in the case of the Fiscal Compact, Germany took the lead on an institution of supervision that would have served the euro area's common goal of preserving the single currency *and* Germany's self-interest as a creditor state. Contrary to the Fiscal Compact, however, this time Germany's leadership efforts remained unsuccessful.

5. Results

There is a clear pattern emerging from the analysis. Although rarely effective (Matthijs 2016b, 151), Germany provided leadership in creating institutions of supervision (Fiscal Compact, Super-Commissioner), whereas it refrained from taking the lead in setting up institutions of financial assistance (Greek bailout, Eurobonds). The explanation for this behaviour draws on rationalist assumptions of utility-maximizing: while Germany has generally been committed to the preservation of the single currency, it aimed at shifting the adjustment costs of the crisis to the national level by enforcing austerity instead of mutualising these costs at the European level and thereby assuming a major part itself (see Schimmelfennig 2015, 179–83). This implies that Germany has been "reluctant" (Bulmer and Paterson 2013; Newman 2015) only when it came to solidarity measures, and it explains "the striking disconnect between the policy position of Germany and much of the rest of Europe and even the world" (Newman 2015, 117).

What does Germany's (non-)leadership mean for institutional change in EMU? Given that Germany has provided leadership only with regard to institutions of supervision, while largely obstructing risk sharing, the euro area's response to the crisis addresses primarily its free-rider problem. By contrast, the treatment of the related distributional problem remains incomplete. As a consequence, EMU still lacks a credible backstop to convince the markets of its coherence and to assist member states in trouble whose hands are tied by rules of fiscal discipline. With a view to the future of EMU, Germany's "one-sided" leadership thus entails the problem that enhanced institutions of supervision may help to prevent a crisis, but they cannot solve it when it occurs nevertheless.

Finally, the analysis points out that Germany's veto power is much bigger than its shaping power. While it is true that Germany's economic resources exceed those of all other member states, its institutional resources do not stand out in the euro area. Hence, Germany does not get whatever it wants in EMU, but it can block whatever it does *not* want. This is one explanatory factor as to why crisis management has been characterized by "muddling through" rather than bold innovation. Next to this lack of shaping power, there is also an unfavourable incentive structure for German leadership. On the one hand, there are almost no "pull-factors": Given that the potential for austerity in the euro area seems largely exhausted, every effort going beyond the minimum necessary to preserve the single currency is hardly beneficial for Germany. Moreover, taking the lead is costly: not only would Germany risk to become the euro area's "lender of last resort", there would also be considerably domestic costs (see Bulmer 2014, 1256–9). On the other hand, there is a lack of "push-factors", as for the time being, Germany profits in multiple ways from the status quo in the euro area (see Jacoby 2015, 198–201). Considering these individual and structural circumstances, the emergence of German leadership in EMU any time soon appears unlikely.

6. Conclusions

Drawing on a rationalist perspective on leadership, this article argues that Germany has taken the lead in EMU only when it was individually beneficial to do so. To be sure, Germany agreed to financial assistance if it was considered the minimum necessary to preserve the single currency (see the case study on the Greek bailout), but it did not take the lead on it. Leadership is costly: as financial assistance would shift the adjustment costs towards the creditor states and Germany would risk becoming the "paymaster" of the euro area, it provided leadership only when it came to institutions of supervision. This behaviour contributed to a persisting imbalance between enhanced institutions of supervision and insufficient institutions of financial assistance.

These results differ from existing literature, which has argued that Germany's behaviour is driven by ideas – namely ordoliberalism – rather than interests (Matthijs 2016a; Nedergaard and Snaith 2015; Schäfer 2016). However, while ordoliberalism certainly helps understand Germany's behaviour in general, it cannot fully explain Germany's abstention from leadership when it comes to institutions of financial assistance: in cases where institutionalized solidarity provides *more stability* (while maintaining the principle of liability (*Haftungsprinzip*)), a truly ordoliberal government has good reason to welcome it. This is because for ordoliberalists the avoidance of moral hazard is not an end in itself, but a means to obtain a stable institutional framework for the economy. Within Germany, we therefore find institutions of solidarity such as the equalization payments between states (*Länderfinanzausgleich*) or the solidarity tax introduced to finance reunification (*Solidaritätszuschlag*), for instance. Moreover, as opposed to the interest-based explanation put forward by this article, ordoliberalism cannot explain why other (non-ordoliberal) creditor states have the same preferences as Germany.

Hence, Germany's behaviour in EMU appears to be rather driven by national interest, not least fuelled by domestic public opinion, whereas ordoliberal ideas serve as a justification whenever this is convenient (see Howarth and Rommerskirchen 2013). When it is not convenient, instead, Germany does not follow ordoliberal principles: the violation of the SGP and the suspension of the excessive deficit procedure in 2003, the mitigation of these rules in 2005, the anti-cyclical stimulus packages to fight the economic crisis at home in 2008 and 2009 (instead of austerity measures), and the maintenance of its excessive current account surplus are just a few cases in point.

Notes

1. Translated by the author.
2. Translated by the author.
3. Translated by the author.
4. Translated by the author.

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