The London School of Economics and Political Science

Swimming against the tide: The European Commission and the politics of debt-relief

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Abstract

It is well documented that, during crises, international bureaucracies tend to follow state preferences. Yet, the European Commission's opposition to the member-states' debt-relief plan for Greece constitutes a deviant case for which we lack an explanation. The thesis employs this case in order to discuss why and how international bureaucrats might act independently of their state-principals during crises. To answer this question, it draws on qualitative data from official documents, primary and secondary accounts, archives and 13 elite interviews. It analyses this data using the text-analysis software NVivo. The examination of the empirical evidence suggests that the Commission adopted such a stance because of its institutional culture, i.e. the solutions that were produced to answer certain collective problems in the past and were then institutionalized and passed on as rules, rituals and values. The organisation broke from coalition dynamics, opposed member-states and took an autonomous and institutionally detrimental stance because its culture was in significant discrepancy with its principal's preferences. Through the handling of previous financial crises, the Commission developed the view that the process of European integration is tied with financial stability and the appeasement of market forces, i.e. the alignment of domestic economic policies with market-expectations. Subsequently, its proposals on the Greek debt were geared towards that direction. This perception also explains the Commission's opposition to member-states' desire to grant Greece some type of debt relief, i.e. the PSI. The organisation saw this scheme as a potential source of market panic and, hence, as potentially detrimental to the process of EU integration. It, consequently, opposed it

despite the institutional costs that this stance entailed. The thesis demonstrates the substantial effect that an institution's culture might have on its actions during crises. It also offers an alternative to the standard state-centric narrative of crisis-management by international organisations. Such conclusions hold wider theoretical significance for the field of EU studies and international organisations. They propose an explanation of why and how the European Commission, and by extension similar international bureaucracies, might act independently of their principal's, even if this choice entails institutional losses.

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1 Introduction

"I have possess'd your grace of what I purpose;
And by our holy Sabbath have I sworn
To have the due and forfeit of my bond:
If you deny it, let the danger light
Upon your charter and your city's freedom."

Merchant of Venice, Act 4, Scene 1, William Shakespeare

The Eurozone bailouts are a matter of extensive academic and political discussion. A big part of the current debate has focused on analysing the reasons that led to the success or the failure of these programmes. Yet, the international organisations (IOs) that have drafted the reform plans, have received little attention. Only a few scholarly works have examined in depth the role, the internal operations and the overall impact of international organisations and international bureaucracies in the recent financial crisis (Clift 2018, Henning 2017). Even fewer scholars have discussed the role of European institutions, i.e. of the European Commission and the European Central Bank (ECB), in the Troika and the wider crisis-management framework. The lack of research in this area is even more remarkable, given the growing amount of research that examines the Commission as an international public administration (Trondal et al. 2010).

Most scholars that have discussed the role of IOs in the Eurozone crisis have adopted the standard state-centric narrative. They have argued that whenever member-states (MSs) have intense preferences regarding the management of a crisis, they transmit them to their agent, i.e. the international bureaucracy (or international public administration). States manage to achieve this either via the

official mandate that they produce or via informal pressures towards the bureaucracy. The supranational bureaucracy, for its part, usually, follows these preferences, mainly due to budget-related reasons. Despite the fact that most scholars have been quick to accept this narrative the relevant data presents a more nuanced picture. In particular we observe that the European Commission chose to diverge from the MSs, in the field of debt-management, at the early stages of the Eurocrisis; it chose to oppose the Council's intention to move forward with a debt relief scheme for Greece.

The state-centric narratives, being based mainly on big-n and comparative studies, do not really provide any explanation with regard to such deviant cases, i.e. cases in which the bureaucracy suggests crisis-related policies independently of state preferences. In turn, they lack an in-depth analysis of the concrete *causal mechanisms* explaining how international public administrations end up going, willingly, against state preferences in such delicate times.

The thesis' main theoretical and empirical aim is to close this gap by contributing to the literature that has examined the independent actions of international bureaucrats. In effect, the analysis attempts to identify what might drive agents to slack during crises, i.e. to pursue independent actions that lie away from their principal's preferences and mandate (Hawkins et al. 2006: 7). It aims to explain why agents might choose to forego their immediate institutional interest and follow their own preferences, while also jeopardising the entire crisis-management operation.

To answer this question, I focus on the above-mentioned deviant case. I look at the European Commission's positioning with regard to whether Greece should

receive some kind of debt-relief at the beginning of the Eurozone crisis. I subsequently discuss what led the organisation to oppose all debt-relief options, despite the fact that European Council and the IMF ended up backing a form of debt-relief that would burden the private sector bondholder i.e. the Private Sector Involvement (PSI) scheme. The Commission's choice to go against all these actors was surprising given the circumstances. During this period, it faced extensive organisational insecurity and an intensely volatile environment. It faced competition from other international bureaucracies, like the IMF, and the scepticism of its principals. Consequently, we would expect it to follow and reflect state preferences in an effort to present itself as a credible and trustworthy agent to the latter ones.

I argue that the Commission ignored all external pressures and went against its own immediate institutional interest. It took a more long-term view and formed its preferences and policy suggestion driven by a feature of its internal institutional culture, i.e. its tendency to sustain the Eurozone project via market-appeasing measures. Here, I follow Barnett and Finnemore and define institutional culture as the solutions that were produced to answer certain collective problems in the past and were then institutionalized and passed on as rules, rituals and values (Barnett and Finnemore 2004: 19). Following this notion, I also explicate the historical process via which the Commission ended up having such an internal culture. I review the bureaucracy's approach to previous financial crises and present the developments that led it to link financial crisis-management with EU integration and market appeasement. I, then, show that the Commission's internal culture guided its policy suggestions and actions during the recent crisis. Especially in the field of debt-management the Commission's tendency to tie the process of European integration

with the meeting and appeasement of market expectations led it oppose the MS preferences for a PSI.

By making this argument, I place the concept of institutional culture centre stage and show that historical institutionalist explanations remain relevant with respect to the analysis of policymaking during crises. In fact, I demonstrate that internal cultural features might be more influential compared to short-term rational calculations. Overall, I show that the high incongruence between state preferences and the bureaucracy's central cultural features, might lead IO officials to act independently and oppose their principals.

The current chapter serves as an introduction to the overall project and proceeds as follows: it first presents the overarching research question and the empirical puzzles that lie at the centre of this inquiry. It then proceeds with its case selection strategy, and with a literature review. It, subsequently, presents the study's sources. It concludes by offering some early insights regarding the thesis' overall theoretical contribution. It, finally, presents the thesis' structure.

1.1 Research question

International financial crises usually require interstate cooperation in order to be addressed in an efficient way. One of the policy tools that states have at their disposal in order to manage such crises are international institutions. The standard state-centric approach treats such organisations as rational, negotiated responses to the challenges that international actors face. It suggests that states choose to use or modify the existing international institutions, or create new ones altogether, in order to further and serve their collective and individual aims (Koremenos et al. 2001: 766-

768, Hawkins et al. 2006). Especially in times of uncertainty and volatility, states accrue extra benefits from joint efforts at gathering and pooling information, as well as coordinating their actions (Koremenos et al. 2001: 788). Following this rationale one can argue that whenever states use international institutions to solve crises, they do so in order to resolve such incidents quickly and in a manner that is in line with their fundamental interests.

Of course, the organisation's final policy choices, usually, do not reflect state preferences in their entirety. Instead, they incorporate and reflect compromises between states; an equilibrium outcome that results from the strategic interaction between states (Koremenos et al. 2001: 781). Thus, the MSs of an institution constitute together a collective principal that acts in concert. In this sense, international institutions effectively aggregate preferences and create stable coalitions among the organisation's members. Subsequently, the collective principal negotiates a contract with the agent (Lyne et al. 2006: 44). For the collective principal (and for any principal in that matter) to see its crisis-management preferences met, it needs to establish a system of incentives and sanctions that leads its agents, i.e. the international public administration, to reflect its preferences accurately and serve the given mandate.

Principals attempt to control the agent via *ex ante* and *ex post* control and monitoring mechanisms. The *ex-ante* mechanism mainly takes the form of a detailed *(de jure)* mandate. Principals draft such a mandate specifying the agent's tasks and means of operation; in effect by creating such a mandate they aim to constrain the agent's potential for slack and, hence, mitigate agency losses. The *ex post* monitoring mechanisms can take two general forms: policy-patrol oversight and fire-alarm

oversight. Principals that use the police-patrol mechanism usually review a sample of the agent's work in an effort to detect potential diverging behaviour. When using the second mechanism, the fire-alarm oversight, the principal establishes a system of rules, procedures and informal practices that allow them and third parties, like special interest groups and civil society organisations, to examine the agent's operations. This practice creates an extensive monitoring framework that allows principals to cast a wide net for potential agency slack and remedy it fairly quickly (McCubbins and Schwatz 1984).

In the IO framework such mechanisms can take more sophisticated forms. Principals might create, within the same bureaucracy, departments with conflicting mandates as a way to create counter-balancing bodies within the same organisation. Alternatively, they might employ agents with overlapping mandates. This overlap induces competition between bureaucrats and, in turn, reveals information to the principal about the agent's work and preferences. Consequently, this makes the detection of agency slack easier (Holmstrom, 1982, Sappington 1991).

Whenever principals detect such slacking behaviour, they tend to punish the agent. Agents that fail to perform or diverge from their principal's mandate and preferences see their budget and/or authority curtailed or lose their competences and authority altogether (McCubbins and Page 1984, Weingast and Moran 1983). Responding to such control and monitoring mechanisms, international bureaucrats tend to conduct a simple cost-benefit analysis and end up following state preferences during crises. They fear that, given the saliency of the issue and the principal's intense preferences, any divergence on such important issues will be noticed and punished

by states (Copelovitch 2010a: 44). Hence, they have substantial incentives to reflect and follow state interests (Hawkins et al. 2006: 30).

While the existing literature has examined in depth why and how agents abide by their principals' preferences during crises, it has examined to a much lesser extent why they might, openly, diverge from them. Consequently, the thesis employs the Commission's debt-management positions at the beginning of the Eurozone crisis in order to analyse why Commission officials conceived and approached the problem of debt-management in an autonomous way; not only independently of state preferences but also in direct and open opposition to them. It, subsequently, identifies what was different with the Commission and the handling of the Greek debt. Why did the Commission not follow the preferences of the MSs? What was the modus operandi that arose inside it and led it to act in such an uncommon way? Why did it go against its immediate institutional interest, i.e. the preservation and expansion of its competences in the field of debt-management?

1.2 Empirical puzzle: The Greek crisis and the question of debt relief (2009-2012)

Before introducing the thesis' empirical puzzle, i.e. the Commission's handling of the Greek debt until the realisation of the PSI, this section offers a brief overview of how the Greek crisis unfolded from its very beginning and until the realisation of the debt relief scheme in 2012. This overview helps the reader position the thesis' research puzzle in a wider historical and political context and, thus, allows for a better understanding of its theoretical and empirical value.

The Greek elections that took place in October 2009 signified the ousting of the centre-right government and brought in government the main centre-left party,

PASOK. Soon after its establishment, the new government reviewed the national fiscal position and came to the conclusion that the previously reported data were inaccurate; the state's fiscal situation was far worse than anyone expected (Papacostantinou 2016). EU institutions often doubted the reliability of Greece's fiscal data, with Eurostat presenting a damning report for the period between 1997 and 2003 (Bastasin 2012: 142, Blustein 2016:87). It argued that the Greek statistical authorities had systemically misrepresented the debt and deficit figures (Eurostat 2004). Yet, the 2009 revision of the country's fiscal data painted an unprecedented and shocking picture. According to the new government, the nominal value of the Greek debt had increased by 50 percent between 2005 and 2009, i.e. from 200 billion euros to 300 billion euros. Moreover, the deficit for 2009 was projected to reach 13.6 percent of GDP in 2010 (Papacostantinou 2016: 30), while the public debt was projected to reach 121 percent of GDP in 2010. In effect the new government presented a dire picture: Greece was the only state in the Eurozone with large twin deficits, i.e. a public budget deficit and a balance of payments deficit (Bastastin 2012: 136-137, 145).

Reacting to this dramatic fiscal deterioration the government committed, in front of its European partners, to come up with a three-year stability and growth programme. The programme included fiscal consolidation measures and substantial structural reforms. Yet, it fell short of expectations; financial investors were unconvinced in regard to the state's willingness and ability to reform and remedy its fiscal status (Blustein 2016: 90). The initially underwhelming programme along with the constant revision of the state's fiscal indices led to augmenting financial panic. Moreover, despite the fact that the size of the Greek debt overhang was manageable,

if the Eurozone governments pooled their resources together, the EU MSs appeared reluctant to guarantee Greece's sustainability and debt-servicing capacity (Bastasin 2012: 144-148). Subsequently, by the end of 2009 the most important credit-rating agencies estimated that the Greek economy would not be able to recover and reverse its debt dynamic. Its status was, thus, downgraded leading to further market-volatility (Blustein 2016:90). The Greek government attempted to reverse these developments by presenting additional fiscal consolidation measures in January and February 2010. Nevertheless, the Commission saw this new package as barely adequate, while the markets were not convinced either (Bastasin 2012: 163).

Despite the crisis spiralling out of control, the Eurozone MSs did not react in a decisive way. The German Chancellor facing intense domestic pressures against a bailout, remained reluctant to provide immediate financial support for Greece. Consequently, the Council that took place in early February 2010 did not reach a conclusion that would calm financial investors. Given the non-committal stance of the Merkel government, the Council could not offer a credible solution to Greece's debt problem. Consequently, EU MSs asked Greece to come up with additional fiscal consolidation measure. At the same time, they committed to take "determined and coordinated action" if needed in order to safeguard the stability of the Euro area (Bastasin 2012: 165-169). Nevertheless, while this commitment came a step closer to some kind of financial aid for Greece, a package of that sort remained a theoretical possibility. Greece still had to come up with a set of measures that would convince market participants that it was serious about its fiscal effort and that it would be able to repay its debt overhang.

Indeed, at the beginning of March 2010, Greece came up with a plan that aimed at a 4 percent deficit reduction in 2010. Yet, with popular discontent rising, the Greek government felt it needed additional help from its European partners. Mounting market pressures, the fact that Greece had to float 5 billion euros in bonds by the end of March and rumours about the potential involvement of the IMF led the EU MSs to come up with a concrete crisis-management mechanism (Papacostantinou 2016:101-103). The plan included for a series of bilateral loans towards Greece that would be complemented by IMF lending. The Council's decision prevised that this mechanism would be employed only as the ultimate resort in case Greece could not receive any other funding from the financial markets (Blustein 2016:102, Bastasin 2012: 180-181).

Nonetheless, these measures did not seem able to reverse the situation and convince markets that the Greek crisis was under control. The situation became worse when the four biggest Greek banks requested immediate liquidity assistance from the government in order to counteract the unfolding bank run. With the credit-rating agencies further downgrading Greece and with the Irish banking sector also facing liquidity problems along with wider spillover concerns (Papacostantinou 2016:106-107), the Eurozone MSs finally decided to take action. On the 11th of April, the EU MSs agreed to offer Greece a joint 3-year European/IMF financial assistance package that would also include strong conditionality clauses (Bastasin 2012: 184-186). A constellation of three supranational institutions, the IMF, the ECB and the European Commission, later known as the "Troika", would undertake the relevant technical work. The Troika would be responsible for negotiating the content of Greece's adjustment programme and the exact nature of the loan conditionality

(Henning 2017: 84-85). It would also monitor the implementation of the programme and the overall progress of the Greek economy. This was an unprecedented exercise within the Eurozone.

Amid fears of wider financial contagion and with market participants doubting the long-term sustainability of the Greek debt, the Troika suggested, on May 2, that Greece receives financial aid of 110 billion euro. The Eurozone MSs would provide 80 billion and the IMF the remaining 30 billion euro. Yet, in order to receive aid Greece would have to implement harsh austerity measures. It had to reduce its budget deficit by 13.6 percent of GDP in the next three years and reduce its debt at around 140 percent of GDP in the same period (Henning 2017: 85, Bastasin 2012: 194). In addition, there would be no restructuring of the Greek debt despite the fact that a few IMF staffers were advocating such a measure (Blustein 2016: 114-117, Papacostantinou 2016:127, Henning 2017:86-87)

Despite its ambitious aspirations, market developments and the inability of the Greek government to implement the necessary reforms led to the programme's derailment. By early 2011 it was obvious to both market participants and MSs that the first Greek programme was seriously off-track. The state missed a few fiscal targets and its funding needs appeared to be growing bigger by the day. The initial 110 billion euro package would soon be inadequate to cover its funding needs. At the same time, the centre-left government was facing widespread opposition inside and outside Parliament.

With the Greek programme obviously ailing, the Eurozone MSs decided that Greece needed additional funding and a new programme of economic adjustment. Yet before receiving any of these Greece needed a sizeable restructuring of its

privately held debt, i.e. a Private Sector Involvement (PSI) scheme. On July 21 the European Council and the Eurogroup took the decision to move this plan forward and initiate the PSI negotiations. After their conclusion, they would, subsequently, approve the second Greek programme of economic adjustment and financial assistance (Henning 2017:185-186). The PSI would be officially finalised only in April/May 2012, yet the Council's 2011 decision signified a radical policy change in the field of debt management. While this radical policy change led to a new round of economic volatility that involved Cyprus (Henning 2017:194), it consists the "cut-off" point of this study. Our inquiry will analyse and discuss the Commission's debt-management suggestions for Greece from the crisis' early days until the realisation of the PSI.

The above narrative has demonstrated that the question of how to handle the Greek debt was central throughout this phase of the Eurocrisis. As will be substantiated even more in chapters 4 and 5, as the Eurozone crisis unfolded, the debt- relief debate turned out to be one of the most salient and contentious topics between states, IOs and financial investors. More importantly for our inquiry, the management of the Greek debt and the question of a debt-relief was central for the European Commission. As the thesis will argue it ended up being the field where it would oppose the intense preferences of the Eurozone MSs.

The fact that debt-management and debt-relief were so controversial during the first phase of the Greek crisis might come as a surprise to some. After all, the issue of debt sustainability and debt-management has been painted as a technical question, governed by financial modelling and probabilistic reasoning. Yet this is rarely the case. Even if one understands the debate over debt sustainability as a

debate over which assessment is more accurate, the debt-GDP ratio or the debt service ratio, neither can safely predict the likelihood of default or restructuring. Instead the final institutional choice remains political; it involves questions of whose rules and assessments will apply, when unsustainability will be acknowledged and who will bear the burden of adjustment, of a potential debt restructuring or of a default (Henning 2017: 193). In this sense the notions of sustainability and solvency are politically contested and redefined in every incident that involves debt-management questions. Creditors and borrowers, states and markets all strive to use their power in order to impose their understanding of the issue (Dyson 2014; 38). Following such negotiations "fiscal normalities" and, hence, the conception of sustainable and unsustainable sovereign debt has evolved over time in accordance with power structures and dominant ideologies (Dyson 2014: 35-37). The way sovereign debt-crises are handled and solved reveal much about the preferences and the capacities of all involved actors, i.e. of states, international bureaucracies and market participants.

Following these observations, this thesis assumes that the question of debt sustainability and debt relief during the Eurozone crisis were salient political topics that attracted the attention of all involved parties. Subsequently, its focus is on answering why the Commission diverged from the preferences of the MSs on such an important policy topic.

The first phenomenon that I place under investigation is the Commission's negative reaction to the question of whether Greece should receive an early debt relief. In 2010, the IMF, the Commission and the ECB, clashed over whether the Greek debt should be restructured. On one side, the IMF argued in favour of a debt

relief early in the programme. This would start-off the programme from a more viable economic basis and it would also be in accordance with the Fund's regulation. The IMF regulation provided that it could lend only to country's the debt of which was sustainable with high probability in the medium and the long-term . On the other side, the Commission and the ECB, in accordance with EU MSs, did not even consider such an option. After a contentious intra-Troika debate, the preferences of the European side dominated. The Troika's initial response was that Greece needed no debt relief. It was offered instead financial aid with harsh conditionality attached to it (Pisani-Ferry, Sapir and Wolf 2011: 3). Drawing from this incident I pose the first question that will drive this thesis: which drivers and mechanisms led the Commission to take an anti-debt-relief position at the very beginning of the crisis? Chapter 4 discusses in depth this process and analyses the Commission's motivation in regard to debt-management. It establishes that the Commission and the MSs opposed an early debt-relief based on different rationales and motivations. On the one hand the Commission was more concerned with the spreading of financial panic and the subsequent destabilisation of the Eurozone, while the MSs mainly wanted to minimize the cost of the first Greek bailout.

Two years following the decision to not restructure Greece's debt, the European Council encouraged Greece to reach out to its bondholders and seek a voluntary debt restructuring. The realisation of the Private Sector Involvement Scheme (PSI) in 2012 marked this radical policy change. Chapter 5 establishes that the MSs drove this policy change. It shows that the German side, guided by domestic electoral concerns, spearheaded this process. On the other hand, the Commission fervently opposed the PSI, invoking, once again, financial spillover fears and the risk

of market panic. Following this disagreement, other international bureaucracies, and in particular the IMF, along with some *ad novo* institutions, like the ESM and the Euroworking group stepped forward and undertook the technical tasks of this scheme. Drawing from this incident the thesis' second question asks: why did the Commission diverge from its principal's preferences, despite the potential institutional losses that this choice entailed? The analysis in Chapter 5 argues that the Commission's institutional culture, i.e. linking market-appeasement with the containment of spillover effects and the perpetuation of the Eurozone, was, again, the driving force behind this stance.

Chronology of the debt management debate (2009-2012) (Table 1.1)

- **October 2009 –** A new government is elected. George Papandreou takes over as new prime minister and George Papaconstantinou is appointed finance minister. The new government discloses that the 2009 budget deficit will be 12.7 percent, more than double the previously announced figure
- **November 2009** - Papandreou admits that the Greek economy is in "intensive care", as European finance ministers express concern about the size of the country's debt
- **8 December 2009** - Greece's credit rating is downgraded by one of world's three leading rating agencies (Fitch) amid fears that the government could default on its ballooning debt
- **14 December 2009** - The government announces a programme of budget consolidation that aims to cut the deficit by four percentage GDP points in 2010-2011
- **7 January 2010** - EU officials arrive in Athens to ask the Greek government for more details on its consolidation plan
- **14 January 2010-** Greece unveils another budget consolidation programme, i.e. the stability programme
- **2 February 2010** - Amid market volatility and increasing borrowing costs, the Government announces a wider package of fiscal consolidation
- **11 February 2010**- Germany opposes a quick bailout for Greece
- **3-4 March 2010**- Greece unveils a radical austerity package. Financial markets welcome the move by bidding for €16bn of government debt
- **29 March 2010-** Greece faces weak response to its bond sale. Financial markets start losing faith in the country’s ability to service its debts
- **11 April 2010-** The Eurozone agrees a €30bn rescue package for Greece
- **16 April 2010-** The Greek government admits that it may need help from the International Monetary Fund, pushing its bailout up to €45bn
- **19 April 2010-** The Greek state’s borrowing operations reach record high
- **23 April 2010-** The Greek government activates €45bn of EU/IMF loans.
- **2 May 2010-** Greece is granted a financial aid package of €110bn
- **18 October 2010-** Deauville agreement
- **6 June 2011-** German Finance Minister Wolfgang Schäuble writes a letter to the ECB and the IMF proposing some type of debt-restructuring for Greece
- **21 July 2011-** The EU Summit agrees a new bailout plan for Greece, including contributions from the private sector
- **9 October 2011-** German finance minister Wolfgang Schäuble suggests that “the debt reduction we aimed at in July may have been too low”
- **26 October 2011-** The Euro Summit statement invites Greece and its private-sector bondholders to agree on a bigger PSI
- **March/April 2012-** Final round of PSI negotiations. It results in a major debt exchange

1.3 Case selection

In order to answer the above puzzle, we pick the following case-study: the European Commission's disagreement with the MSs over the question of debt-relief during the early phases of the Eurozone crisis. This is a rare incident of divergence between an international bureaucracy and its principals over a salient topic during an unfolding financial crisis. This deviant and failed "most-likely" case-study will help us to examine in depth the causal variable(s) that might lead international bureaucracies, similar to the Commission, to follow such a behaviour during periods of economic volatility.

We choose to conduct a case study as it is better placed to answer the thesis research enquiry. Conducting a case study will allow us to intensively study a single case that will lead us to conclusions for a wider, but underexamined, population of cases (Gerring 2006: 29). The term under-examined is key here as case-studies are particularly fit to untangle the causal relationships of phenomena that are encountered for the first time or are examined in a radically new way (Gerring 2006: 40, 62). Especially, if a phenomenon is rarely encountered a rigorous and in-depth examination of such a case is almost the sole viable way forward as we lack enough cases for a cross-case analysis (Gerring 2006: 57). Furthermore, case-studies usually offer a high degree of internal validity as they allow in-depth analysis that consequently leads to the identification of clear and strong causal relationships. By giving emphasis to the context and the details, case-studies are better able to establish causal claims compared to cross-case research (Gerring 2006:49, 61). This trait is particularly useful when our previous understanding of such relationships is limited as in this case.

As said at the beginning of this section, the Commission's handling of the Greek debt is chosen as a deviant and failed "most-likely" case-study. Starting with its characterisation as a deviant case, deviant cases appear to be anomalous relative to a general model of causal relationship (Gerring 2006: 106). They present a surprising value, either as a cause or an effect, that is not in accordance with our prior literature expectations (Rohlfing 2012:92). Indeed, this is the case with the Commission's choices in the field of debt-management. Existing literature on international bureaucracies and financial crises has established that international bureaucrats tend to follow their principal's intense preferences during periods of financial crises (e.g. Copelovitch 2010a). According to this, the Commission's disagreement with its principals over the question of debt relief during a critical phase of the financial crisis is surprising and, indeed, a deviant case from the general model.

Yet, the Commission's approach to the issue of debt-relief also contains all the necessary elements to make it a failed "most-likely case" from a theoretical point of view. Most-likely cases are cases in which, according to the existing literature, we see a high-probability for a causal relationship to hold. In other words, all the conditions that have been identified as necessary and sufficient are in place but we, instead, observe a different relationship/outcome (Rohlfing 2012:84). On the other hand, a "least-likely" case is a case in which an already formulated explanatory hypothesis/causal variable is least likely to explain the observed effect; in effect the case acts as a most-difficult test for a newly formulated explanatory hypothesis. Given that the thesis examines an under-explored effect the literature does not offer

such an explanation and hence we choose to define the case, from a theoretical standpoint, as a “failed most likely” (Rohlfing 2012: 84-88).

This is so as, according to the relevant IO and EU studies literature, we would expect, during such an intense crisis, an international bureaucracy like the Commission, to agree with its principals over a salient question, like the question of debt relief. The following section delineates the reasons that would lead us to such expectations. The fact that these expectations did not materialise generates a surprising result that deems further scrutiny (Rohlfing 2012:85).

Starting from the Commission’s characterisation as an international bureaucracy, this is a moot point among scholars. Yet this thesis’ takes the view that the Commission’s case lies within the wider universe of international bureaucracies. The term “international bureaucracy” usually refers to the permanent secretariat of an international organisation that is distinctive and independent from the organisation’s MSs and its plenary assembly. Moreover, its role and function are usually codified in the organisation’s constitutive treaty or in the staff’s regulations. Furthermore, international bureaucracies usually employ permanent staff, while they also have permanent headquarters and hold regular meetings. Finally, the bureaucracy’s staff is, usually, required to take an oath of primary allegiance to the international bureaucracy.

The Commission possesses all the above elements. It is independent of MS preferences and acts as an autonomous administrative hub within the EU policy system (Trondal et al. 2010 :6-7). Its independent role and mission are explicitly recognised in the Treaties, while its personnel is permanent, located mainly in Brussels, and recruited via a merit-based system. Finally, the Commission’s staff is

expected to serve the overall EU interest and to insulate itself from national allegiances. In effect, this thesis follows Trondal et al. 's claim that the European Commission should not be depicted anymore as a unique and *sui-generis* case. While the thesis' conclusions delineate the scope conditions of the present inquiry, the overall examination begins from the premise that the European Commission can be seen as an international organisation. After all, the Commission's internal and organisational dynamics are the same that we see in every other international bureaucracy (Trondal et al. 2010 :8, Trondal 2010:110) while in many respects, it is subject to the same pressures and incentives. Following all the above, we would expect the Commission to follow the behaviour of most other similar international bureaucracies during crises.

Moving to the selected policy area, i.e. debt-management, I argue that this was a politically salient topic for all actors involved. All Eurozone MSs were very much engaged and interested in this discussion given Greece's excessive debt-levels and the interconnectedness between the Eurozone's economies. At the beginning of the Greek crisis, French and German banks were massively exposed to the Greek debt. In particular Germany's total exposure was around 51 billion dollars and France's 111.6 billion dollars, while the rest of the Eurozone was holding around 47.9 billion dollars of Greek debt (Tooze 2018: 327). Consequently, it was only normal that the handling of the Greek debt was a central concern for all Eurozone members and especially for France and Germany (Bastasin 2012:147-148). Moreover, the handling of the Greek debt would determine, to a great extent, the amount of financial aid that Greece needed. Thus, the Council's members had every incentive to transmit

their preferences to the Commission and monitor its actions, in order to achieve lower bailout costs.

Finally, the MSs had framed the debt-relief question in a way that made it politically salient for their domestic audience. By suggesting that the Eurocrisis was a story of the prudent North saving the profligate South, the EU MSs could not offer lenient lending terms, let alone an early debt relief to Greece without provoking reactions within their electorates (Matthijs and McNamara 2015). Given the above characteristics, I eliminate the possibility that the Commission's autonomous behaviour would go unnoticed by the MSs. Instead, I expect that the saliency of the issue would drive most governments to pay attention to the agent's behaviour. In turn, they would easily notice and react to the slightest agency slack, i.e. any undesired action by their agent (Copelovitch 2010a: 44).

The case also lends itself for us to assume that the Commission diverged knowing the potential consequences of its actions. This is important because it helps us establish that the bureaucracy did not diverge from its principals in the hope that they would overlook this behaviour or that they would be deceived into believing that their interests were served. Most existing theories on agency slack, especially during crises, operate under the assumption that this phenomenon occurs only when there is some type of uncertainty that makes it difficult for principals to identify the agent's slacking behaviour (Pollack 2003: 28). In turn, we already have a good understanding of how bureaucracies try to manipulate their principals so that they don't punish their slacking behaviour (Hawkins and Jacoby 2006). The selected case goes beyond these strategies and asks a less examined question: what might drive

an international bureaucracy to openly defy its principal's mandate at a period during which this institutional choice would surely be noticed.

Indeed, one would expect the Commission to be very considerate regarding state preferences. The Lisbon Treaty had just come into effect and the Council was now more empowered in terms of economic governance- an authority that it was willing to exercise in the context of the economic crisis (Interview 7). Moreover, the Eurogroup was scrutinizing every Troika decision and suggestion, all the while discussing the adjustment programmes (Interview 8, European Court of Auditors 2017: 23, 73). Subsequently the Commission, being afraid of sanctions, had every incentive to exercise only marginal autonomy. Hence, we would expect from it to try and reflect its principal's preferences

The Commission also faced the principal's scepticism. The MSs were not confident that the institution was still fit to fulfil its monitoring duties within the Troika. For the Eurozone MSs, the Commission had demonstrated laxity when reviewing the state and prospects of the Greek economy, both before it entered the Eurozone (Henning 2017: 95) and as it announced its stability programme at the beginning of the crisis (Henning 2017: 85). States saw this behaviour as evidence that the Commission was unable to be an effective monitoring authority. Moreover, they perceived the Commission as institutionally unable to fully reflect their preferences. Its mandate as a technical expert and a monitor risked being compromised by its wider and overarching functions, i.e. safeguarding the Treaties and promoting the Union's general interest (Pisani-Ferry et al. 2013: 24, 110).

Consequently, the MSs opted to create a Troika that included the Commission and two other institutions, the IMF and the ECB (Hodson 2015, Henning 2017, Pisani-

Ferry et al. 2013). Moreover, the Council established new institutions (the EFSM, the EFSF and later the ESM) that would complement the Troika's work. These institutions were not only aiming to complement but to also check each other's works. This was especially true for the Commission. The principals needed a monitoring scheme that would provide accurate information with reference to the development of the adjustment programmes and that would indicate, quickly, any agency slack. In effect, the Commission ended up facing intense institutional competition from other international bureaucracies within the crisis-management framework.

Given that the Commission was aware of the MSs' scepticism and mistrust (Interview 6, 10) and that it faced a plurality of competing institutions, one would expect from the organisation to cater to the Council's preferences. Before delegating authority, principals evaluate whether the agent's preferences are in line with their interests (Huber and Sipan 2000: 9). They strive to, ideally, find agents that would perform the assigned tasks in a way that would be similar to their actions if they were to realise them on their own (Waterman and Meir 1998: 180-183). In fact, principals might even delay delegation if they are unable to ascertain that their potential agent possesses this characteristic (Hawkins and Jacoby 2006). More importantly, whenever principals ascertain that the agent's preferences are substantially different from theirs, they tend to change the contractual relationship or even change agents altogether (Lyne et al. 2006: 52-53). In this sense, states engage in "forum shopping" in order to choose the agent that is more "naturally" inclined to perform the given mandate (Hawkins et al. 2006:29). Facing a pool of equally competent competing institutions, we would expect the Commission to present itself as being closer to the

principal's preferences in order to retain and, potentially, expand its authority over the field of EU economic governance.

All the above make clear that, apart from a deviant case, our selected case-study also acts as a failed most likely case. Existing theories from the field of IOs and EU studies would predict that the Commission would accommodate and anticipate MS preferences in the field of debt-management. Instead, we observe the bureaucracy going openly and willingly against the MS explicit interests and, subsequently, incurring institutional losses. In this sense, our selected case also acts as a failed "most-likely" case.

Last but not least, the selected case acts as a "pathway case", i.e. it helps us examine the causal pathway that led to the observed outcome. Indeed, case-studies are particularly suitable for the examination of causal mechanisms as they are based on in-depth and context-specific analysis (Gerring 2006: 43-45). Pathway cases require that the causal relationship between X and Y is established (Gerring 2006: 122) before we identify a causal path. After showing the effect of institutional culture with regard to the agent's divergent actions, I also move to present the respective causal mechanism that leads to such an outcome. By explicating every step of the process, via process-tracing, I identify a concrete causal mechanism on how an organisation's culture can lead it to diverge from its principals' preferences during periods of crises and organisational insecurity (Gerring 2006:123-126).

1.4 Literature review

In order to answer what drove the Commission to propose policies independently of the Council, one has to enquire what drives the actions of

international bureaucrats. International bureaucrats have been conceived as neutral professionals and experts, self-interested individuals and policymakers driven by personal and national allegiances and biases (Eckhard and Ege 2016: 966-967, 971). The analysis below offers an overview of this literature. It covers three broad research strands: the state-centric approach, the approach that places emphasis on each bureaucrat's personal characteristics and traits, and, finally, the approach that emphasises the importance of a bureaucracy's shared institutional culture. In the following chapter, I use these insights in order to derive proper explanatory hypotheses and their respective observable implications.

1.4.1 States and bureaucrats during crises

In the state-centric approach, states are the ones determining the organisation's and, consequently, the bureaucracy's, actions both in normal times and in periods of crisis. According to this approach, power differentials between states and the organisation's voting and decision-making rules are of great importance and essentially decide whether and when international bureaucracies follow their principals' preferences. The following analysis delineates the interaction between states and international bureaucracies; it explains when and how states transfer their preferences to the bureaucracy and when the bureaucracy is free to follow its own agenda.

From a power differential perspective, bigger states are usually more likely to see their preferences prevailing within the IO. States face a trade-off between unilateral action and collective action via the IO. Yet the most powerful countries are less inclined to act via the IO since they have the capacity to serve their interests and

goals with their own means. In effect, they possess more outside options compared to smaller states. Subsequently, their participation in the IO framework is contingent to whether they can serve their interests in a more cost-efficient way inside the IO rather than outside the IO, in a unilateral fashion (Voeten 2001).

A variation of this explanation gives much emphasis to institutional decision-making rules. These rules identify ruling coalitions and govern how decisions are made inside collective principals. In contrast to the previously discussed approach, voting and institutional rules aggregate state preferences in ways that might make power differentials less prevalent. Consequently, smaller MSs might obtain disproportional leverage inside the decision-making board (Lyne et al. 2006, Hawking et al. 2006:21-22). For example, within the IMF, the US representative has enough voting power to veto most decisions in the IMF board, but requires other MSs' approval in order to approve new programmes (Cortell and Peterson 2006, Gould 2006, Martin 2006, Copelovitch 2010a: 25, 56-57). Of course, even under such arrangements the more powerful MSs still possess disproportionate leverage. Whenever institutional rules do not reflect the existing distribution of power bigger MSs might opt to act outside the organisation (Hawkins et al. 2006: 22).

Independently of which mechanism is in place, for the state-centric approach the collective principal's decisions heavily influence the staff's mandate and its subsequent actions. This is especially true for the literature that has examined the actions of international bureaucrats, and more particularly of the IMF's staff, whenever they are called to handle financial crises. According to IMF scholars, the US and/or the Fund's five biggest shareholders appear to, usually, sway IMF staff towards their preferred policies (Stone 2008, Broz and Hawes 2006, Copelovitch

2010a). Moreover, in these studies the staff 's autonomy and leeway for independent action are always contingent on its principal's permission or indifference.

Starting with the literature that places emphasis on the US' role inside the IMF, Randall Stone's work on the scope of IMF conditionality proposes that the US government can essentially decide the type and scope of loan conditionality whenever its interests are at stake. Being the most powerful state in the organisation, the US can intervene in the staff's work and assumes temporary control of the organisation in order to serve its most intense interests. It does so via its extensive human and economic resources and its information-gathering capacity. Moreover, the US representative usually enjoys exclusive access to confidential information that is gathered by the Fund's missions. All these advantages allow the US authorities to heavily lean on the staff's bureaucracy and substantially influence the scope of loan conditionality (Stone 2008: 595-596).

Yet, the US choose to exercise these powers only whenever they need to secure less intrusive and harsh conditionality for its geopolitical allies; they choose to intervene only whenever its foreign policy objectives are deemed more important than the Fund's legitimacy and global financial stability (Stone 2008: 596). Hence countries that receive extensive financial aid from the US, tend to receive more lenient conditions whenever they apply for IMF loans (Stone 2008: 608). At the same time, the organisation's other MSs are willing to tolerate such occasional US interventions in order to ensure the continuous participation of the US in the IMF (Stone 2008: 590-591). The analysis includes some limited room for agency autonomy; whenever the MSs have no profound interests at stake the Fund's staff is allowed to decide the scope of conditionality autonomously (Stone 2008: 593).

The above state-centric narrative also explains the Fund's lending decisions in Africa (Stone 2004). In particular, the US and, occasionally, Britain and France interfere with the enforcement of IMF conditionality to help their political allies in this area. African countries that systematically back the US, France and the UK on the global stage, tend to receive preferential treatment from the Fund. In particular African states are more likely to re-enter their suspended programmes when they receive big sums of foreign aid from the US, when they participate in post-colonial international institutions that link them to France and Britain and when they vote with France in the UN Assembly (Stone 2004: 578-579, 590). The above tactic creates counter-productive incentives for the African countries that are under adjustment programmes. This is so because they know that not meeting the programmes' conditions and, subsequently, having the programme suspended entails low costs for them. The US, the UK and France will intervene in order to help them re-enter the programme and avoid a period of extensive economic adversity that might lead to political instability and, by extension, to a wider disruption of the global order (Stone 2004:590).

Aside from geopolitical concerns, domestic interests can also lead the US to intervene and heavily influence the Fund's lending programme (Broz and Hawes 2006: 77). The Fund tends to give more generous financial aid to countries that are over-indebted to US financial institutions. This is so because these financial centres lobby the US Congress which then exert pressures the executive branch and, by extension, the US representative in the IMF to offer preferential treatment to the country under pressure (Broz and Hawes 2006: 103). Subsequently, the more a state is exposed to a US financial institution, the more likely is to receive an IMF loan and

the bigger will be the size of this loan (Broz and Hawes 2006: 98-100). In turn, these loans are used to partially repay private banks, which then manage to retain most of their financial benefits while sharing their losses with the public sector (Broz and Hawes 2006: 84).

Yet, state-centric accounts that emphasise the primordial role of one state, i.e. the US, are not the only ones within this research strand. Instead, scholars have also analysed the role of collective principals in the study of financial crisis-management by IOs. Part of the IMF literature has used large-n studies of IMF lending to show the influence of MSs inside the Fund (Copelovitch 2010a: 68). According to these studies it is not just the US's interests that solely drive the IMF's lending decisions. Instead the Fund's 5 largest shareholders (the G-5), i.e. the United States, Japan, Germany, the United Kingdom and France, play a more significant role. This is so because these countries are home to some of the largest private creditors in world markets and subsequently to some of the biggest sovereign lenders. A country's potential failure might have grave implications for its main lenders and, subsequently, for the economy of their home countries. Hence whenever a state asks for IMF assistance, the financial exposure of these institutions heavily influences the preferences of the above MSs. Given that these countries have *de-facto* control of the IMF's executive board, if their financial exposure is high, they are more likely to issue a bigger loan and sway the Fund's staff to attach more lenient conditionality. In the opposite case, when their exposure is low, the IMF loan is likely to be smaller with harsher conditions. The same phenomenon occurs when the G-5 have uneven exposure to a potential borrower. Under such circumstances, they tend to hold diverging preferences with reference to the IMF's lending decisions (Copelovitch

2010a: 53).

Despite being a state-centric approach, the above big-n studies do not ignore the role of IMF staff. Instead they suggest a common agency theory of IMF lending in which the G-5 and the Fund's permanent bureaucracy have complementary roles (Copelovitch 2010a: 43, Copelovitch 2010b: 50). Nevertheless, the model remains state-centric. In line with P-A theory, it suggests that the staff's preferences matter under two conditions: when the principals' interests are of low intensity and when there is preference heterogeneity among the principals. Under these conditions there is more room for agency slack and the Fund's lending decisions reflect the bureaucracy's preferences (Copelovitch 2010a:56, Copelovitch 2010b: 51).

A similar inquiry on the how the IMF staff approached the issue of capital account liberalisation, also brings forward the same narrative with respect to when the IMF bureaucracy can diverge from its principals' preferences. The organisation's bureaucracy resisted the US push for capital freedom in the 1970s. While the Fund's staff was in favour of capital controls, in line with the Japanese and European representatives in the Fund, the US managed to change the Fund's official rules on the issue and made capital controls rare. Nevertheless, this had little effect on the Fund's operations. The Fund's permanent staff retained its previous, informal, approach and continued using capital controls in programme countries. It managed to do so by employing preference heterogeneity inside the collective principal; it was able to interpret the new rules in a way that was in accordance with its capital control approach without provoking too much scrutiny from the principal. The principal was too divided to produce a detailed mandate and to properly review the agent's actions

(Chwieroth 2010: 146). Subsequently, in accordance with the above insights, preference heterogeneity favoured agency slack.

The same phenomenon, i.e. preference heterogeneity, allowed the, Fund's staff to later change its approach in favour of capital liberalisation. While this view was in line with the views of major Fund members, like the US and other west European countries, there was still significant disagreement within the IMF's executive board. Subsequently, the Fund's principals did not issue concrete instructions on the issue. In turn, the Fund's staff being influenced by the developments in the economics profession, managed to promote capital mobility policies that were concomitant to its autonomous preferences (Chwieroth 2010: 156-59). All in all, the above account is in line with arguments that international bureaucrats can diverge from state preferences by exploiting preference heterogeneity within the collective principal (Chwieroth 2010: 138-139).

Preference heterogeneity is also seen as the necessary condition that enabled the IMF to expand its competency despite opposition of certain MSs. Initially, the IMF used its expertise and epistemic credentials in order to expand its operations into areas that the MSs were not willing to concede any authority (Barnett and Finnemore 2004: 45). As more and more IMF programmes were failing and more financial crises were spiralling out of control, the Fund's permanent staff argued that the causes of programme failure had to do with their limited scope. The Fund's staff, subsequently, reworked its mandate in a way that linked domestic economic stability with external imbalances. It identified a domestic policy area, i.e. domestic credit creation, as key for addressing such problems. In turn, if it was to serve its mandate adequately the IMF's bureaucracy had to actively intervene in domestic economic-

policymaking. It, thus, ended up regulating considerable parts of domestic economic policymakingmaking (Barnett and Finnemore 2004: 45-46).

The above change of scope was not initiated by MSs and was not welcomed by deficit countries, since it allowed IMF bureaucrats to exert disproportional influence on domestic politics (Barnett and Finnemore 2004: 46-47). Yet, it was in line with the preferences of the Fund's most powerful members. The Fund's biggest surplus countries, being the home of powerful global capitalists, preferred to see countries under crisis implementing domestic adjustment rather than passing the cost to them. In that sense the Fund's evolving understanding of how to remedy balance of payments problems was in accordance with the preferences of the Fund's dominant members (Barnett and Finnemore 2004: 68). It was, thus, adopted as the official policy line despite the objections of deficit countries. All in all, the above inquiry shows that the Fund's staff having similar preferences with the most powerful MSs along with the necessary epistemic arguments to back its policies, managed to exploit preference heterogeneity in the Board and to expand its mandate and operations.

Lisa Martin's study on IMF conditionality also reaches similar results with regard to agency slack and preference heterogeneity inside the IMF. She suggests that if states hold diverging preferences in regard to the size of conditionality, the IMF's staff obtains much room for manoeuvring and is able to play states against each other. Subsequently, its crisis management proposals end up being closer to its ideal point (Martin 2006: 144). On the other hand, whenever state preferences converge, during crises, the staff finds itself more constrained (Martin 2006: 163). Martin's study finds empirical support for this hypothesis by suggesting that

extensive conflicts between developed and developing states in the 1960s and the 1970s allowed the Fund's staff to decide autonomously the organisation's conditionality policy. Reacting to this increased autonomy, at the end of the 1970s, the MSs attempted to stop this practice (Martin 2006: 158-159).

As our discussion in chapters 4 and 5 will show, preference heterogeneity inside the Eurogroup and the European Council existed. Yet It was quite limited as the Merkel government managed to obtain the support of the French government regarding its debt-management policies and to bypass any other objectors. Consequently, the German government ensured that the Council consistently produced concrete and clear mandates on the topic of debt-management. Moreover, it made sure that the Council was updated regularly on the topic and that it would even discuss the technical details of the debt-related debate. Consequently, it was very difficult for the Commission to manipulate its mandate and play its principals against each other. Even more importantly, it was quite difficult to hide its slacking behaviour. In other words, the limited and occasional preference heterogeneity in the Council was not enough to conceal the Commission's divergent actions and drive the collective principal to overlook such behaviour. The thesis' analysis goes beyond such explanations and asks what might drive an international bureaucracy to openly diverge with its collective principal.

In addition to how preference heterogeneity affects the extent agency slack, state-centric literature has also examined how other variables like the type of the crisis or the international organisation's voting rules can affect the bureaucracy's autonomous behaviour. Lisa Martin argues that whenever MSs strongly dislike the status quo they are more likely to accept any proposal by their agent. This is so

because their predominant incentive is to change the underlying situation and avoid the perpetuation of the crisis. Subsequently, the staff can bring forward suggestions that are closer to its ideal point independently of state preferences. Projecting these insights to times of economic crisis, the analysis suggests that the MSs, and by extension their executive directors in the Fund, would want to change the status-quo. Even if the staff's suggestions diverge from the collective principal's ideal point, states would be willing to approve them (Martin 2006: 143). Moreover, during an emerging crisis the MSs might need to take a decision quickly in order to control the transpiring events. Subsequently, they rely more on the staff's expertise and information and are unable, due to time constraints, to fully assess the programme's quality and its accordance with their preferences. Hence, agency slack may be expected to be more prominent during crises (Martin 2006: 146).

The contrary happens whenever the Fund's staff suggests policies on chronic problems and in response to small country-specific crises. In such occasions, MSs seem to be more content with the status quo and, hence, the staff's proposal might not pass that easily if they are not in accordance with state preferences (Martin 2006: 144). The above analysis identifies such dynamics in the staff's practices during the 1970s (Martin 2006: 158-159), though it does not provide an in-depth examination of such incidents

Moving to the influence of the organisation's voting rules on the room for agency slack, the relevant literature finds that when voting rules empower a small number of states, i.e. voting rules which enable a smaller number of MS to agree on a particular/given action, principals are likely to agree on delegation terms and, hence, limit the room for agency slack. States can therefore agree more easily on

theactual delegation contract and its interpretation.

Moreover, under the same scope conditions, it is easier to approve or reject the agent's actions and potentially impose sanctions for slacking behaviour (Cortell and Peterson 2006: 261). Conversely, whenever voting rules empower numerous MSs in decision-making process, it is more difficult for principals to reach a common ground. Consequently, the agent has more room to engage in slacking behaviour (Cortell and Peterson 2006:257). Agents tend to react to the above conditions and adjust their actions in accordance with how likely principals are to sanction them (Cortell and Peterson 2006: 262). In effect, the structure and functioning of the organisation's control mechanisms determines the credibility of its sanctioning threats and in turn the agent's conformity to state preferences (Cortell and Peterson 2006:262).

Another argument that has been used to explain the varying extent of agency slack in IOs has given emphasis to information asymmetry, environmental ambiguity and agency costs (Laffont and Martimort 2010: 2-5). During times of volatility and uncertainty, agents can reconfigure their actions and authority by arguing that, due to the changing circumstances, their proposals had to change in order to better serve the principal's interests (Hawkins and Jacoby 2006). In this sense, information asymmetry allows bureaucracies to bring up policies that are not, necessarily, reflective of the principal's views. Moreover, international bureaucrats tend to re-interpret their mandate, after they have established their position within organisation, in ways that are closer to their preferences (Hawkins and Jacoby 2006: 206-207). At the same time, they use third parties, like special interest groups or officials of other organisations, to advance their preferences in the face of opposition

by the principals. Finally, they use dualism and ceremonialism to resist (buffer) the principal's monitoring and control. Dualism refers to the strategy of loosely linking the organisation's actual operations with its mandated tasks, i.e. the actions that the principals want to see realised. Ceremonialism refers to the strategy of reporting superficially and in a formalistic way the bureaucracy's actions in order to satisfy the principal's monitoring standards (Hawkins and Jacoby 2006: 209-210). All these tactics aim to exploit the principal's inability to properly review the agent's actions so that the latter can serve its own agenda.

Both the IMF staff and the European Commission can be found to use such strategies. In particular, the IMF's permanent staff is less willing to diverge from its principal's preferences when it is less costly for the principal to monitor its actions. Consequently, we see agency slack during financial crises only when the principal's monitoring mechanisms are more costly to deploy due to the fact that the agent's activities are less observable, less measurable and more dependent to its own expertise (Gould 2006:282, 290-291). This pattern explains why the IMF's staff diverges a lot from its principals with regard to the number and type of conditions that includes in its loans, while it does not in respect to length and the phasing of its programmes (Gould 2006: 304-306).

The European Commission following a similar logic resorted to mandate manipulation and constructive ambiguity during the construction of the Single Market (Jabko 2012). During this process, the Commission employed the ideas of regulation and liberalization in a very instrumental way in order to appease MSs and, consequently create the necessary coalitions in the Council. The Commission "sold" the project of a single European market, according to its audience's expectations,

either as an effective way of economic adjustment, and hence a massive exposure to market pressures, or as an effective framework for market regulation. It chose to bring together, and opportunistically exploit, these two contrasting concepts in order to create advocacy coalitions in favour of further integration. The employment of this tactic should be seen as the bureaucracy's effort to expand the Union's supranational authority and, subsequently, its own competences. The fact that the most powerful MSs, i.e. Germany, France and the UK, politicians from the Left and the Right, members of the business community and of the unions, supported the notion of a Single European Market suggests that the Commission's tactic did bear fruits (Jabko 2012: 4-6, 8, Dyson 2014: 606). All in all, this account shows that the European Commission managed to pursue its pro-integration tendencies independently of state preferences, by using a strategy of constructive ambiguity.

While all these state-centric explanations vary in regard to how they understand how crises are handled by states within IOs, they all share an underlying theme; they agree on how they see the P-A dynamic between MSs and international bureaucrats. They argue that states, having intense preferences, dictate most of the IO's crisis-management policies. The preferences of the organisation's permanent bureaucracy only matter when MSs do not have major interests on the line, when they disagree intensively on major issues and when they are unable to fully observe the agent's action. Only then does the agent have enough room for agency slack; its individual preferences and aims are influential in terms of policy output only under such circumstances.

In the conclusion, the thesis delineates certain caveats to the above narrative and to the conditions that lead international bureaucracies to diverge from state

preferences. It offers an analysis of why and how international bureaucracies might slack even when their principals are broadly in agreement vis-à-vis its delegation contract and when their monitoring mechanisms are in full operation. In other words, the thesis adds to the above literature strand by answering what drives international bureaucracies to slack even when it is more likely for their principals to notice and punish such behaviour.

1.4.2 States, bureaucrats and the Eurocrisis

The above state-centric arguments appear to have influenced substantially the existing literature on the Eurocrisis. With the eruption of the Eurocrisis numerous scholars emphasised the role that Eurozone MSs played. EU studies have only marginally analysed the Commission's role and function during the Eurozone crisis. Indeed, in this body of research, Germany is seen as the "indispensable nation" the ideas and the norms of which drove the debate (Matthijs 2016: 376, 382). Most of these accounts posit that Germany with the help of other countries like Austria and Slovakia framed the Eurocrisis debate in a way that was closer to the liberal and ordoliberal ideational framework. Academics think tanks and powerful businesses from Germany interacted with government officials in order to present the crisis as a debate between saints and sinners (Matthijs and McNamara 2015:229-230). Germany transmitted this narrative to the Commission, which, in turn, suggested policies that reflected this narrative, i.e. austerity policies. (Matthijs and McNamara 2015: 239-242).

Blyth's book on the intellectual history of austerity (2013) also advocated such an explanation by suggesting that the dominant ideational framework in

Germany, i.e. ordoliberalism, was eventually incorporated in the Commission's (and the ECB's) practices and policies. For Blyth, this was done not just through the effect of sheer state power but also via the dissemination of such ideas among the Eurozone's policymakers. In particular, the education of many European and national officials, in Bocconi and similar schools of economics led them to embrace neoliberal economic conceptions and drove them to suggest measures of ordoliberal inspiration. Subsequently, state preferences in conjunction with widespread prevalence of liberal economic ideas led the Commission to bring forward suggestions that were closer to the German ordoliberal preferences (Blyth 2013:141-142).

Another account of the Eurocrisis posed a similar state-centric narrative, with Germany and France at the forefront. In this narrative, the crisis-management debate boiled down to an ideological battle between Germany and France. The two countries fought over Europe's predominant economic philosophy and state interests were the main determinants of the EU's response (Brunnermeier et al. 2016: 2-3). The authors located two different economic philosophies within the Eurozone. The "northern" one, embraced by Germany, emphasised adherence to the rules. The "southern" one, embraced by France, is characterized by flexibility and adaptability and promotes the concept of solidarity. The divergence between France and Germany, during the crisis, is mainly attributed to these different economic philosophies. The northern rationale saw the crisis as a phenomenon of insolvency and hence wanted to avoid any bailout due to moral hazard concerns. On the other hand, the southern vision dismissed moral hazard risks and saw the crisis as a problem of liquidity. Consequently, it could be solved by supplying additional funding

to the economies that were under stress (Brunnermeier et al. 2016:4). In effect, Europe's response reflected a compromise between these two, fundamentally, different national philosophies.

Randall Henning's recent book (2017) on the creation and the operations of the Troika, also narrates a pre-dominantly state-centric story. He suggests that the MSs created the Troika in order to have a more efficient monitoring mechanism in place. By having three agents conducting the same task, states could extract more accurate information regarding programme implementation. Hence, Henning's argument, in brief, is that the Troika was tangled by design. The emergence of conflicts was intrinsic to the design scheme, so that the German government and the other creditors would receive more accurate information regarding the progress of the Greek economy (Henning 2017: 241). Once more, states are presented as the most important actors. The Eurogroup thus, following the guidance of the German government, designed and managed the crisis-management mechanism. It intervened, whenever necessary, in order to resolve deadlocks inside the Troika and perpetuate the cooperative scheme (Henning 2017: 244). Henning's account effectively, treats IO bureaucrats as mere pawns that were played against each other by national politicians.

By summing up the above accounts, the following explanation emerges: the European Commission's policy suggestions during the Eurozone crisis reflected the preferences and interests of the most influential MSs, i.e. Germany. In effect, most scholars have followed the notion that the most powerful state can effectively impose its preferences to the other states and create an effective monitoring

scheme, i.e. the Troika, that would push its agent to follow the given mandate with minimal slack.

Yet this approach focuses, almost solely, on states and overlooks the agency of IO bureaucrats. It does not discuss how the bureaucracy dealt, internally, with the crisis and how it balanced out the different inputs that it received. While it has been occasionally recognised that the Commission and the Council were not always in agreement the analysis has stopped short of explaining this divergence. It has overlooked the emergence of disagreements between the two bodies. For example, the literature has recognised that the Commission held certain distinct policies, like the idea for the introduction of a Eurobond, that the MSs did not share (Matthijs and McNamara 2015:238). Yet, it has not analysed the creation and the source of these preferences, nor how they were modified during the policymakingmaking process. Instead, the Commission is perceived and treated as a perfect transmitter of MS preferences. All in all, this approach seems to not really engage with the wealth of research that discusses how bureaucracies in international financial institutions might influence the organisation's policy output despite and beyond state preferences.

1.4.3 Bureaucratic autonomy beyond state preferences

The idea that international bureaucracies can have independent preferences and pursue them despite states interests has produced a wealth of IO studies. Indeed, this thesis adds to this strand of research by showing that international bureaucrats can have preferences of their own during crises and can, subsequently, act independently of state preferences during such periods.

Barnett and Finnemore's work on the role of international bureaucracies in global politics is a benchmark of the above tradition. While the authors agree with statists that there are very few incidences where international bureaucracies have coerced states to act against their profound interests, they also suggest that there are numerous agent activities that are diverging from state preferences but are not opposed by "powerful" states. The analysis proposes that bureaucratic autonomy should be seen as the international public administration's authority to act in ways that have not been mandated by the principal. They, consequently, seek to explain the agent's behaviour in such instances. They suggest that an agent's autonomy can vary with regard to degree and type and define five different types of potential agency autonomy: 1) International bureaucrats can act independently but in accordance with state interests, 2) they can act in areas of low saliency for states, 3) they can oppose or 4) change state interests, or 5) might even fail to serve them adequately (Barnett and Finnemore 2004: 27-28).

The analysis argues that the way IO bureaucracies are constructed, culturally and socially, explains the type of agency autonomy that they choose to practice. IO bureaucrats base their actions and interpretation of rules on their sources of authority, i.e. their rational-legal character, their official mandate, their expertise and moral claims of legitimacy (Barnett and Finnemore 2004: 10-11, 16). These sources of authority allow them to enforce the existing rules, independently of state preferences, by granting them the ability to act like they are in authority or are the authority themselves (Barnett and Finnemore 2004: 25-27). In turn they use their role and competences to regulate and constitute global politics. They classify the world by defining problems, actors and actions, fixing meaning in the social world

and by constructing and disseminating new norms and rules (Barnett and Finnemore 2004: 31).

In this analysis what drives this process of “sense-making” is the concept of bureaucratic culture, i.e. “the solutions that are produced by groups of people to meet specific problems they face in common. These solutions become institutionalized, remembered and passed on as the rules, rituals and values of the group.” (Barnett and Finnemore 2004:19, 27).

In the context of international financial institutions, the concept of institutional culture has been used to analyse how the IMF staff influences the conditionality that is attached to the Fund’s programmes. The analysis suggests that the state-centric narrative cannot explain the varying stringency of IMF conditionality between programme countries (Chwieroth 2015: 774). Instead, this variation is explained by the proximity between the staff’s normative orientations and the orientations of the borrowing government. When IMF staff designs loan conditionality it evaluates the credibility of the borrowing government. It attempts to assess whether the authorities of the borrowing state have genuine intentions to reform and implement the agreed programme.

This assessment is important because all governments face a trade-off between long-term economic goals and short-term political incentives; the latter eventually lead them to renegade from their programme commitments. The Fund tends to design more stringent conditionality packages for governments that do not appear to share its normative orientations, i.e. its institutional values and conceptions, with regard to adjustment and stabilisation policies. Most staff officials, being educated in Anglo-American economic departments, have a particular

understanding about these policies. Subsequently, governments with officials that do not have such background and ideological affinities tend to be subjected to more binding conditions in IMF programmes. More stringent conditions act as insurance against the government's possible non-compliant behaviour (Chwieroth 2015: 762-763, 771). Having said that, the analysis also shows that a government's close affinity to the Fund's normative orientation does not imply more lenient conditionality (Chwieroth 2015: 772).

A similar approach, that places emphasis on institutional culture, has been used to examine the IMF's suggestions and policies during the global financial crisis. During that period the IMF staff sought to change the conventional wisdom on economic policymakingmaking in developed countries, i.e. in countries that did not use the IMF's lending facilities. The IMF staff intervened in the macro-economic debate that took place during the recent financial turmoil and worked to reshape its principal's understanding of sound fiscal policies. It sought to re-construct the cognitive reality in which the MSs were called to operate. In parallel, it aimed to enhance its autonomous authority by developing and disseminating new norms. By executing its legal mandate for surveillance in view of economic stability, it tried to steer developed countries into a "Neo-Keynesian" understanding of the crisis with an emphasis on coordinated fiscal stimulus.

These autonomous actions are mainly attributed to the Fund's pragmatic and non-doctrinaire culture. Thanks to its experiences with previous crises it has developed an open-minded culture; it is willing to draw lessons from past mistakes and continues to remain abreast of ongoing policy debates. In this sense, the Fund can no longer be considered, the fervent advocate of the Washington consensus. It

has developed an eclectic approach that layers old ideas on top of new ones and combines different ideological elements. In this process, the analysis recognises the role and importance of bureaucratic “bricoleurs” in high-ranking positions within the Fund. The Fund’s top executives, i.e. Dominique Strauss-Kahn and its chief economist Olivier Blanchard, managed to use this culture of flexibility to steer the Fund towards more Neo-Keynesian proposals (Clift 2018: 7-10).

These Fund suggestions proved to be more successful and influential at the beginning of the global financial crisis. Yet after the initial shock these IMF suggestions lost clout. States turned towards a narrative of retrenchment and austerity, with some of the Fund’s most important members, i.e. the UK and Germany, becoming proponents of fiscal consolidation (Clift 2018: 15-17). Subsequently, the Fund’s call for the perpetuation of fiscal stimuli and the use of central bank interventions to stabilise the global economy (Clift 2018:114), fell on deaf ears. The Fund’s staff ended up being in open conflict with the German, the Dutch, the Finish, the Austrian and the UK governments and with the ECB in regard to what really constitutes a “sound” fiscal policy. On the other hand, the US and France backed these proposals (Clift 2018: 123, 132). While the Fund’s efforts had limited success, this inquiry showcases that the Fund’s autonomy of will and action as well as its active attempt to reshape state preferences during the recent financial crisis (Clift 2018:6). It did not shy away from opposition with some of its most influential MSs. Yet it did so only on a topic that had limited practical implications for the Fund’s lending decisions and the MS immediate interests. This study will go further by discussing when an international bureaucracy decides to openly oppose its principals on a salient policy topic.

All in all, this thesis draws heavily from studies that give emphasis to the concept of institutional culture; Chapter 2 discusses further this concept and presents a relevant explanatory hypothesis. The study argues that the Commission decided to go against state preferences and follow its own independent agenda in the field of debt-management because of its institutional memories and internal policy conceptions. In this sense, it offers a meaningful addition to this research strand.

Yet, the concept of institutional culture is not the only one that has been used to explain the autonomous actions of international bureaucrats. Other research projects have shown how internal bureaucratic politics can drive the bureaucracy's autonomous preferences. Jeffrey Chiweroth's work on the IMF and capital account liberalisation provides a good example of this tradition. Chwieroth shows that the Fund's staff decided to use its autonomy in the field of capital markets, in order to achieve capital freedom. The IMF staff exercised strategic agency in order to steer the organisation towards this goal. It managed to reconstruct the cognitive environment and change the beliefs of most other actors in a way that was concomitant with their own organisational beliefs and practices (Chwieroth 2010:11-14). Yet, before doing so, an intense internal debate occurred within the Fund between the proponents of a more gradual and of a faster and more radical (big-bang) approach. This debate was, in effect, a reflection of the respective debate that occurred between academic economists. More importantly, it ended up deciding the directionality of the Fund's policy suggestions (Chwieroth 2010: 185).

A similar narrative about bureaucratic politics and agency autonomy has been proposed to explain why international organisations vary in their level of insulation

from states. By using the case of the Intergovernmental Panel on Climate Change, a young organisation that was mainly inspired and sponsored by the US, Tana Johnson's analysis suggests that international bureaucrats can insulate themselves from state preferences by taking active part in the design of the new institution and by dampening the control mechanisms that states put in place (Johnson 2014: 5-6). These institutions are made up of recruited bureaucrats from already existing organisations. The latter ones have an incentive to join such efforts since their new mandates usually entail incomplete contracting. This grants them leeway to pursue their individual objectives in this process and, hence, influence institutional outcomes. Subsequently, they seek to insulate the new IO from state interference.

International bureaucrats manage to achieve this under two conditions. First, they succeed in insulating the new organisation when they were themselves previously insulated from state-preferences in their previous bureaucratic capacity. Second, they succeed when they can mobilise a wide network of allies, including bureaucrats from other IOs and international civil society groups. Such a coalition usually manages to exert enough pressure on states and give IO bureaucrats enough leeway for independent design-related action. In addition, states are willing to tolerate agency slack during such incidents because IO bureaucrats possess valuable expertise. Hence, they are necessary for the functioning of the new organisation (Johnson and Urpelainen 2014). All in all, bureaucrats can present states with an institutional design that allows them to promote their objectives with minimum state interference and independently of the principal's preferences (Johnson 2014:11-12).

Nevertheless, the previous analysis recognises that these insights might not apply when the organisation under construction covers a politically salient issue that

entails intense state preferences. Moreover, whenever the involved states operate as a homogenous principal and with little information asymmetry, they usually manage to avoid such autonomous agent activity. Yet as a majority of new institutions do not fall under these two conditions, the significant influence that IO bureaucrats have over the structure of global governance should not be overlooked (Johnson 2014: 13-15).

Despite the diversity of these research insights, one can find a common theme. They all share the view that, under certain conditions, international bureaucrats can act above and beyond state preferences even when the agent's actions are easily observable by the principal. Following the theme and the rationale of such contributions, this project assumes that IO bureaucracies remain important during crises and that their role deserves additional analysis. It discusses why and under what conditions international bureaucracies openly diverge and oppose *intense* state preferences. In this sense, the thesis builds on the above research agenda by adding an important part of the puzzle on when international bureaucrats might act autonomously despite their principal's intense and explicit preferences.

1.4.4 The drivers of autonomous bureaucratic action in the EU context

The previous literature strand does not really explain what drives international bureaucrats to slack and follow their own policy preferences. It explicates concepts and mechanisms that lead to such outcomes, but it does not discuss the sources of these independent preferences. It is within the thesis' aims to not just analyse the Commission's divergent behavior but to also look at the sources of its autonomous bureaucratic actions. Consequently, this enquiry is not limited to the (simple) identification of when and how the Commission acted against state

preferences as a member of the Troika; it equally examines the causes that led it to act in such a counterintuitive way. As a first step, the following section discusses some of the most central research insights in the existing literature with regard to the Commission's potential sources of autonomous action.

1.4.4.1 Personal characteristics and preference formation in IOs

The first relevant research strand attaches much significance to the personal characteristics of Commission officials. It assumes that these features can explain how they use their autonomy. According to this body of research, Commission bureaucrats' approach to general policy questions are driven by their personal characteristics and traits. While this literature strand mainly engages with individual bureaucratic preferences in normal times, one of the thesis's hypothesis, as explicated in Chapter 2, argues that these characteristics might also influence the policy preferences, and, subsequently the actions, of Commission officials during crisis periods.

A big part of this research agenda sought to analyse the pro-integration attitude of most Commission officials, meaning their desire to see additional authority transferred from the national to the supranational level (Hooghe 2005, 2012, Ellinas and Suleiman 2011, Dehousse and Thompson 2012:7, Kassim 2013a: 122). The relevant research has found that officials' desire for further sovereignty transfers is not uniform across policy fields and between departmental portfolios. For example, officials in market-enhancing DGs tend to favour further supra-nationalisation in the fields of trade and competition, while officials from other DGs do not hold such views (Kassim 2013a: 122, 125). Yet, independently of such variations, the officials' pro-integration tendencies are, mainly, attributed to the

biases and characteristics that they had before entering the Commission (Hooghe 2005, 2012: 87, Kassim 2013a: 108). This is because most officials enter the service at a late age, after they have already shaped their views on the issue. Subsequently, the organisation is unable to shape their basic views and perceptions (Hooghe 2005: 887-888).

Instead, it appears that the official's nationality plays the most important role in this process. National origins and attitudes towards EU integration are associated via various causal paths (Hooghe 2012: 100-101, Kassim 2013a: 124). On the one hand, Commission bureaucrats that come from countries with multi-level systems of governance tend to be in favour of additional EU integration. On the other hand, individuals from state-centric national systems favour a less supranational approach. Moreover, officials from smaller countries tend to favour of further European integration, as such movements entail greater concentrated benefits for their countries. Furthermore, officials from states with low administrative capacity also favour additional EU integration since they see the Union as a cure to their national administrative malaises (Hooghe 2012: 96-98, Kassim 2013a: 109-110, 124).

In addition to nationality, other characteristics influence the preferences of Commission officials with regard to EU integration. The religious background of Commission officials also plays a role in shaping their integration preferences. Officials from Protestant countries seem to be more sceptical of further integration. On the other hand, Catholics are more favourable to such a scenario. This divide can be attributed to the fact that the Protestant church has been linked with the creation of nation-states in Central and Northern Europe. On the other side the Catholic church retained its supranational and multi-ethnic character. Additionally, their

political views appear to be relevant. In particular, left-wing officials tend to be more in favour of further power transfers, while economic conservatives are less supportive of such shifts (Kassim 2013a: 124).

Finally, there is also a certain element of self-selection that explains the above-mentioned tendencies. Individuals who choose to work in the Commission tend to hold more positive views regarding the project of European integration (Hooghe 2005: 887- 888, Hooghe 2012: 96, Kassim 2013a: 111).

Another part of this research agenda has sought to explain how the personal characteristics of Commission bureaucrats affect their perceptions with regard to capitalism. These perceptions are important for our study because they offer hints as to what might drive the bureaucracy's autonomous preferences in the field of economics. More importantly, these characteristics might lead the Commission to propose crisis-management measures that would protect the economic model that is favoured by the bureaucracy.

Yet, the insights from this literature are ambivalent. On one hand, Liesbet Hooghe's work suggests that Commission officials, prior to the crisis, favoured more regulation (Hooghe 2000: 432, Hooghe 2001: 80). On the other hand, Hussein Kassim's work argues that Commission officials are centrists but lean towards the right (Kassim 2013a: 114).

Starting with Hooghe's work, Commission officials appear to be in favour of a more regulated type of capitalism. On the nexus between unregulated capitalism (minimal state intervention) and EU-regulated capitalism (meaning markets should allocate investment but the state should intervene to provide collective goods) (Hooghe 1998: 458-459), they were in favour of the latter type. This means that they

rejected the Anglo-Saxon liberal model of market economy and opted for a more "European" variation that provided for some type of state intervention in the free market (Hooghe 2000:431-432, Hooghe 2001: 119-122). This "European" variation of the free market system entails extensive social services, organised industrial relationships, augmented economic activity for the general welfare, redistributive supranational regional policies and a general desire to preserve the unique European social model (Hooghe 2001:74, 81). In turn, most Commission officials were in favour of shifting certain social- cohesion policies to the community level. In addition, they were sympathetic to a reform of the EU's competitiveness-enhancement policies towards a direction that would produce higher welfare gains, lower inequality and less acute distributional costs for medium and low-income citizens (Ross 2011: 43-44).

The main driver of these pro-regulatory views was party identification (Hooghe 2000:436). The group that was in favour of regulated capitalism consisted of older Christian Democrats and Social democrats. On the other hand, younger Christian democrats were less enthusiastic of such a regime. The ideological transformation of Christian-Democratic parties explains this pattern among the centre-right members of the Commission's services. Christian Democrats, right after the war, expressed a positive attitude towards market regulation. This tendency waned as time proceeded and the importance of religion in politics decreased. On the other hand, the positive attitude of younger and older Social democrats towards this model is easily explained by their ideological predispositions in favour of more regulation (Hooghe 2001 133-135).

The second most important driver of the Commission's pro-regulatory tendencies were its officials' prior professional experience. Officials with long prior experience inside national administrations were more sceptical with the notion of pan-European regulated capitalism. Having an unfavourable view on further EU integration led them to also see unfavourably the notion that the EU should obtain more regulatory authority (Hooghe 2001: 135). The type of economic system that officials originated from, also played an important role. Commission officials from liberal systems tended to be less in favour of a regulated European economic system. On the contrary, bureaucrats from coordinated market economies tended to be, strongly, in favour of a system of regulated capitalism (Hooghe 2001: 136).

While party identification is of major importance in explaining the above integration-related tendencies, motivations between partisan and non-partisan officials also differ (Hooghe 2000). While for partisan officials, ideology is a strong driver, for non-partisan officials, socialisation effects and career incentives are more influential and explain better their pro-regulatory views (Hooghe 2000: 446). At the same time, non-partisan officials that work in directorates with regulatory autonomy tend to be more positive towards a regulated economic system (Hooghe 2000: 442).

Kassim in his study reached slightly different conclusions from Hooghe. In particular, he suggested that Commission bureaucrats position themselves at the political centre but have right-wing leanings. He argued that the officials' portfolio/ DG location appeared to be a good predictor of their economic views. Hence, officials from market enhancing DGs, like DG Trade and Competition, tended to be more on the right, while officials from market-correcting DGs, like Regional and Social policy, tended to be more on the left. Extending this divide further, spending DGs ended up

bringing together left-wing officials, while regulatory DGs attracted mainly economic liberals. On the other hand, the officials' nationality seemed to play a less important role. The author identified a left-leaning southern European cluster and an economically liberal Central and Eastern European cluster. Yet, the influence of national linkages stopped there. British, French, German and Scandinavian officials did not seem to uniformly promote their respective national economic models.

Despite these insights the study does not really examine what drives Commission officials to position themselves closer to the centre-right. The author suggests that the officials' economic views are usually formed before they enter the service and, thus, go beyond the scope of his study (Kassim 2013a: 116).

All in all, the above-described studies attribute the political attitudes of Commission officials to individual characteristics. National context, political ideology, professional experience before entering the Commission and their role and life in the service, are the pivotal variables which explain the Commission officials' autonomous preferences; in effect these are the characteristics that might lead them to act independently of state preferences.

Nonetheless, while these drivers might be relevant during crises, it is difficult to predict which of the above characteristics might drive the bureaucracy's understanding of the crisis and its crisis-management suggestions. More importantly, it is not clear which of the above features might have led the Commission to diverge and oppose state preferences. Moreover, given the co-existence of many different groups within the Commission, it is likely that an internal fight took place within the organisation with regard to the Commission's crisis-management approach. In order

to address these questions, the next chapter derives a hypothesis that tests if any of the above features drove the Commission's action during the recent debt crisis.

1.4.4.2 Socialisation and preference formation in IOs

Opposite to the literature that emphasises the importance of individual characteristics, certain scholars have suggested that the bureaucracy's preferences are produced via some kind of intense socialisation which leads to the creation and prevalence of a strong common institutional culture. In this sense, the Commission's autonomous actions are not driven by a diverse set of personal characteristics. Instead, a strong internal culture drives the bureaucracy as a whole. The analysis will contend that the Commission's debt-management suggestions, during the recent crisis, were driven by a common institutional culture that emphasised the need to preserve EU integration via market-appeasement.

A recent study of the Commission partially backs the notion that the Commission possesses a strong institutional culture. It finds that most Commission employees agree that they should put loyalty to the Commission over loyalty to their respective DG (Kassim 2013a: 107). In addition, survey studies of European Commission officials make this argument even more compellingly. It argues that pro-integration views inside the Commission cut across national and organisational/professional boundaries (Trondal 2010: 88-89, Ellinas and Suleiman 2011). It suggests that there is no significant variation between officials from older and newer MSs. Moreover, there is no significant variation between officials that are more attached to their countries of origin compared to the ones that are more distanced from them. Furthermore, there is no significant difference between bureaucrats that come from net contributors and net recipients of the EU budget

(Ellinas and Suleiman 2011: 933-935). Finally, an individual's length of service in the Commission has no significant influence vis-à-vis her views on EU integration (Ellinas and Suleiman 2011: 935). All in all, according to this study, national predispositions and professional drivers cannot explain the Commission's pro-integration attitude.

Subsequently, the Commission's staff has developed a common pro-integration culture. Commission officials unite around the fact that further European integration is deemed necessary. This common institutional culture has two sources: 1) a selection bias, i.e. individuals that already believe in the need for further EU integration choose to work for the Commission and 2) the bureaucracy's reaction to the augmented external challenges that threaten the EU project and the Commission in particular (Ellinas and Suleiman 2011:941).

A more recent study on Commission officials also finds some evidence that is concomitant with the latter variable. External fluidity and challenges push the Commission's bureaucrats to embrace some type of common institutional culture. Part of the Commission's personnel sees itself as a "citadel under siege". These officials perceive the institutional developments that took place in the last two decades, as direct challenges to the Commission's authority. They see the enhanced authority of the Parliament and the Council, along with the recent waves of EU enlargement, as contestations to the Commission's role and competencies. Subsequently, they unite behind the belief that the Commission's authority should be consolidated and protected (Kassim 2013: 150).

The linkage between the fluid external environment and the Commission's pro-integration attitude also seems to explain how Commission officials' approached issues of economic policy and economic integration prior to the crisis. Most

Commission officials saw the creation of the EMU as one of the Union's most monumental achievements (Ross 2011: 115). Consequently, they were united regarding the need to safeguard this project and to shift more authority to the supranational level (Ross 2008: 406). Seeing the augmenting divergence between MSs and their hesitance to cooperate on issues of economic policy, Commission officials argued that it would be more effective if the Commission obtained more authority in this field of economic governance (Ross 2008: 400).

The above insights have important implications for the current thesis. They suggest that in times of crisis and turmoil Commission bureaucrats might react uniformly in a way that is concomitant with the safeguarding of their institutional authority and with the Commission's pro-integration culture. Yet these studies do not offer any concrete expectation as to how these tendencies might affect the bureaucracy's crisis-management choices. In other words, it is not clear from the outset how the Commission would choose to protect the EU project during such periods, i.e. according to which rationale, tools and policy instruments. In an effort to answer these questions, the following chapter sets up a distinct explanatory hypothesis around the notion of institutional culture.

1.5 Sources

The thesis draws from a wide range of qualitative data in order to reach its conclusions. While scholars, usually, face problems finding data on recent events, this was not the case here. The events under investigation occurred almost a decade ago; hence, numerous sources are available. Moreover, the PSI has been, generally, perceived as a successful exercise; with the majority of policymakers willing to talk

about it and several organisations publishing studies on its successful completion. Making full use of these possibilities, the thesis employs numerous and diverse sources: official documents (grey literature), accounts by officials that took part in the events, secondary research and, finally, 13 elite in-depth interviews with Greek and European officials that had direct involvement with the handling of the Greek debt. By deriving data and insights from all these sources, the thesis triangulates its empirical material in order to limit biases and reach more credible conclusions.

The institutions that have been involved with the crisis-management effort, have produced numerous relevant publications. This includes official documents published by the IMF, the European Commission and the European Parliament. Texts like the IMF's Ex Post Evaluation of the Greek programme and the European Parliament's 2014 inquiry on the role and the operations of the Troika, are good examples of sources that were used in order to assess the Commission's behaviour and motivations of autonomous action. In addition, the Commission, itself, has published its preferred debt management policies in various official publications. The institution's periodic evaluations of the first Greek programme, along with the minutes from the College of Commissioners, offer useful glimpses on how the organisation operated during that period and what incentivised its action. Of course, these documents convey only a limited and very stylized picture of the real events. While, I use them to derive data, it is clear that they present a narrative that fits the goals and the aims of their authors.

In addition to official documents, policymakers have also produced a fair amount of personal accounts. Such accounts include books written by former ministers of finance (e.g. Papacostantinou 2016), along with interviews and

statement by politicians and policymakers that were directly involved with the examined events. Of course, these sources come with a certain degree of bias. Accounts from former politicians tend to provide a more favourable picture for their authors and a version of the events that erases responsibility from their shoulders. Moreover, when active policymakers express their views publicly, they tend to do so in order to convey a certain message to their voters. Thus, it is possible that their message may be seen as a form of signalling to certain audiences, therefore possibly concealing the actor's real preferences. Nevertheless, by examining all these sources one might be able to locate the different inputs that the Commission received. Furthermore, one can derive valuable insights about the Commission's real and revealed preferences by juxtaposing its views in front of different audiences.

In addition to these accounts, an ever-increasing number of secondary sources has been produced. While this literature is still small (and indeed this thesis aims to make a meaningful contribution to it) some very interesting insights have been offered already. First of all, we can find numerous secondary journalistic accounts of the events (e.g. Blustein 2016). While these accounts are mainly of descriptive/historical value they offer comprehensive descriptions of how the events under discussion unfolded. They also have the merit of gathering a wide array of sources including interviews with policymakers that were actively involved in the process. Additionally, certain think tanks have produced a small number of relevant research papers assessing the functioning of the Troika (Pisani-Ferry et al. 2013).

Finally, few academics have written on the Eurozone crisis and the Troika. The most seminal work of that kind is the book published, in 2017, by Randall Henning. Leaving aside its academic insights, Henning's work provides an impressive array of

documents, interviews and comprehensive tables from which insights and data are drawn. Yet, it is worth pointing out that the authors of all these accounts did not have full access to the necessary information. Furthermore, their data is presented in a way that is consistent with their project's overarching aim creating its own limitations.

The thesis also relies on a certain number of interviews with selected Commission and national officials. These interviews helped me shed light on incidents that are not well documented. They also assisted me to triangulate the data that I derived from the above written sources. The interviews were, broadly, based on a standard questionnaire but followed a semi-structured style. My list of questions changed depending on the profile of the interviewee, her openness, time constraints and the general flow of the interview. Of course, like all other sources, interviews are subject to certain limitations and biases. The sensitivity of the events or their desire to provide a more virtuous picture of themselves, might lead interviewees to present a skewed picture. Having said all the above, interviews remain a valuable source of information. They help us test pre-existing insights and to, occasionally, obtain new ones.

1.6 Theoretical contribution

The overall aim of this study is to offer insights on why and when the European Commission, and by extension similar international bureaucracies, might act independently and against its principal's explicit preferences during crises. It also aspires to present a mechanism of how international bureaucracies reach such decisions. The thesis answers these questions by emphasizing the central role of

institutional culture. In that sense, it follows the literature strand that has used the concept of institutional culture to explain the independent actions of international public administrations. Its analysis sheds light upon the significance of this variable when it comes to the handling of financial crises. Hence, I demonstrate the substantial effect that non-material incentives might have on a bureaucracy's decisions during crises.

Such an insight comes in stark contrast with the overly rationalist approach of the relevant literature. By outlining the conditions, the causes and the mechanisms that lead an international bureaucracy to demonstrate such unorthodox behaviour, I seek to offer an original contribution to the field of EU studies and international governance.

In addition to its main contribution the thesis also offers numerous smaller insights to several subfields within the EU and IO literature. First of all, it discusses how the European Commission "does" crises. It presents the historical trajectory that led the Commission to develop an internal culture that tied the handling of financial crises with the process of EU integration and the implementation of market-appeasement measures. In particular Chapter 3 showcases how the Commission moved from a tactic that aimed to shape market expectations to a tactic that aimed to appease them. It also suggests that the latter strategy of crisis-management was based on a long-held institutional belief that the process of European integration is intertwined with market-appeasement and financial stability.

In addition, it shows that the argument that the Commission is a fragmented "multiorganization" does not necessarily hold during crises. When dealing with financial crises, Commission bureaucrats cease acting according to their national,

political and departmental allegiances and coalesce around the institution's pro-integration aims. It also shows that the bureaucracy's competence maximisation incentives might not be as influential as the literature has suggested. The Commission's recent approach to the issue of debt-management consists a break from the past. While it previously used financial crises as windows of opportunity to expand its authority and competences, in the recent crisis it opted to break this pattern. It chose to act against the MS preferences and, hence, to risk its institutional standing and benefits.

Apart from its theoretical contribution the thesis also holds insights for national and international policymakers. It suggests to them what to expect and consider when they create crisis-management mechanisms that involve international bureaucrats. It also offers certain insights on how the Commission can improve its financial crisis-management strategies. It, finally, makes an argument as to why citizens should care about agency-slack during financial crises. Given that such schemes will surely re-emerge in the future, the thesis' policy implications should not be overlooked.

1.7 The structure of the thesis

The study consists of six chapters in total. The following chapter, Chapter 2, focuses on presenting four broad alternative analytical frameworks- the state-centric explanation, two hypotheses based on the bureaucratic culture framework, the explanation that is based on the advocacy coalition framework and, finally, the "policy field" explanation- from which are derived five alternative explanatory hypotheses.

Chapter 3 takes a more historical perspective and identifies the patterns that emerged whenever the Commission had to deal with a financial crisis in the past. It inquires how the Commission perceived, overtime, the functioning of financial markets under conditions of extensive volatility. It also traces the institution's suggestions on the management of these fluctuations. It does so in order to discuss why and how the Commission ended up having such a strong institutional culture on crisis-management during the recent crisis. The chapter argues that the Commission's disintegration fears have always been present in every financial crisis and are very much embedded in its institutional role and mandate. Hence, they appeared with much force during the recent crisis. In addition, it suggests that after the mid-1970s, the Commission embraced the view that the process of European integration was intertwined with the appeasement of market expectations. This view was gradually incorporated in the Commission's economic thinking, expanded in the area of economic crisis-management and was faithfully followed during the recent crisis. All in all, Chapter 3 discusses in depth how the Commission developed the internal features that led it to diverge from the MSs during the recent crisis.

Chapter 4 begins the thesis' empirical discussion by presenting the Commission's view on debt relief at the very beginning of the crisis and up until the PSI. The chapter shows that the Commission was, from the very beginning of the crisis, against any type of debt relief. After establishing the Commission's views, the chapter proceeds to present an explanation for this behaviour. It proposes that fears of financial spillovers drove the Commission to reject an early debt relief. It chose, instead, a strategy that was based on market-appeasement. The chapter also finds evidence to suggest that the Commission attempted to obtain additional powers via

its crisis-management suggestions. After establishing this narrative, it uses the observable implications that were presented in Chapter 2 to test and reject the other alternative explanations.

Chapter 5 zooms in on the PSI period. It explains how the Commission positioned itself on the issue of debt management, during the PSI period. It approaches the PSI incident from three different perspectives: the perspective of the MSs, the Commission's perspective and the ECB's point of view. By engaging in process-tracing, it establishes that Merkel's government was the driving force behind this policy change. It, then, examines this policy change from the Commission's standpoint. It argues that the organisation positioned itself against any type of debt-relief due to its spillover fears and despite external pressures to change its views. The analysis also shows that the Commission's stance during the PSI negotiations was detrimental to its institutional interests. While at the beginning of the crisis, the organisation attempted to tie its crisis-management suggestions with the expansion of its institutional competences, it stopped following this strategy during the PSI. The substantial discrepancy between its culture and the MS preferences made the continuation of this tactic impossible.

Finally, Chapter 5 analyses the PSI incident from the point of view of the ECB. It shows that the central bank was fervently against the realisation of the debt-relief scheme. Yet as soon as it received reassurances from the MSs with regardσ to the containment of potential financial spillovers and in regard to its exemption from any potential debt haircut, it signed-off the plan. Consequently, Chapter 5 also shows that the Commission's and the ECB's positions on debt-management were not necessarily intertwined or reflective of each other.

Chapter 6 sums up the thesis' finding and presents why and how the European Commission diverged from member-state preferences in the field of debt-management. It, then, discusses the thesis' main contribution for the field of EU studies and international organisations. It, finally, proceeds to explain the studies external validity and limitations and discusses the thesis' policy implications.

2 Theoretical framework and potential explanations

This chapter presents the thesis' main explanatory hypotheses and their respective observable implications. By drawing insights from the field of IO governance and from the theories that discuss policymaking inside international organisations, I derive distinct explanatory hypotheses. These hypotheses allow us to gauge why the Commission fervently opposed any type of debt-relief, both at the beginning of the crisis and during the PSI period.

The analysis presents five hypotheses on how IO bureaucracies shape their views, perceptions and suggestions during crises. These hypotheses are linked to four different schools of IO governance: 1) the state-centric literature, 2) two with bureaucracy-based explanations 3) one with the advocacy coalition framework and 4) one with the "policy field" explanation. These schools have, respectively, identified different drivers explaining the content of the bureaucracy's behaviour (Eckhard and Ege 2016: 971-972).

The following section takes up the above notions and analyses them in detail. It articulates the five competing hypotheses, explains their wider theoretical framework and proposes testable observable implications for each one.

2.1 The state-centric explanation

The thesis' first hypothesis places emphasis to the role of states and their influence on the international bureaucracy's preferences. In effect, this hypothesis follows the realist tradition. It understands international bureaucracies as "neutral transmitters" of state preferences and epiphenomena of state interactions. According to this approach international bureaucrats might not take an independent

stance from MSs and just cater their preferences (Trondal et al. 2010: 22). However, forming and testing such a hypothesis appears counterintuitive given the thesis' theoretical aims. I have already claimed that I am interested to go beyond the state-centric explanation and explore new variables via the employment of a deviant case. With deviant cases one does not have to explain why the dominant explanation is not verified; the expected effect (Y) is just not there. Indeed, as the analysis later shows the Commission's and MS preferences ended up diverging substantially in the field of debt-management.

Yet, I choose to test for the state-centric explanation because the Commission's crisis-management strategy remains underexamined by EU studies. In this sense, my empirical puzzle, i.e. the divergence of preferences needs to be thoroughly established before I explain it. Hence, I discuss and establish, in Chapter 4, that the expected effect, i.e. bureaucratic policy suggestions reflecting state preferences, is indeed missing. Moreover Chapter 5, uses the PSI negotiations to showcase that the Commission and the MSs did not only diverge but also opposed each other in the field of debt-management.

Our first hypothesis is based on the theoretical premises of the state-centric approach to international institutions (Koremenos et al. 2001). This school sees institutions as stable solutions to collective problems. It perceives politics as a series of collective action problems and institutions as tools that solve such conundrums. Institutions, thus, minimize transaction costs and make long-term cooperation between actors possible by reducing uncertainty (Hall and Taylor 1996: 18). Subsequently, actors are incentivized to participate in such institutional schemes in

order to reduce their transaction costs. In this sense institutions are good for as long as they provide solutions to collective-action problems.

In addition to minimizing transaction costs, actors enter institutional arrangements with a wider set of preferences that they try to satisfy within the existing institutional boundaries (Hall and Taylor 1996: 11-12). This pursuit creates a complex set of interactions that is central for the institution's development. At the same time, established institutions shape the range of alternative options, the flow of information and the credibility of cooperative schemes. They create a framework that seeks to ensure complementarity between all involved actors. Hence, in addition to actors' preferences, institutional rules and practices, also shape inter-state cooperation.

At the international level states also follow the preceding logic. They use international organisations to solve recurring collective action problems and to further their interests (Koremenos et al. 2001: 766-768). As Chapter 1 indicated the state-centric approach sees the policymakingmaking process in IOs as being contingent upon two elements: 1) power differentials between states and 2) decision-making/ voting rules in the organisation. The first element suggests that the most powerful states dominate the discussion. Powerful states can credibly threaten to withdraw from the IO since they have more outside options. Hence their participation in the IO framework is always contingent on whether they can serve their interests in a more cost-efficient way inside the IO (Voeten 2001). Moreover, powerful states can also use logrolling in order to convince smaller MSs to accept their preferred solution (Lyne et al. 2006). This mechanism might be able to explain Germany's role in the Eurocrisis (Bulmer and Paterson 2013, Anne-Marie le Gloannec

2001). Being the most affluent state in the Euro area, Germany was the one actor that could withdraw and lead the whole effort to a halt. It was also the one state that could offer the most substantial benefits to smaller MSs so that they back its preferred policies. Therefore, it was more likely for the Council to adopt the country's preferences during this period.

The second mechanism is related to institutional and voting rules. Voting rules might reflect the power dynamics between states, as they do in the IMF Executive Board or whenever the Council uses the QMV system. They can also eliminate such differentials by assigning one vote to every state, as they do in the UN General Assembly. The latter type of rules makes consensus and coalition-building strategies very important. They grant smaller states with additional leverage and allow them to substantially influence the institution's final decision (Lyne et al. 2006). This dynamic, usually, leads to policies that reflect an amalgam of state preferences. In other words, institutional decision-making rules that require wider majorities dilute the influence of bigger MSs.

Given that, during the Eurocrisis, the Eurogroup took unanimous decisions, negotiation tactics might have been extremely important. After all, a few EU MSs had intense interests regarding the handling of Greek debt (Brunnermeier 2016: 307). Yet, the Council's voting dynamics, clearly, suggest that Germany was, once more, the pivotal state. Its place on the spectrum of preferences made it the dominant actor. Germany was, in Henning's words, the "least forthcoming state", being the state that would most likely veto a decision. In this sense the preferences of the German government were the absolute standard and the "lower common denominator" of any Council decision (Henning 2017: 244). Consequently,

independently of which mechanism was in place, the Council would have produced the same mandate, i.e. a close reflection of German preferences.

The state-centric thesis also leads international bureaucrats to follow certain behavioural dynamics. According to this stream of thought, MS preferences, issued via formal and informal mandates or instructions, usually guide bureaucracy's actions (Trondal et al. 2010:171-173). This linkage operates via various mechanisms. Officials acting according to such an intergovernmental dynamic might be loyal or directly affiliated to their home government. They might also have independent preferences that are close to the preferences of their state of origin. International bureaucrats are educated and professionally trained in a particular national setting and, hence, it is only normal that they possess some of these home-grown implicit biases when they enter the international organisation. Moreover, one would expect international civil servants that have attained their position in the organisation due to the support of certain MSs, to be more prone to satisfy the latters' preferences. As the Commission's president and its higher executives owe their appointment to the bigger MSs, they are far more likely to try to appease these states by steering their subordinates towards the respective direction (Bauer and Ege 2016:1026-1027, Ege 2017: 562).

Nevertheless, the existence of such mechanisms has proved to be rare in the Commission. In a relevant survey, Commission officials showed only weak identification and limited contact with their home governments (Trondal et al. 2010: 176). Surprisingly the same appeared to be true for seconded officials from national public administrations (Trondal et al. 2010: 180). More importantly, the Commission has in place mechanisms that are destined to counter-act explicit and implicit

national biases. Director- Generals and Commissioners are never of the same nationality, while officials occasionally rotate between posts. Moreover, the bureaucracy's national features have been diluted after the 2004 enlargement wave, while there has been a conscious effort to create teams with mixed nationalities. Furthermore, the national earmarking of certain posts inside the Commission is by now a very limited practice (Trondal et al. 2010:188). Finally, the Commission's recruitment procedure makes the organisation fairly immune to the above mechanisms. The Commission recruits its permanent officials on the basis of merit via a lengthy competitive process, the EPSO exam. Officials that are recruited via this process are usually more immune to state pressures since their recruitment is blind to nationality and based on their personal competencies. By not adopting a quota-based recruitment system the Commission has made itself less vulnerable to implicit and explicit ties between its permanent bureaucrats and the MSs (Trondal et al. 2010:29).

In contrast, the bureaucracy's institutional interests might be better able to explain the Commission's motivation to follow state preferences. International bureaucrats are conscious of the fact that they depend on their collective principal, i.e. the states, in terms of resources and budget; their very existence is contingent upon these two elements. Principals tend to financially punish or reward their agents according to how much they observe their mandate. Agents who fulfil their mandate and serve their principals well usually see an expansion of their budget and authority. In the opposite scenario, agents see their budgets curtailed and their authority mitigated or, even, eliminated altogether (Pollack 2003: 45-46). We would, hence, expect international bureaucrats to avoid going against state preference so that they

don't risk their institutional standing and authority.

According to the same logic, international bureaucrats are wary of actions that might undermine their reputation as competent and credible agents in front of MSs and within the international community. Incurring budgetary and reputational losses would inevitably lead to a weakening of the staff's role and of its institutional aims. In this sense, even if international bureaucracies have strong insulation mechanisms from MSs and their ties with national governments are minimal, as is the case with the Commission, they might still be prone to serve state preferences (Cortell and Peterson 2006: 260-261).

As analysed in Chapter 1, the scholars that examined the Eurocrisis have largely assumed that the above mechanism was in place. The Commission faced the Council's scepticism with regard to its ability to shape, negotiate and monitor the adjustment programmes. It also had to deal with intense institutional competition from the IMF and the ECB. It was the first time the IMF was so actively involved in economic policymaking of a Eurozone MS. In addition, it was the first time the ECB was asked to be actively involved with the forging of a MS fiscal policy. (Hodson 2015, Henning 2017:85, Pisani-Ferry et al. 2013:24,110). Furthermore, the Commission had to deal with new institutions, i.e. the EFSM, the EFSF and later the ESM, that also received crisis-management competencies. Consequently, one can argue that the Commission had every incentive to follow and anticipate the Council's preferences in order to somehow preserve its institutional authority and reputation as a credible and competent supranational authority. In this sense, Commission bureaucrats operated under an effective incentive and monitoring scheme that compelled them to follow the original mandate and the, changing, preferences of the collective

principal. Following these observations, I construct the following hypothesis:

H1: The European Commission opposed any type of debt relief because it followed the respective preferences of its collective principal.

For this hypothesis to be valid we would first need to see MSs vocally expressing their intense preferences. These preferences might have been voiced inside the Council, the Eurogroup or in public debates and they would all signify that states saw the question of debt-relief as important. This would also justify some kind of pressure against the bureaucracy, so that it reflects state preferences. We would also expect to see the collective principal trying to ensure that its agent does not diverge from its preferences. In turn, the collective principal should strive to create a clear and detailed mandate vis-à-vis the handling of the Greek debt. This mandate should have also contained concrete agency control mechanisms. Agents would, then, be afraid to diverge since the principals would detect and punish any slack. Following this rationale, agents would have to be very tentative with how they implement their mandate and avoid any open conflict with their principals. Consequently, we should be able to observe high congruence between the Commission's policy suggestions and MS aggregate preferences. Finally, we would expect Commission officials to publicly express their commitment to the Council's mandate. Simultaneously, we would expect to find them very reserved to bring forward suggestions that go beyond the Council's mandate.

2.2 *“Bureaucratic interests” explanations*

2.2.1 *Discretion and autonomy in the Eurocrisis*

Despite the relative dominance of state-centric explanations, IO scholars have come to agree that state preferences cannot explain every aspect of bureaucratic behaviour in IOs (Barnett and Finnemore 2004). Subsequently, this section first examines whether the Commission could exercise some type of autonomous bureaucratic behaviour during the Eurocrisis. After establishing that it had such capacity, it suggests two distinct hypotheses with regard to the bureaucracy’s drivers.

As analysed in Chapter 1, a big part of the most recent research on IOs has strived to show when and how IO bureaucracies might diverge from their principals’ preferences. According to this strand of research agents can diverge from their principals’ mandate only when they enjoy some discretion and autonomy. Discretion here refers to the granting of authority that specifies the principal’s aims but not the particular actions that the agent is supposed to take in order to accomplish these goals. The granting of discretion might allow the agent the freedom to choose the scope of its actions, the type of policy instruments that it will use and the internal procedures that it will follow. Finally, the type and the amount of discretion that the agent has also determines whether its actions need MS prior approval (Cortell and Peterson 2006: 258).

Autonomy is defined as the range of independent actions that an agent has after the principal has established monitoring mechanisms. Given that no contractual relationship is complete, the agent always has some degree of autonomy. The two features are not mutually exclusive, yet they are distinguishable. The principal

officially grants some discretion to the agent so that it can complete its assigned tasks. The granting of autonomy is embedded within the imperfect control structure of any P-A relationship (Pollack 2003: 22-23, Hawkins et al. 2006: 8).

Yet, the existence of discretion and autonomy does not necessarily mean that agents will undertake slacking behaviour. Agents can use their discretion and autonomy to either benefit the principal and better serve their mandate or to realise independent actions that lie away from the principal's preferences (Pollack 2003:26). The latter phenomenon has been labelled as agency slack and can take two different forms. The first one is shirking, i.e. when an agent minimizes the effort it exerts on behalf of its principal. The second one is slippage when an agent diverges from its principals' desired actions in order to serve its own independent preferences (Hawkins et al. 2006: 7-8).

The literature has identified certain conditions that make agents more likely to undertake slacking behaviour. First of all, the agent should have distinct preferences from the principal, otherwise it would have no incentive to diverge. Bureaucracies are more likely to have independent preferences when they are staffed via meritocratic processes, instead of national appointments. Such procedures push bureaucrats to distinguish themselves from their countries of origin and to associate more with the organisation (Trondal et al. 2010:29). Moreover, the staff that is recruited via competitive processes usually has a particular expertise in its field of practice. Sharing professional and epistemic expertise, these bureaucrats are quite likely to develop a common understanding of the world and of the organisation's mission; a common "logic of appropriateness". In this sense the bureaucrat's national background becomes less relevant. Consequently, bureaucrats are more likely to

develop independent preferences and to, subsequently, engage in agency slack (Cortell and Peterson 2006:260).

In addition, the staff that is recruited via an independent and merit-based recruitment system usually has career incentives that are tied with the organisation's overall goal rather than with the MS preferences. In such organisations, staff is usually evaluated and, potentially, promoted on the basis of internally generated standards, which are, in turn, structured on the basis of the organisation's goals. In this sense, international bureaucrats have an incentive structure that pushes them to adopt positions that are first and foremost in agreement with the organisation's goals and culture. As such, state preferences become less relevant for the bureaucracy. Subsequently, the latter might even act in ways that directly oppose MSs' will (Cortell and Peterson 2006:260). As discussed in the previous chapter, the Commission does have such procedures in place, making it more likely to have distinct preferences from MSs.

While distinguishable preferences between states and international bureaucrats are a necessary condition for agency slack, they are not sufficient. The literature has also identified a number of other conditions that need to be in place so that the agent can effectively engage in slack. As discussed in Chapter 1, in relation to the literature on international financial institutions, preference heterogeneity favours agency slack. Conflicting views and different interpretations of the mandate weaken the principal's ability to have a unified approach and monitor the agent effectively (Copelovitch 2010a: 55, Pollack 2003: 45, Hawkins and Jacoby 2006: 207). Nevertheless, preference heterogeneity always works in conjunction with preference intensity. If the principals have significant interests at stake, then they

will produce an extensive and detailed mandate with concrete instructions for the agents. Even if they hold conflicting views on the issue, the mandate would still contain strict monitoring mechanisms. On the other hand, if the principals are in conflict but do not have any strategic interest at risk, the produced mandate is far less specific. Consequently, the scope for agency autonomy is, significantly, bigger (Copelovitch 2010a: 56).

As already discussed, one would expect the German government to have intense preferences with regard to debt-management. Moreover, we would expect it to be able to circumvent any kind of substantial objection in the Council and to try and obtain the backing of the French government. In chapters 4 and 5 I argue that indeed this was the case but, contrary to our expectations, the Commission still demonstrated some significant agency slack in the field of debt-management.

In addition to the organisation's structures of control, the number of alternative agents that the principals have at their disposal also affect the agent's autonomy. If there is a bigger pool of potential agents, then the chosen agent will be more reluctant to overstep its mandate. The chosen agent would fear that the principals might replace it with an agent that is equally able to follow their mandate while being more observant to the mandate's limitations. On the other hand, if the agent is the only one with the ability and expertise to fulfil the mandate, then it is far more difficult for the principals to replace it. In this case, agents would feel safer to diverge from state preferences; they would have more room to expand and overstep their mandate (Hawkins and Jacoby 2006: 203-204). Following this logic, an agent that has developed particular expertise on a topic is more likely to demonstrate slacking behaviour given its high replacement costs (Bauer and Ege 2016:1026-1027,

Ege 2017: 562). In the Commission's case this condition was of great importance since the crisis had led to the creation of several institutions with overlapping crisis-management mandates. Thus, we would expect from the Commission, from a theoretical viewpoint, to avert from slacking.

The proximity between the principal and the agent is also important with regard to the scope for agency slack. Scholars suggest that as the delegation chain grows bigger, agency autonomy increases. Communication failures in each stage allows agents to reinterpret the original mandate to their liking. Multistage communication between principals and agents also dilutes feedback channels and, subsequently, the control that principals can exert over agents (Nielson and Tierney 2003: 249-250). Building on these insights Gould also argues that agency slack tends to increase in areas that are difficult and costly for the principal to monitor (Gould 2006: 282). Especially when operating in an opaque and intransparent area agents possess significant informational advantages against their principals. Moreover, when the activities under question require a level of expertise that only the agent has, then it is very difficult for the principal to substantially control the agent's activities. Furthermore, since principals do not own the necessary expertise, they cannot really distinguish what is appropriate action and what is agency slack in this particular field. In effect, as information asymmetry between the two parties increases so does the principal's monitoring cost (Pollack 2003: 26-27).

During the Eurocrisis, the Eurozone MSs managed to deal with such problems of information asymmetry by creating the Troika i.e. a constellation of three institutions with overlapping mandates and competing institutional roles. Indeed, MSs managed to receive more credible information; the institutional competition

inside the Troika pushed the agents to report accurate and detailed information so that they prove their superiority and capacity in comparison with the other two institutions (Henning 2017).

Given the above conditions, in theory, we would not expect the Commission to demonstrate any agency slack. It had to perform its crisis-management mandate inside an effective monitoring and incentives schemes that would inevitably make any substantial agency slack noticeable and potentially punishable in terms of institutional competencies (Conceição-Heldt 2016:98).

Yet, it appears that the Commission ignored all these constraints and managed to use the narrow discretionary space that it had available in order to follow an independent course of action with regard to debt-management. In particular, the three Troika institutions were given the authority to choose and negotiate how the economic adjustment programmes would be realised. The Commission was, consequently, tasked to negotiate with Greece and come up with an economic adjustment programme for the state. Moreover, it had to draft, in cooperation with the IMF and the ECB, a programme of conditionality-based lending. Subsequently, the Commission's crisis management mandate had embedded in it a certain amount of discretion.

Later in the thesis, I demonstrate that this discretionary space was enough for the Commission to develop and publish its own debt-management suggestions. In other words, the bureaucracy used it to engage in agency slack. It engaged in agency slippage by proposing policies that were in direct opposition to the MS preferences, while it also shirked from its mandate when it withdrew from the debt-management field and averted from taking any action that would lead to the

realisation of the PSI. All in all, I show that the Commission chose to follow its independent preferences in the field of debt-management independently of the institutional constraints that it faced.

2.2.2 The drivers of the European Commission's preferences

Given that the Commission had some room for agency slack, this section now moves to discuss the potential drivers of this behaviour. I draw from the IO literature in order to derive two distinct explanatory hypotheses.

The first generation of IO literature that engages with international bureaucracies has conceived them in a very neutral way. They were seen as vehicles of state interests destined to maximise the MSs' utility and preferences and to lower transaction costs among states (Trondal et al. 2010: 24). This strand of research had little interest in what was taking place below the level of intergovernmental interactions and within the "black box" of the organisation. Yet, the second and the third generation of IO research strived to obtain a better understanding of international bureaucracies. They established that international bureaucrats have distinct identities, interests and preferences (Trondal et al. 2010: 10-11). They subsequently went on to analyse the sources of bureaucratic preferences. Scholars have identified two major motivations driving the content of bureaucratic action (Ellinas and Suleiman 2012:6): first, the bureaucracy's rent-seeking and competence-maximisation desire and second, its non-budget affiliated motives, i.e. the bureaucracy's institutional culture and internal policy conceptions.

The rent-seeking hypothesis presupposes that bureaucrats are acting rationally and pursue their material and institutional self-interest. Bureaucrats seek

to advance their role in policy making, to emphasise their contribution in this process and to uphold their good reputation. They even manipulate their mandate in order to achieve all the above (Cortell and Peterson 2006). In turn, principals are convinced that their preferences are met and, consequently, increase the bureaus' budget and/or authority (Niskanen 1971).

Numerous studies on the IMF and the World Bank have shown that rent-seeking tendencies are a major motivation for bureaucrats in international financial institutions. IMF officials tend to engage in "hurry-up lending" and hence deplete their funds right before the MSs review their budget. A depleted capital base usually signals to the MSs that the organisation's funds are stretched to the extreme and hence its budget should be substantially expanded (Vaubel 1996). Moreover, the IMF staff is known to have used international crises to expand its authority and, thus, its budget. The analysis shows that the Fund used the international debt-crisis that occurred in 1982, i.e. a critical period for the US and for other major MSs, in order to consolidate and expand its dwindling authority. The IMF seized the opportunity and presented itself as a suitable agent in front of the MSs. Despite the fact that the Fund's mandate did not provide for lending in response to liquidity crises, it managed to expand its activities and obtain substantial powers over countries that asked for financial assistance. Given its performance in the crisis-management effort and after receiving significant US-backing, the Fund was granted a major quota increase (Vaubel 1991: 216-218).

EU studies scholars have also argued that the Commission is not immune to such tendencies. Mark Pollack has suggested (1994) that the Commission has two underlying goals i.e. the expansion of its competences to new areas and the

augmentation of the existing ones within the policy process (Pollack 1994: 102). Having tied these two goals with the process of EU integration, it has strived to expand the supranational competences of the EU (Pollack 1994: 102, Pollack 2003: 35). Functionalist scholars also argued that the Commission would pursue these goals even during crises. It would, thus, suggest integrationist solutions in response to such incidents and it would broker agreements between the MSs in order to promote such solutions (Pollack 1994: 99, Jabko 2012). Following the same logic Cram has labelled the Commission as a 'purposeful opportunist'; she argued that the Commission is quite flexible in terms of instruments and means when it comes to furthering of EU integration (Cram 1993: 14).

Nevertheless, with regard to the overall research question the competence-maximisation thesis seems to be less relevant. If the Commission wanted to use the crisis as a window of opportunity in order to expand its authority, it would have to avoid any slacking behaviour. Given that the MSs would have intense preferences any kind of agency slack would be noticed and stopped. As such, any meaningful agency slack would also increase the risk that the bureaucracy would eventually incur costs and sanctions and have its authority curtailed. If anything, we would expect the Commission to stay close to the collective principal’s preferences in an effort to consolidate and empower its institutional standing as the sole crisis-management authority.

Indeed, Chapter 4 demonstrates that, at the very beginning of the crisis, the Commission was somehow motivated by competence-maximisation incentives; it used its crisis-management role to expand its authority. Yet, it did so in areas where it was in agreement with the MSs and during a period in which the Commission’s and

the states' debt-management preferences converged. Nevertheless, as analysed in Chapter 5, the Commission's competence-maximisation tendencies do not seem applicable when it comes to explaining its divergence from state preferences during the PSI period. If anything, this behaviour led to the loss of authority.

Given all the above one has to look for an alternative bureaucratic driver in order to explain the Commission's behaviour. Such an alternative source of agency slack has to do with the organisation's culture. While national and international bureaucracies have been occasionally seen as "empty vessels" lacking their own ideas and views, the concept of institutional culture goes contrary to this perception. It suggests that bureaucrats can have distinct ideas about their area of expertise and operations. According to Peters, the organisations' culture can be equated with the bureaucracy's/ the agent's ideology (Peters 1978: 222); it encompasses the organisation's belief system and shared values along with the ideas, symbols and myths that dominate it (Cini 1997).

As stated at the beginning of Chapter 1, this thesis adopts Barnett and Finnemore's definition for culture in international bureaucracies, i.e. the solutions that were produced to answer certain collective problems in the past and were then institutionalized and passed on as rules, rituals and values (Barnett and Finnemore 2004: 19). Yet there is a wealth of literature that deals with the concept of institutional culture both in political science and in other fields. Indeed one can find a similar definition used by Schein in the field of business and organisational studies: "The culture of a group can now be defined as a pattern of shared basic assumptions that was learned by a group as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and,

therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems." (Schein 2006: 34).

The above definitions suggest that the existence of a common organisational culture presupposes a few distinct characteristics. First of all, it presumes the existence of common past experiences (Schein 2006: 39). Leaders are the ones initially creating the culture, by imposing their values and views on the group. Yet the culture's creation also supposes a complex group learning process that is driven by the bureaucracy's shared past experiences (Schein 2006: 28). Hence, an institution's culture is based on the accumulated shared learning of the organisation's staff (Schein 2006: 34).

In addition to shared past experiences, the concept of institutional culture, presupposes some stability over time (Schein 2006: 25). In this respect, institutional culture operates as a stabilising force overtime, even as members of the organisation depart. Give this characteristic, it is difficult for an organisation to abandon its culture and for its leadership to change it (Schein 2006: 28, Xu and Weller 2008: 42). Institutional culture operates outside the leader's control and guides the members of the organisation (Peters 1978: 222). It, even, decides what type of leadership will be acceptable in the future (Schein 2006: 25-27, Peters 1978: 51).

Following the above insights, the concept of institutional culture can be tied with the organisation's history and experiences and, thus, with the framework of historical institutionalism. In effect, an institution's repetitive practices end up being institutionalised worldviews that drive the preferences and actions of its bureaucrats. Hence, an organisation's culture might create a certain type of path-dependency that bureaucrats are bound to follow (Hall and Taylor 1996:9-10).

Finally, the existence of a distinct institutional culture presumes that all its individual elements and features, i.e. rituals, rules, values and behaviours, are tied together into a whole within the organisation; a coherent worldview that consists its culture (Schein 2006: 31-32).

As Chapter 3 argues the Commission created such a common culture with regard to financial crisis-management. It built its conceptions via the handling of numerous past incidents. These views were then brought together in a coherent worldview on how the process of EU integration could be better protected during financial crises. This culture was consolidated within the Commission and ended up transcending leadership and staff changes; it appeared as the general theme of the Commission's crisis-management suggestions.

With regard to how the Commission might have created and preserved such a culture one can find two distinct mechanisms. The first one suggests that while bureaucrats work within the institution internal processes, like socialisation, internalisation, discipline and control mechanisms, might lead them to shift their allegiance to the supranational level (Trondal et al. 2010: 420, Schein 2006: 35-36). In effect, this mechanism implies that the international organisation creates a sense of shared community. The second mechanism has to do with pre-socialisation, i.e. the bureaucrat's life, work and education prior entering the organisation. People who choose to work for a particular bureaucracy usually share some affinity to the organisation's character and aims. Subsequently, they form a coherent community once they enter the bureaucracy (Trondal et al. 2010: 139-140, Peters 1978: 223).

The debate on which of the two mechanisms can better explain the Commission's pro-integration culture is still undetermined. Scholars have argued

that some type of socialisation takes place within the organisation (Ellinas and Suleiman 2012) while others have argued that the bureaucrat's life and experience prior his hiring play a bigger role and lead, via different roads, to a common culture (Hooghe 2005).

Independently of which of the two mechanisms is in operation, international bureaucrats that act according to the above dynamic end up dedicating their loyalty and allegiance to the organisation as a whole. They have a collective interest that is independent of their national, occupational and educational background. Consequently, they act in ways that serve, first and foremost, the organisation's common goals and values. Bureaucrats that operate under such a rationale, tend to consider the organisation's mission more important than their budget or the expansion of their authority (Sigelman, 1986, Trondal et al. 2010: 152).

The concept of institutional culture also applies to when bureaucrats are unsure of how a new policy problem can be effectively addressed, as it happens in periods of crisis. Following their institutional logic (Scott 2001:41), they pick what they see as being rational drawing from their cultural understanding of what is appropriate. In turn, they use their bureaucratic culture to rearrange old rules or come up with new practices that might address the emerging problem. Consequently, the organisation's culture might influence the bureaucracy's suggestions during crises.

Yet, suggesting that the organisation's common culture might explain agency slack in times of crisis is not enough. One can find, inside the same bureaucracy, different conceptions of its institutional mandate and role. Distinct sub-groups might

develop strong subcultures that reflect the overall institutional culture but differ substantially between them (Schein 2006:38, 277, Xu and Weller 2008: 43).

Given its wide-ranging mandate and activities, this is particularly true for the Commission. The relevant literature has identified different attitudes within the Commission vis-à-vis its mandate (Kassim 2008, Cram 1994, Trondal et al. 2010, Cini 1997). Commission bureaucrats have been presented as being inclined towards rule-safeguarding i.e. favouring the preservation of the EU law. In this sense, they have been presented as the legal guardians of the Treaties. They have also been presented as guardians and promoters of European integration (Pollack 2003). In an effort, to distinguish which of these two cultural features was more prevalent I suggest, and later test, two distinct explanatory hypotheses.

While the protection of EU integration and the preservation of EU law might be linked, the two are not necessarily the same. Despite the fact that the two hypotheses have a common underlying theme, i.e. in both instances the Commission would have acted drawing from its internal institutional features, their observable implications are distinct. Given this characteristic, the analysis will test both in an effort to delineate which one was the most central in regard to the Commission's tendency to oppose a debt-relief for Greece. As the evidence will show the Commission's officials were constantly afraid of financial spillovers and market panic, while their law-related concerns appeared only occasionally, inconsistently and in an *ad hoc* manner.

Starting with the rule-safeguarding thesis, this approach is based on the theoretical premise that the EU is a system of governance founded on the rule of law. The authority and supremacy of the EU law in this system lies upon the fact that this

is the most effective way to manage interdependence between MSs (de Witte 2018: 476). Subsequently, EU law became one of the main forces pushing the process of EU integration forward. This even led some scholars to argue that, inside the EU system, law tends to replace politics (de Witte 2018: 482-484).

Given the importance of law for the EU system, the Commission's role as the Union's legal guardian is one of its most important and central functions; after all it is one of the Commission's functions that is included in the Treaties. According to article 17 of the Treaty of the European Union, the Commission is responsible for the preservation of the Treaties of the EU law. Moreover, it is responsible for the realisation of the measures that are decided by the EU institutions. In addition, the Treaties also provide the Commission with the authority to monitor and sanction MSs, via infringement proceedings, whenever they fail to comply with the EU law. The most recent Treaty revision has substantially expanded these powers (Stine 2012). It is now easier for the Commission to bring a MS in front of the Court of Justice for not complying with a ruling in reference to its rights, duties and general conduct. In addition, the Commission has obtained the authority to require from the Court that a MS is sanctioned early in the procedure for failing to fulfil its legal obligations. In effect, the Commission is able to impose sanctions on non-complying MSs in a rapid and straightforward manner. Finally, this new *modus operandi* has ended up being applicable to areas beyond the *acquis,* like police and judicial cooperation (Stine 2012: 17).

The Commission's law enforcing role should not be understood as being limited to plain monitoring or to the implementation of Treaty provisions and directives. Instead it entails a more political role. In particular the Commission enjoys

a significant amount of discretion on the type of violations it chooses to report and ultimately remedy. It even has the ability to reach friendly settlements with non-complying MSs (Stine 2012: 18). In effect, the Commission establishes enforcement priorities that also act as a tool via which it can pursue distinct policy objectives. All in all, the Commission's role as the legal guardian of the Treaties is a semi-legal and semi-political role. Its actions aim to strike a fine balance between MS compliance with the EU law and the maintenance of good working relationships between the bureaucracy and its principals (Stine 2012: 13-14).

In this sense, it is likely that the bureaucracy attempted to strike a balance between the preservation of the EU law and the MS preferences during the recent crisis. Consequently, one could argue that the Commission shaped its debt-management policies drawing from the *acquis Communautaire.* Its eventual divergence from MS preferences should also be attributed to its role as the guarding of the EU law. The following hypothesis (H2a) presents this explanation.

H2a: The Commission's role as the legal guardian of the Treaties led it to oppose the MS preferences in the field of debt-management.

For this hypothesis to be valid, we would expect to find Commission officials arguing against debt-management policies on the basis of EU law or the Treaties. Such argumentation should be clearly communicated via the Commission's publications, statements and public interventions. Moreover, we would expect the Commission's Legal Service to have a central role in this process and to undertake most of the relevant work. In addition, the Commission's other crisis-management

policies should have been considerate of the relevant EU law provisions. Finally, we would expect the Commission to consistently articulate the same message in front of different audiences, i.e. in public and in private, with MSs, with other IOs and with private stakeholders.

In addition of being the guardian of the EU Treaties, the Commission has been pictured as "the engine of EU integration", i.e. having a wider non-legal political goal (Pollack 2003). It has been depicted as having an inherent bias in favour of further EU integration, which would entail the ceding of additional competences to the EU, as well as additional competences for the Commission itself. Consequently, the Commission is prone to use its discretion strategically in order to further this goal. It, subsequently, promoted the liberalisation of the European market and its re-regulation at the supranational level, advocating the creation of a Single European Market. Driven by these features, it also advocated the expansion of EU competences in other areas including environment policy, consumer protection, regional development, research and technological development (Pollack 1994: 96). While the above studies recognise the Commission's nature as a "multi-organization", they all argue that its push for additional integration was uniform over time (Pollack 2003: 384-385). Last but not least, as analysed in Chapter 1, numerous sociological studies agree that the one underlying theme tying the Commission's staff together is their overwhelming positive view in regard to further EU integration. Independently of whether they developed this sentiment inside the service or before joining it, they all agree on the need to protect the achievements of EU integration from the volatile external environment (Hooghe 2001, 2005, 2012, Ellinas and Suleiman 2012, Kassim et al. 2013).

In a way the Commission's pro-integration tendency seems to converge with its above-mentioned competence-maximisation aspirations. Yet, as the thesis shows the two are not always compatible. During the crisis and, especially, during the PSI phase the bureaucracy's integrationist motivations were stronger compared to its competence-maximisation incentives. The fact that the Commission was willing to incur immediate institutional losses in order to protect the current level of EU integration demonstrates this point.

The hypothesis that the Commission's pro-integrationist motives drove its debt-management policies during the crisis reads as follows:

H2b: The Commission's tendency to see the process of EU integration protected and expanded, led it to oppose the MS preferences in the field of debt-management.

The observable implications for the above hypothesis inevitably assimilate the implications for H2a. Thus, for this hypothesis to be valid we would expect the Commission to make its debt-management suggestions based on their potential implication for the process of EU integration. We would expect the Commission to consistently express such views and such a rationale via its official publications, statements and speeches. We would also expect it to convey such views independently of audience costs in public and in private negotiations with MSs, IO officials and financial institutions. We would also expect to see Commission officials articulating the same arguments in intra-Commission consultations and in public. This would prove that the Commission was genuinely interested to serve the process of EU integration. Finally, we would expect the bureaucracy to adopt a common

position and rationale on this topic, despite the fact that it is organised in “fiefdoms” that have their own particular culture and aims.

2.3 The Advocacy Coalition Framework (ACF)

While, the advocacy coalition framework (ACF) has been used for the analysis of policy- change processes, this study deploys it in another way: as an analytical tool to test and discuss the existence of crisis-induced policy disputes within the Commission (Nohrstedt 2013).

The ACF suggests that the policymakingmaking process begins from the level of the policy subsystem. Policy subsystems consist of numerous actors that are actively concerned with an issue or problem (Sabatier and Jenkins-Smith 1999: 119). Following an exogenous shock, the beliefs that dominated the policy subsystem are challenged (Sabatier and Jenkins-Smith 1999: 123). These exogenous shocks/crises bring forward policy problems that provoke different interpretations and conflicting solutions- an effect that makes collaboration between actors difficult (Nohrstedt 2013:966). Subsequently new core beliefs emerge, and actors form new coalitions along these new lines (Sabatier and Jenkins-Smith 1999: 119-120). These coalitions engage in coordinated activities or clash in order to promote their preferred solutions (Sabatier and Jenkins-Smith 1999: 142). They use scientific information – that is information on the causes and the potential solutions of the problem - to create competing crisis narratives (normative beliefs on the underlying causes and the overall seriousness of the crisis) (Sabatier and Jenkins-Smith 1999: 133). Subsequently, they present these competing narratives in different fora in an effort

to mobilize resources, like public support or scientific authority, in order to render their policies dominant (Nohrstedt 2013:966).

In this particular case the policy subsystem is territorially defined as being the European Commission itself and in terms of theme and substance as the debt-management policy for Greece. As soon as the Commission was called to undertake a crisis-management role and deal with the Greek debt, its previous beliefs were challenged, and the optimal response was not obvious. Thus, the exogenous shock for the Commission's policy subsystem was the emergence of the Greek crisis and the subsequent Council decision for the Commission to undertake crisis-management responsibilities.

A matter of importance for the ACF is which actors are included in the policy subsystem and, subsequently, in the relevant coalitions. This hypothesis suggests that a multiplicity of actors took part in the subsystem, i.e. Commission officials, national officials and politicians, international bureaucrats from the IMF and the ECB, academics and journalists.

Starting with Commission officials, the hypothesis does not follow the usual conception of the Commission as a unitary actor but instead perceives it as a fragmented subsystem with different units within it (Elgström and Larsén 2010:210, Pollack 2003: 36). This understanding is based on the premise that international bureaucrats are prone to shift their loyalty and allegiance to their respective unit and division. In this sense, they are socialised within their department by following common rules and procedures and having the same area of specialisation; they see themselves mainly as representatives of their portfolio (Trondal et al. 2010:111). The departmental dynamic predicts that cooperation and coordination between

international bureaucrats is better achieved within unit rather than across units (Trondal et al. 2010: 26). The corollary to this is that officials who are subject to the above rationale are more likely to be aligned with the aims of their particular portfolio and not, necessarily, with the overall institutional aims of the organisation (Trondal et al. 2010:114). Subsequently, this departmental dynamic is likely to lead directorates to clash with each other.

The latter observation is also compatible with the narrative that international bureaucrats are self-interested individuals that aim to increase their budget and authority. They do not strive to increase the organisation's overall competences but instead aim to further empower their own department (Niskanen 1971). They endeavour to increase their bureau's budget and authority at the expense of their colleagues. Especially during times of scarce resources and uncertainty such turf battles usually end up looking like zero-sum games (Trondal et al. 2010: 201, Goertz and Patz 2016).

The European Commission has been shown to not being exempt from such dynamics. The Commission is structured along multiple divisions with different portfolios. This has led numerous scholars to suggest that it includes different fiefdoms or baronies (Kassim 2008: 652). In this sense, it operates as a multi-organization (Cram 1994), divided in numerous DGs with different functions, cultures and aims (Cini 1997, Trondal and al 2010:131). Commission DGs that are organised around a certain policy-field, like DG Trade, are more likely to demonstrate a unique departmental logic (Trondal et al. 2010: 28, 121-123). Commission officials appear to identify themselves more with their DG rather than with the Commission as a whole (Cini 1997, Trondal et al. 2010: 131). This, occasionally, leads to internal bureaucratic

conflicts between different departments and units (Trondal et al. 2010: 125-126). For example, Morth (2000) shows that the Commission's defence and equipment policy is subject to "frame competitions", i.e. internal bureaucratic conflicts, between different DGs. In line with the above-described literature, I do not treat the Commission as a unitary entity. Instead, I conceive and treat each DG as a distinct actor and as a potential member of a different coalition.

Yet the different departmental groups within the Commission should not be seen as the sole members of this policy subsystem. As the Greek debt crisis was of transboundary nature with serious economic implications for numerous outside actors, we would expect a multiplicity of stakeholders to take part in coalition-building. In addition, we would expect the different Commission DG's to be receptive to such a coalition-building exercise as it would provide them with additional opportunities to mobilise resources and influence. In effect, we would expect Commission officials to look also outside the organisation to receive support, both in terms of political influence and scientific credence.

First of all, the MSs, as explicated above, had salient economic and political interests with regards to the management of the Greek debt. We would hence expect them to try to influence the Commission's view on the issue. Such coalition dynamics are not rare in the EU studies literature; the creation of coalitions between MSs and the Commission, in order to influence Council decisions, is well documented (Bürgin 2013, Schmidt 2000, 43, Thorhallsson and Wivel 2006: 660, Riddervold and Rosén 2016). Moreover, MSs also attempt to influence intra-Commission policymaking by appointing their respective Commissioners and cabinet members to portfolios that are of particular interest to them (Kleine 2013). Given all the above we would also

expect the MSs to be part of the Commission's policy sub-system and to form distinct coalitions with Commission officials.

In addition to the MSs, one would also expect the other IOs that took part in the crisis-management effort to be parts of this subsystem. They should have been particularly interested to influence the intra-Commission debate on debt-management as this was of particular importance for the success of the program. In this sense, the ECB and the IMF should also be included in the policy subsystem. Finally, numerous think-tanks, academics and journalists offered suggestions on what is the optimal debt-management policy for the Eurozone. Since these actors took active part in the public discourse, they should also be included in the policy sub-system.

According to the ACF we would expect the above parties to coalesce around different narratives of what is the optimal debt-management policy; we would expect them to adopt different approaches on which solution is more effective for the containment of the crisis. As will be discussed in detail in the two following chapters there were two different narratives on what was the optimal solution for the handling of the Greek debt. On the one hand, it was suggested that a debt-relief would help the Greek economy recover faster while it would also lower the overall bailout cost. On the other hand, any type of debt-relief was seen as detrimental for the stability of the Eurozone and for the viability of the Greek economy.

The ACF suggests that the battling coalitions should coalesce around these two narratives and mobilise in order to make them dominant. They would attempt to do so by mobilising key resources including public opinion, influential supporters, and financial resources. At the same time, they would attempt to present their

narrative in different venues, like the Eurogroup, the public discourse (i.e. public events, media) and in front of market participants (Nohrstedt 2013: 971-972).

Summing up all the above leads us to the following mechanism: the emergence of the Greek debt-problem led the European Commission subsystem to reverberate. Multiple actors tried to influence the Commission's views and suggestions on the handling of the sovereign debt in Europe. The process of preference and policy formation inside the Commission was turned into a multi-level conflict between different actors, including the EU MSs, other international institutions like the IMF, and, of course, European Commission DGs. All these actors came together around distinct narratives of what is the most appropriate debt-management policy and created advocacy coalitions in order to promote their respective policy line. In this sense, the Commission's decision to go against the Council's preferences should be attributed to the dominance of the respective advocacy coalition within the Commission's subsystem. As the Commission's subsystem is different from the Council's subsystem such an outcome should not be seen as unlikely. The following hypothesis summarises this mechanism:

H3: If the creation of debt-management suggestions, inside the Commission, caused a conflict between different advocacy coalitions, then its suggestions should reflect the preferences of the dominant coalition.

For this hypothesis to hold we would expect to find, inside the Commission subsystem, two clearly differing views on the question of debt relief (in favour and against debt relief). We should also find a respective number of coalitions supporting

these views. We would expect these groups to include not only Commission officials, but also other stakeholders, like states and other international bureaucrats. At the same time, we expect these groups to engage, both in public and in private, in an intense debate regarding this issue. Moreover, we anticipate this conflict to take place via the publications of each DG, inside the intra-commission consultation groups but also in public between different coalition members. Furthermore, DGs should try to enlist allies and coalition partners from inside and outside the Commission in an effort to make their preferences more influential. Finally, we would expect the emergence of a solution that would have clear leanings towards the views of the dominant coalition.

2.4 The "policy field" explanation

Our last hypothesis tests whether another non-state actor, inside the debt-management field, i.e. the ECB, influenced or dictated the Commission's views on debt management. The theoretical underpinnings of such a mechanism can be found within the concept of policy field (Vetterlein and Moschella 2014) and within the literature of discursive institutionalism (Schmidt 2013).

According to the policy field framework, an organisational policy field has three characteristics: 1) the specific policy issue around which it is organised, 2) the power relations among its members, and 3) the set of rules and norms that are gradually becoming the rules of the game. As in the ACF approach, the field of international politics is constituted by states, international bureaucracies, private groups, academics and professional groups. Consequently, this framework suggests that the interaction between the members of the same field ends up producing new

policies and norms (Vetterlein and Moschella 2014: 149). These interactions constitute a discursive process in which actors communicate and attempt to convince each other of the validity of their suggested policies. Policymakers discuss and debate the nature and the potential remedies of a crisis and reach a collective understanding about the incident itself and its potential solutions (Schmidt 2013).

The outcome of this discursive interaction and, hence, the directionality of the institution's final policy depends on the power and the openness of the organisation. The power position of an organisation is connected with its overall capital in the field, i.e. with its knowledge, expertise, experience and relevance for the policy field. Past actions and historical precedents might grant individual actors with additional capital and, hence, with a central position in the field. Subsequently, organisations hold central or peripheral positions according to their accumulated expertise and organisational resources as the latter ones are recognised within the field. Hence, actors are positioned within the field according to their contributions for the resolution of the collective problems of the specific issue-area (Vetterlein and Moschella 2014: 150-151).

Position is important for this framework as it also decides how quick actors will pick up new information and implement them as actual policies. Organisations that have a central role in the field are more constrained to implement swift changes, given their long-standing practices and culture; their legacy acts as a barrier to external calls for change. The contrary would be true for peripheral organisations since they are not that bound by pre-existing cultural features and practices (Moschella and Vetterlein 2014: 149-151). Thus, they are more open to external

inputs from organisations that are central in the field and they are more likely to adopt their suggestions (Moschella and Vetterlein 2014: 152).

In addition to the actor's position, its ability to change is also tied to its interactions with the other actors of the field. Closed policy sub-systems pick up external suggestions very rarely and tend to rely on their own expertise and knowledge. For example, an organisation that is staffed with professional experts tends to be insulated from the rest of the field and does not accept external interventions. On the other hand, whenever the subsystem opens up it ends up being far more open to hear and adopt external policy suggestions. For example, the IMF has changed its policies radically only when it interacted and consulted with actors outside its close institutional framework, like NGOs and academic economists (Vetterlein and Moschella 2014: 151-152).

One can think of the above mechanism emerging in relation to the Commission's stance on debt-management. The Commission had limited previous experience and knowledge on the issue of debt-relief; hence the policy-field approach would label it as a peripheral institution. At the same time the organisation is staffed with generalists; not epistemic or professional experts. Therefore, the Commission's position in the field of debt-management and its openness made it less constrained by previous practices, and more open to outside inputs. This suggests that it was possible for an external actor to influence its debt-management policies and, hence, lead it to oppose its principals.

The Commission's steadfast stance against any type of debt-relief helps us narrow down the list of institutions that are susceptible of influencing it. In particular, the only other institution that had such a negative approach towards a potential

debt-relief for Greece was the ECB. The creation of the Troika intensified the Commission's permeability to external input and made it more open to the ECB's views. It essentially created an active discursive space between the Commission and the Central Bank. Subsequently, it is likely that Commission officials were in close contact with their ECB counterparts and were convinced by their argument despite the fact that the ECB did not have much expertise on debt-restructuring either. Consequently, Commission officials internalised the ECB's rationale on debt-management and opposed a debt-relief for Greece. The following hypothesis (H4) tests whether such a process took place:

H4: Lacking the necessary expertise in the field of debt-management, the Commission drew from the ECB's views and expertise and, hence, ended up opposing all debt-relief options.

For this hypothesis to hold we should be able to find numerous confidential communication channels between the Commission and the ECB. This would be necessary so that the two institutions could discuss, in length and without any outside pressure, the issue of debt-management. Furthermore, we would expect the ECB to have strong and elaborate views on the issue of debt-relief and debt-management and the Commission to have a less developed perspective. Moreover, the two institutions should have been articulating similar arguments in order to justify their debt-management positions. We would also expect officials from the two organisations to form some kind of advocacy coalition whenever they were in consultation with other actors. Finally, we should also observe the positions and the

argumentation of the two organisations to co-vary. If we accept that the ECB convinced the Commission about the riskiness of a potential debt relief, then a potential change of the ECB's views should have had some effect upon the Commission's respective views.

2.5 Conclusions

The observable implications that were presented here (a comprehensive table can be found at the end of the chapter) are tested in chapters 4 and 5. The analysis shows that the second strand of explanations, and in particular the one related with the Commission's pro-integration tendencies, has more explanatory leverage. The Commission based its staunchly anti- debt-relief stance on its pro-integration culture. Subsequently its policies were geared towards the safeguarding of the Eurozone project via market-appeasing policies.

Before discussing the validity of the above narrative, Chapter 3 delves into the past in order to examine the Commission's handling of previous financial crises. It does so in order to trace the mechanisms and drivers that the Commission employed during previous financial crises. By locating crisis-management features that remained constant throughout the different phases of EU integration, the analysis identifies the basic cultural elements that led the Commission to such an unorthodox stance during the recent crisis. As the following chapter shows, the Commission's tendency to tie spillover effects of financial crises with a potential reversal of EU integration was a constant feature of its crisis-management approach and emerged independently of the overall economic governance structures. Furthermore, it shows that from the mid-1970s and on, every time a financial crisis

erupted the Commission tried to protect the process of EU integration by implementing market-appeasing policies. Both of these features were present during the recent crisis led the bureaucracy to oppose the MSs’ desire to offer some type of debt-relief to Greece.

Table of hypotheses (Table 2.1)

Hypothesis	Causal mechanism	Observable implications
H1:The European Commission opposed any type of debt relief because it followed the respective preferences of its collective principal.	1) The most influential states can credibly threaten to withdraw from the IO since they have more outside options. They can also use logrolling in order to convince less influential MSs to accept their preferences. Hence, they can consolidate their preferences in the Governing council and then pass them to the agent 2) Institutional and voting rules can help smaller states influence the final mandate. Coalition-building and horse-trading become important. The final mandate is an amalgam of preferences 3) International bureaucrats depend on their collective principal, i.e. the states, in terms of resources and budget. Principals financially punish or reward their agents according to how much they observe their mandate. International bureaucrats are wary of actions that might lead to budgetary and reputational losses. Hence, they follow the MS intense preferences.	- The vociferous expression of intense interests by the MSs - The existence of a detailed mandate that predicts concrete mechanisms of agency control - Commission officials should have been very reserved regarding suggestions, public interventions and initiatives that went beyond their mandate - Congruence between the Commission's debt-management suggestions and state preferences
H2a: The Commission's role as the legal guardian of the Treaties led it to oppose the MS preferences in the field of debt-management.	Bureaucratic autonomy is used to promote and safeguard the EU legal order and the acquis.	- Commission officials arguing against debt-relief policies on the basis of the EU law - Commission publications, statements and public interventions promoting such arguments - The Commission's Legal Service should have a central role in this process. - The Commission's other crisis-management policies should also be considerate of the EU law - The Commission should consistently articulate this message in front of different audiences -
H2b: The Commission's tendency to see the process of EU integration protected and expanded, led it to oppose the MS preferences in the field of debt-management.	Bureaucratic autonomy is used to protect and promote the process of EU integration	- The Commission should make its debt-management suggestions based on their potential implication for the process of EU integration - The Commission should consistently express such views and such a rationale via its official publications, statements and speeches. - It should convey such views independently of audience costs - Commission officials should be articulating the same arguments in intra-Commission consultations and in public - The Commission should adopt a common position and

		rationale on this topic, despite the fact that it is organised in "fiefdoms" that have their own particular culture and aims
H3: If the creation of debt-management suggestions, inside the Commission, caused a conflict between multiple stakeholders, then its suggestions should reflect the preferences of the dominant coalition.	The process of preference formation inside the Commission was a multi-level conflict between different actors	- Two clearly differing views regarding the question of debt relief - A respective number of coalitions supporting these views - These groups should engage in an intense debate regarding this issue - The debate between coalition groups should take place via the Commission's various publications and in the intra-Commission consultation groups - The emergence of a final policy that lies closer to the views of the dominant coalition
H4: Lacking the necessary expertise in the field of debt-management, the Commission drew from the ECB's views and expertise and, hence, ended up opposing all debt-relief options	The Commission's limited previous experience on debt management led it to base its suggestions and views on the expertise and analysis of other institutions. With the creation of the Troika, the Commission's permeability to the ECB's views increased. The Commission received extensive feedback, from the ECB, on what is the optimal approach to handle the Greek debt	- Numerous confidential communication channels between the Commission and the ECB - Strong congruence between the Commission's and the ECB's positions - Similar argumentation regarding debt-management - Officials from the two organisations being in close cooperation and creating advocacy coalitions whenever in consultation with other actors - Co-variation between the ECB's and the Commission's stance on debt management

3 A history of the Commission's financial crisis-management: The making of an institutional culture

3.1 Introduction

The discussion in the previous chapters demonstrated that our understanding of international bureaucracies during times of financial crisis remains, overtly, state centric. The recent crisis offers a case in point in as much as the Commission's debt-management policy obviously deviates from this narrative. The Commission's recent debt-management preferences cannot be understood from the typical rational institutionalist perspective, i.e. neither on the basis of the organisation's maximisation of its self-interest, nor by deduction of its preferences from the structure of the situation. In effect the Commission went openly against the Council's preferences and thus risked its competences in the crisis-management field. The case, thus, allows us to explore the causes that might lead to such counter-intuitive behaviour.

As foreshadowed in Chapter 1, the thesis' main argument is that the Commission diverged from MSs due to its institutional culture. In this chapter I further argue that the organisation's preferences on debt-relief should be seen from a prism that takes into account the Commission's experiences and policy choices in previous financial crises. By looking at financial crises that occurred during different phases of EU integration I trace how the bureaucracy handled previous incidents characterized by financial volatility. This examination does not imply that the recent financial crisis was fully comparable to the previous ones. Instead, it aims to identify certain common elements of all these efforts and to, consequently, establish the

fundamental features of the Commission's internal crisis-management culture. In effect, it makes use of the fact that the Commission had, throughout the years, faced crises of different nature and magnitude in order to claim that certain institutional characteristics were invariably present and prevalent during such periods. Hence, this thesis draws from historical institutionalism to suggest that the Commission's debt-management preferences in the recent crisis can only be understood by referring to the bureaucracy's enduring institutional features as those have been manifested during its historical trajectory in the field of financial crisis-management.

The following analysis suggests that the organisation employed recurring crisis-management strategies over time despite the different economic structures and legal constraints that it faced and despite the different types of crises that it had to handle. Through time and via their repetitive exercise, the Commission's staff ended up perceiving these practices as the most efficient policies in order to protect the process of EU integration. Subsequently, they gradually became features of its internal coherent culture (Hall and Taylor 1996:9). The two central features of this culture were first the linkage of emerging financial crises with a potential reversal of EU integration process. The second was the belief that such contingencies could be credibly averted by implementing financial aid schemes that were in accordance with market expectations. This culture led the Commission to a particular understanding of its role and mandate during financial crises.

Consequently, in chapters 4 and 5, I propose that the Commission handled the recent crisis and the question of debt-relief by following the above logic. It used these features to define what was in the bureaucracy's best interest and how it could better pursue and protect the process of EU integration (Thelen and Steinmo 1992

:8-9). Its decisions to oppose the MS pro-debt-relief preferences should be seen as a manifestation of its institutional culture.

The financial crises that led the Commission to shape such a culture are examined in a roughly chronological order. Yet, I do not aspire to present a chronology of the Commission's views on international financial governance. In an effort to better understand its overall approach on financial crisis-management, I conduct a rather selective review of its suggestions on major international financial incidents. I choose to review the crises in the Bretton Woods system, the oil crises, the 1981-1983 attacks against the French Franc and the 1992 ERM crisis.

Examining major financial crises that occurred during different phases of EU integration, and hence outside the framework of the monetary union, allows me to identify recurring patterns with regard to the Commission's behaviour. By looking at different temporal periods and different types of crises, I locate the policy features that lasted over time and, hence, were independent of the particular structural and economic constraints that the Commission faced in particular periods. Stability and consistency over time, along with the existence of a rich crisis-management history, points to the existence of a distinct institutional culture with regard to the handling of financial volatility. Based on this insight, the analysis later discusses similar evidence with regards to the Commission's debt-management approach during the Eurozone crisis. It consequently argues that the Commission's behaviour was due to historically embedded cultural elements that were beyond the particular features of the Monetary Union.

The chapter offers three central insights with regard to this culture. First of all, it shows that every time a financial crisis emerged the Commission feared a roll

back of the European integration process. This was a recurring theme that appeared consistently in its thinking and proposals. The Commission's tendency to see in each crisis a potential risk for the reversal of EU integration should be attributed to its institutional setup, i.e. the moment of its creation.

At its creation the MSs chose to grant the Commission supranational competences and a specific mandate to promote the process of EU integration. The bureaucracy was created as an independent body intended to serve and promote the Community's general interest (Coombes 1970: 70). At the same time, it was mandated to act as the MSs' agent and to serve their preferences. Hence, it ended up having a fiduciary role (Majone 2001). On the one hand, it was entrusted with implementation powers with a view to mitigating bureaucratic costs (agent). On the other hand, it was allowed to operate autonomously, since the EU MSs wanted to safeguard their commitment to the integration process from short-term political considerations (trustee) (Majone 2001, Pollack 2006). In this sense, the Commission's role was wider and more substantial compared to the one of a traditional civil service (Coombes 1970: 79); it went beyond rule implementation and delved into the realm of autonomous action (Coombes 1970: 84, 89). Making full and constant use of this autonomy it eventually developed a shared bureaucratic belief vis-à-vis the virtues of European integration.

As this chapter shows, this belief heavily influenced the organisation's approach to financial crises. The Commission's crisis-management approach to the examined financial incidents was contingent on its role as guardian and promoter of European integration. In this sense, the European Commission's overall crisis-management approach can be traced back to its institutional creation (Fioretos et al.

2016: 10). Initial state choices created autonomous self-reinforced processes, i.e. a certain path-dependency, whereby the organisation benefited from increased returns while following a pro-integration approach (Rixen and Viola 2016: 12). By making EU integration a central part of every crisis-management strategy, the Commission secured its institutional role and further institutional empowerment.

The chapter's second insight relates to the Commission's understanding of how financial markets could be effectively managed. Its choice of crisis-management tools was initially contingent on the perceptions and views of officials with influence within the Commission. Subsequently, it was easier for these policies to change throughout the years. Indeed, the advent of more liberal economists in the Commission contributed to a significant policy shift with regard to financial aid instruments during the 1970s and the 1980s. Yet from that point and on the Commission's approach to financial aid schemes became more consistent. In particular, it began employing at an increasing rate financial aid schemes that aimed to appease market-expectations.

The chapter suggests that until the mid-1970s, the Commission favoured collective state action in an effort to shape market expectations. Given that financial volatility could give rise to multiple, good and bad, equilibria inside the Community, the organisation sought to push markets towards a good equilibrium whenever a financial crisis arose. It suggested that MSs had to take collective and coordinated action, both in the monetary and the fiscal sphere. Such coordinated efforts would act as an insurance mechanism with regard to market investors (de Grauwe 2012: 257). The MSs would appear willing to pool their resources together (de Grauwe 2012: 261) in order to protect the Community from financial volatility.

In effect, the Commission sought to persuade market participants that all MSs were adequately protected from market volatility and a potential default. This would consequently align market-expectations behind the idea that MSs would maintain their Community-related commitments and hence that the process of EU integration was irreversible. Such a perception would operate as a self-fulfilling prophecy and would protect the Community from future crises. The chapter refers to this strategy as market-management and finds that it was the dominant form of crisis-management within the Commission until the 1970s.

Indeed, the crises of the Bretton Woods Systems (BWS) and the first oil crisis, were all approached as challenges that could be managed via coordinated collective state action. States had to send a unified message of solidarity. They were encouraged to agree on coordinated measures that transcended the monetary and fiscal sphere; this would actively change the expectations and calculations of financial investors and halt the transpiring crisis.

From the mid-1970s and onwards a clear shift occurred in favour of less “interventionist” policies. While the Commission kept arguing in favour of strong exchange-rate commitments, and hence in favour of market-management policies in the monetary sphere, it substantially changed its approach to financial aid schemes. It accepted the idea that markets tend to react negatively towards policies that are seen as opposite to their views on fiscal management- especially policies that are overtly based on demand-management (Sachs and Wyplosz 1986: 291-294). Market reaction to such policies had nothing to do with aligned predictions about how other market participants will react.

The Commission’s new rationale emphasised the need to appease market expectations via domestic economic adjustments. It argued that financial investors had a particular understanding of what was a “sustainable/good” economic policy. Consequently, countries that were under financial pressure had to meet these expectations in order to halt the transpiring crisis. The Commission used loan-based conditionality to steer MSs towards such policies, like budget consolidation and structural reforms. In this sense, it treated the spillover effects of international financial crises as issues of, primarily, national concern. The chapter refers to this strategy as market-appeasement and asserts that the Commission started using such policies consistently and at an increasing rate from the 1970s and onwards.

Finally, the chapter demonstrates that the Commission usually positioned itself in accordance with one of the advocacy coalitions that emerged in the Council in effort to expand its authority. In its early days, it usually aligned itself with the French government and its allies in the Council. Yet, it soon opted for a more flexible approach. Most of the time it engaged in coalition-building within the Council in an effort to promote and protect its institutional role and competences. Moreover, it opted to abstain from such dynamics whenever its institutional benefit was uncertain. This approach confirms that the organisation’s recent behaviour during the PSI, was, indeed, deviant. It was one of the rare cases that its crisis-management positions were profoundly against the majority of the MSs and risked its acquired competences.

All in all, Chapter 3 offers an analysis of how the Commission ended up with the institutional culture that led it to reach such unorthodox institutional choices during the recent crisis. It discusses the historical construction of its crisis-

management preferences by scouring “the historical record for evidence about why the historical actors behaved as they did” (Hall and Taylor 1996:21)

Table of crises and the Commission's stance (Table 3.1)

Bretton Woods System (BWS)	1958	The French government wanted to use protective measures, in order to counteract rising inflation	Market-management
	1961	Germany's unilateral revaluation of the mark in conjunction with increased uncertainty about the convertibility of the dollar	Market-management
	1964-1967	Speculative attacks against the British pound and subsequent devaluation	Market-management
	1967	France leaves the gold pool	Market-management
	1968	Two-tier system inside the BWS	Market-management in the monetary sphere/ elements of market-appeasement in financial aid
	1969	Unilateral devaluation of the Franc	Market-management in the monetary sphere
	1971	Suspension of gold convertibility	Market-management in the monetary sphere
	1971	Smithsonian agreement- Dollar standard	Market-management in the monetary sphere
	1973	European transitions to a system of floating exchange rates	Market-management in the monetary sphere
The Oil crises	1973	First oil crisis	Market-appeasement in financial aid
	1979	Second oil crisis	Market- appeasement in financial aid
The EMS crises	1979-1985	Dollar revaluation- Volcker shock	Market- management in the monetary sphere
	1981-1983	Mitterrand launches demand-management policies/ speculative attacks against the French Franc	Market-appeasement in financial aid/ market-management in the monetary sphere
	1992-1993	Speculative attacks against UK, Italy, Portugal, Spain. France/ UK and Italy leaving the ERM	Market-appeasement in financial aid

3.2 The Bretton Woods era: systemic perturbations and monetary instability

The crises that occurred within the Bretton Woods System (BWS) were mainly caused because of the volatile relationship between the US dollar and the existing gold reserves. According to the Bretton Woods Agreement, the US had pegged the dollar to gold at 35$ per ounce. Other members of the agreement subsequently established parities with the dollar and pledged to sustain them within a 1 percent band around the system's central value. The system thus required members to intervene on the foreign exchange markets, restrain their financial flows and adopt compatible monetary policies in order to preserve the system's parity. The system started presenting serious deficiencies as soon as the US balance of payments started deteriorating. The US started losing gold at an alarming rate and subsequently saw its external dollar liabilities exceeding its gold reserves (Bordo, Humpage and Schwartz 2006:1-2). In effect the above volatile relationship between the US dollar and the existing gold reserves coupled with the actions of the US government to preserve the system were the main causes of the crises that occurred within the BWS.

As this section demonstrates the Commission's reaction to the BWS crises was structured around two central notions: first, its fears of a potential reversal of EU integration due to an emerging financial crisis. The second notion had to do with its efforts to coordinate MS responses to the crisis. While the organisation had limited powers in the field of economic and monetary policy, it used its few responsibilities in order to coordinate MS policies (Maes 2006: 224-225) and hence manage market expectations.

The Commission urged the MSs to establish a system of coordinated exchange rates while they were actively discouraged to flow their currencies freely. Subsequently, it asked them to support this system via transfers and coordinated monetary operations in the face of external speculative attacks. At the same time, it encouraged them to offer financial assistance to states under economic pressure until their coordinated actions took effect and stave-off speculative pressures. In effect, the Commission suggested the provision of financial aid accompanied by wider policy schemes that involved collective state action.

By suggesting such policies, the Commission tried to convey the message that since MSs received ample financial aid, they would have no reason to resort to protectionist measures and hence abandon their Community commitments. In this sense the EU project would appear stable and irreversible. While this approach was watered down via the introduction of distinct market-appeasement elements, like conditionality-based lending, the Commission's overall tactic during that period leaned heavily towards market-management.

The above Commission leanings should be mainly attributed to the individuals that were chosen to head the bureaucracy. In particular, at the moment of its creation the Commission was influenced by the *modus operandi* of the High Authority of the European Community of Coal and Steel (Featherstone 1994: 159). The views and ideas of Monnet and his disciples in the High Authority proved to be very influential with respect to how the Commission perceived and operationalised its institutional role. Under Monnet's leadership, the High Authority had adopted an approach that was very close to the modus operandi of the French government. Inspired by the French dirigiste tradition, Monnet foresaw an active economic role

for the High authority (Featherstone 1994:152). These conceptions acted as the underlying cognitive basis on which the Commission initially based its crisis-management responses. Their influence became evident during the Bretton Woods era and led the organisation to suggest market-management measures. Yet, these ideas operated in conjunction with the analytical expertise of the Commission's leadership in this particular field/portfolio, i.e. first, Robert Marjolin and, then, Raymond Barre.

The organisation's crisis-management suggestions at the beginning of the 1960s showcased this dynamic. The pre-existing culture of the High Authority and Monnet's influence encouraged the Commission to follow the dirigiste paradigm, as the latter one was applied in France at the time. Moreover, the first Commissioner of Financial and Economic affairs, Robert Marjolin, also had views similar to Monnet's, as he was previously a high-ranking member of the French economic planning office (Maes 2002:85, Maes 2006: 226). He was also a fervent advocate of economic planning and believed that central planning was necessary for the successful development of the Common Market.

The Commission's structure helped Marjolin consolidate these views as the official policy line. With the organisation's division of labour being quite clear-cut, the main proponent of an alternative economic narrative, i.e. the German Commissioner, Hans von der Groeben, was limited to the competition portfolio. Subsequently, he was unable to effectively change Marjolin's suggestions. The same was true for German politicians. While they were not in favour of dirigiste policies, they found it difficult to bring ordoliberal ideas to the forefront of economic policy decision-making (Seidel 2016: 52-53, 63). Finally, Walter Hallstein, the then President

of the Commission, appeared disengaged from issues of economic policy. He was more interested in the Common Agricultural Policy, the customs union and the common commercial policy (Groeben 1998: 98). He, thus, granted Marjolin a lot of autonomy allowing him to substantially shape the institution's economic proposals without much opposition.

Moreover, Marjolin did not face much opposition from below, i.e. from the services he was presiding over. He had under his authority a director-general with little knowledge of economics, the Italian Franco Bobba. Bobba had mainly organisational tasks, while Marjolin and his team undertook the Directorate's analytical work (Maes 2006: 226-227). He placed Keynesian-leaning officials in crucial positions and had total control over the Commission's economic suggestions (Seidel 2016:57, 62). As a result, Marjolin and his close adviser Robert Triffin were able to plan and bring forward suggestions to their liking. The Commission's reaction to the initial perturbations of the Bretton Woods system, i.e. the establishment of a financial aid mechanism, the proposals for the monitoring of MS economic policies and the coordination of exchange rates, were proposed by this duo (Seidel 2016: 58-60, 63, Maes 2006:231).

The very first time the European Commission had to deal with an international financial crisis within the BWS was in 1958, when the French government faced rising inflation pressures. France, subsequently, expressed its intentions, in accordance with Article 109 of the Rome Treaty, to use protective measures with the intention of counteracting the state's balance of payment deficit (Maes 2006:228). In reaction to this proposal, Marjolin published a memorandum.

The memorandum's overall aim was to avert such protectionist measures. This was important for the Commission, since such policies would be extremely detrimental for the completion of the Common Market. Yet, Marjolin and Triffin thought that if the Commission was to make any meaningful economic suggestions it would need the funds to realise them. Subsequently, they proposed a new Community financing instrument which would help countries to continue making all the necessary payments both inside and outside the Community. By providing a steady flow of funding, the Community would ease financial markets' pressure and would avert MSs from resorting to protectionist measures, like the ones proposed by France (Commission of the European Economic Community, 1958, drawn from Dyson and Quaglia 2010: 122).

This strategy would exhibit a message of decisive action, that would, in turn, shape market expectations. The Commission attempted to align market-expectation behind the notion that even under grave economic pressure MSs would not renegade from their Community commitments. The provided financial aid would make sure that such actions were unnecessary. Speculators would, then, realise that no Community member would be left alone in a situation of economic distress (Maes 2006: 230-231). All in all, in 1958 we already observe the two central features of the Commission's crisis-management strategy for the Bretton Woods era: its effort to avert any reversal of EU integration and its effort to manage market expectations via collective state action.

The debate around the creation of a Community financing instrument, revealed significant cleavages between the MSs. German and Dutch policymakers opposed the Commission's suggestions, while the French side backed the idea. This

discussion precipitated an intellectual and political divide within the Community. On the one side, there were the countries of the "monetarist" bloc supporting a common monetary regime that would, subsequently, lead to economic convergence. On the other side stood the countries of the "economist" bloc. They were arguing in favour of the opposite process, i.e. economic convergence before monetary integration.

This fundamental division also entailed distinct perceptions about the handling of financial crises. Those in the "economist" bloc preferred domestic adjustments that would lead to further economic convergence. Countries in the "monetarist" column favoured more "solidaristic" schemes (Dyson and Quaglia 2010:20). They preferred a crisis-management approach that emphasised collective action and inter-state coordination. The Commission found itself usually aligned with these countries during the Bretton Woods era (Dyson and Featherstone 1999: 178). This led it, quite often, to clash with Germany and the other countries of the "economist" group.

Despite the Commission's desire to position itself at the forefront of the crisis-management effort, Marjolin's plan for a financial aid instrument was not realised. De Gaulle decided not to resort to protective measures and introduced a package deal of orthodox economic policies along with a 14 percent devaluation of the French Franc (Maes 2006: 225, Commission of the European Economic Community, 1958 drawn from Dyson and Quaglia 2010: 121). Nonetheless, the Commission would soon re-articulate its suggestions for an instrument of financial assistance.

Indeed, the Commission brought forward such crisis-management measures already in 1961 (Commission of the European Economic Community 1962). During the early 1960s, US liabilities started exceeding the US gold reserve. This raised

doubts about the ability of the US to maintain its parity pledge, i.e. converting dollars into gold at the official price. Foreign central banks increased conversion of dollars to gold leading to, even, higher market uncertainty. Reacting to these events, the US Treasury and the Federal Reserve intervened in financial markets for the first time after almost thirty years. Seeing this move, the German government also sought to unilaterally devalue the Mark (Bordo, Humpage and Schwartz 2011:3).

Facing such volatility, the Commission incorporated certain crisis management suggestions in its Action Programme for the second stage of the Community. These suggestions, again, bore Marjolin's imprints. The actors that could have challenged him, i.e. the Commission's President and the German Competition Commissioner, did not really have the room or the willingness to do so. The President drafted the political introduction of the document, while the German Commissioner authored the chapter on competition policy. Subsequently, Marjolin's views drove the Commission's overall position on the nexus between market-management and market-appeasement.

Indeed, his contributions to the document, the chapters on economic and monetary policy, were clearly inspired by the French dirigiste tradition. The chapter on economic policy suggested policies towards the business cycle and medium-term planning. He also tried to address the inherent tension between ordoliberal ideas and French planning; he explicitly suggested that planning would not hinder, but rather help, competition. Yet, as was the case with the Community's finance instrument, the German government was not convinced (Maes 2006: 232-233).

On the topic of financial crisis management, the Commission's suggestions were following the theme that was established during the 1958 crisis. The

organisation once again emphasised its fears that financial crises might have negative implications for the EU integration process. It recognised that any international financial problem would seriously hinder the Community's economic activity and might lead MSs to implement trade protectionist measures (Commission of the European Economic Community 1962: 64). It would also hamper the good functioning of the Customs Union and of the Common agricultural policies (Maes 2006:233). Subsequently, it emphasised the need for collective state action; it suggested that unilateral and sudden policy changes, as responses to such crises, would obstruct the functioning of the Common Market (Commission of the European Economic Community 1963:34).

The Commission then advised MSs to discuss and coordinate their responses (Commission of the European Economic Community 1963:38). They had to consult with each other, within the Community framework, before resorting to the funding instruments of the IMF. The same intra-community consultations were to take place prior to any important decision in international financial institutions (Commission of the European Economic Community 1963:34, 38). The underlying rationale of these proposals was that by closely coordinating their policies, the MSs could avert additional speculative attacks. Market participants would see collective schemes protecting each and every MS and consequently the Community's overall integrity. Consequently, market-expectations would move towards a "good" equilibrium. All in all, the notion of market-management appeared clearly in this context as well.

Following this rationale, the Commission also suggested the creation of a funding instrument: the establishment of an intergovernmental agreement with the aim of providing aid to Community members. In order to address concerns over MSs'

liquidity, the new mechanism had to include credit that represented gold and foreign exchange reserves (Commission of the European Economic Community 1962: 66-67). Such a scheme would equip the organisation with the necessary tools to address speculative attacks.

The Commission's insistence with regard to a financial aid instrument demonstrates further its market-management tendencies. The organisation aimed to convey the message that the MSs were willing to use their collective resources to protect their partners and the Community overall. MSs would receive ample financial aid until markets were convinced that the Community was adequately protected. Yet, as was the case with the Commission's initial proposal, Germany opposed the scheme. The German government feared that the European Community might end up being a source of inflation via the provision of financial aid (Dyson and Quaglia 2010: 35-36).

Overall, the Commission's initial proposals on financial crisis-management included a new mechanism of economic solidarity and increased monetary cooperation between countries. Its suggestions were based on the assumption that the effective management of international financial fluctuations required the closer coordination of MSs' economic and monetary policies. To protect the integrity of the European Community, the MSs had to pool their resources together and resort to common actions that would "push" market participants into accepting that the EU project was well-protected and irreversible. On the other hand, unilateral actions that would hinder the process of economic integration, like reverting to trade barriers, were deemed totally inappropriate; they would put at risk the functioning of the Common Market.

The above crisis-management approach operated in conjunction with the Commission's expansive pro-integration initiatives. The institution tried to move the EU project forward by pushing for further European integration (Commission of the European Economic Community 1962:9-10). Encouraging the prior consultation and coordination between MSs was concomitant with its wider pro-integration tendencies; it reinforced the Community's supranational character and led to additional cooperation between its members.

The MSs adopted most of the Commission's proposals, including a mechanism of financial assistance and a framework for further monetary coordination (European Community Press Release 21 April 1964). Yet, as developments in the Bretton Woods System required the Commission to come up with additional measures, the organisation was given additional scope for manoeuvre. Once again, the unstable relationship between the dollar and the US gold reserves precipitated the new crisis.

Fearing that the US would not maintain their convertibility commitments, the French government started converting its dollar holdings to gold and advocated a reform of the financial system (Bordo, Simard, White 1994:16). Following this strategy to the extreme, the state left, secretly, the gold pool in the summer of 1967 (Bordo, Simard, White 1994:18,20). In addition to France, Britain was also constrained by its 1958 pound-to-gold convertibility commitment. Given Britain's large current account deficit, rising unemployment and waning geopolitical strength, financial investors became sceptical of its ability to retain its convertibility commitments. Consequently, the sterling suffered speculative attacks in 1964,1965,

1966 and finally in 1967 (Newton 2010: 913). This series of events led the British government to devalue the pound in November 1967 by 14 percent.

Following these developments and especially the publication of France's withdrawal from the gold pool, investors flocked to buy gold. This led to a serious weakening of US gold reserves. Seeing that the system was quickly reaching a tipping point, the remaining members of the Gold Pool decided, on 17 March 1968, to abolish the previous system. They replaced it with a two-tier system in which the official price of gold (35 dollars per ounce) would hold only for inter-central bank transactions, while there would be a different market price (Bordo, Simard, White 1994:21). The two-tier system initiated the process of demonetization of gold and hence a deflation of its value in the international economy. (Bordo, Simard, White 1994:21-22).

The creation of the two-tier system led to serious global financial spillovers and drove the French government to invoke the European Treaty's safeguard clauses in June 1968. The Commission, initially, approached these developments from the Community angle and emphasised the need for greater economic solidarity among MSs (European Community Press Release 21 March 1968). Its proposals were concordant with the main features of its previous market-management approach.

The Commission argued that external economic volatility had created numerous risks for the Community (Barre 19 June 1969: 1). It criticised the MSs for not demonstrating the necessary amount of coordination (Barre 19 June 1969: 3, Commission of the European Economic Community 1968:1) and urged them to adopt common positions (Commission of the European Economic Community 1968: 7). More cohesion was needed so that the Community was not exposed to the effects

of unilateral decisions by third countries (Commission of the European Communities 1968:9). To that end, states had to improve their coordination methods in the field of monetary policy (Commission of the European Economic Community 1968:10).

In effect, the Commission's initial reaction to the creation of the two-tier system was following the policy pattern initiated by Marjolin, i.e. increased coordination of national monetary policies, in order to fend-off speculators and shift market-expectations. This approach was supported by France and Belgium, while the German and the Dutch government favoured the economist approach, i.e. the further coordination of economic policies and the gradual liberalisation of intra-European capital flows. Such convergence was a necessary precondition before any type of monetary integration.

Yet, after its initial response to the two-tier system, the Commission also operated a policy change. Specifically, the organisation modified slightly its market-management approach with regard to financial aid and began taking more into account market expectations. This change should be mainly attributed to Marjolin's departure from the Commission. His successor, Raymond Barre, had different views on where the Commission had to stand with regard to the issue of market-management and market appeasement (Dyson and Quaglia 2010:38, Howarth 2016: 75-76, 79).

The first Commissioner for Economic and Monetary Affairs was a typical Keynesian and an advocate of the dirigiste French tradition. Barre was intellectually more eclectic and sympathetic to the ordoliberal tradition, while still being influenced by dirigiste economic ideas (Howarth 2016). His views on crisis-management appeared to be a combination of market-management and market

appeasement ideas. He believed that it was crucial for the Common Market to maintain exchange-rate stability, centred on a system of fixed, but adjustable, exchange-rates (Howarth 2016: 78-79, 84). At the same time, he was more sympathetic to German ideas about additional economic convergence and domestic adjustment in the face of crisis. In line with this eclectic logic, his crisis-management approach continued some of Marjolin's policies, but also pushed for new ones.

Barre faced minimum opposition while steering the Commission towards his preferred direction. The German Commissioner retained the competition portfolio and Barre's respective director general, an Italian diplomat named Ugo Mosca, was mainly interested in reorganising the department (Maes 2006: 226-227). Consequently, Barre's influence became evident soon after his appointment, i.e. in the Commission's assessment of the 1968 crisis.

The organisation argued that these events posed serious, systemic, challenges for the future of the Community (Commission of the European Economic Community 12 February 1969:4). Subsequently, it made clear that the MSs had to follow market-management policies in the monetary sphere. First of all, they had to consult their partners before changing their exchange rate. Moreover, they had to eliminate fluctuation margins between intra-community currencies. This would render easier the adoption of a common European position in case third countries adopted floating exchange rates. Developing this position further, it suggested a policy of fixed exchange rates, that would also be maintained during crises. In turn, it firmly opposed the potential expansion of the range of fluctuations between the Community's currencies (Commission of the European Economic Community 12 February 1969: 3-4). The above suggestions on monetary coordination can be seen

as following the market-management approach. They were aiming to push market expectations into a "good" equilibrium by conveying the MSs strong exchange-rate commitments.

Barre also introduced a new element of market-management nature: the coordination of national fiscal policies. He argued that in order to maintain a system of fixed exchange rates, MSs had to follow appropriate domestic policies. Countries with high inflation had to suppress domestic demand, while surplus countries had to stimulate their domestic demand and export capital (Barre 19 June 1969: 3-4). This proposal constituted a change from the Commission's previous behaviour, since it sought to present suggestions for the domestic sphere. It proposed an economic scheme in which surplus and deficit countries implemented coordinated domestic adjustments in order to sustain the system of fixed exchange rates (Barre 19 June 1969:10). In conjunction with additional monetary coordination such a policy scheme would seriously affect market-expectations. It would signal to market participants that the Community was ready to fend off any speculative pressure and adequately back its members. Market participants would then be convinced that the MSs would uphold their Community commitments and would not re-introduce trade barriers.

In addition to the above measure, the MSs had to adopt common European positions and medium-term objectives in the international financial context (Commission of the European Economic Community 12 February 1969:3). Given the likelihood of "accidents", they had to review these goals annually (Commission of the European Economic Community 12 February 1969:7). Yet this suggestion did not just reflect the French tradition of medium-term planning and the market-management logic. It was also influenced by the German ideas for further convergence and was

indicative of the Commission's slight policy shift towards market-appeasement (Maes 2006:236).

From the one hand, the Commission was still trying to manage market expectations by setting medium-term goals accompanied by concrete economic policy guidelines (Howarth 2016: 86). On the other hand, it embraced the view that there were "good" policies that MSs had to follow individually. In this sense, the Commission incorporated market-appeasement features in its approach; it accepted that there are optimal policies that markets would "reward" and feel safe with. MSs had to follow such policies in an effort to come closer to their most productive and, according to market-participants, most trustworthy partners.

Finally, Barre introduced another measure of market-appeasement nature: a new version of the Community's financial support instrument. The Commission argued that existing provisions for mutual assistance were not flexible enough to cope with extensive market volatility. The increased interdependence between the members of the Community and the increased benefits that they would reap from such a scheme made its creation necessary (Commission of the European Economic Community 12 February 1969: 7-9). Short-term financial assistance would give the necessary breathing space to a state that needed to remedy its status in financial markets. If that was not possible, then short-term assistance could be turned into medium-term assistance (Commission of the European Economic Community 12 February 1969: 12). Indeed, the Commission, later, proposed that the medium-term assistance mechanism becomes permanent; establishing a clear framework that would allow its immediate activation in the event of an emerging crisis (Commission of the European Communities 10 June 1970: 2).

The Commission also argued that the use of such financing measures would not replace necessary domestic adjustments. States under financial pressure had to also realise a programme of domestic reforms, with financial aid being a complementary tool (Commission of the European Economic Community 12 February 1969: 9). Tying the provision of financial loans with the realisation of domestic adjustments marked a significant policy change inside the Commission and was the most profound change that Barre brought with respect to the Commission's crisis-management strategy.

Under Marjolin, the Commission promoted financial aid schemes that provided steady support for the MS under pressure. This support aimed to exhibit a message of collective Community action and shift market expectation towards a desired equilibrium. In turn, that would mitigate market panic and dissuade speculators. Barre's respective scheme moved away from this strategy and introduced a "financial carrot" logic. It used loan conditionality in order to steer countries towards implementing domestic structural reforms that were in accordance with market-expectations. In this sense, the Commission introduced market-appeasement elements in its crisis-management schemes. It accepted that there were "good" policies that market participants would reward. MSs under financial pressure had to deal with their problems by employing such policies at the domestic level.

Taking stock of all the above, the Commission's policy package vis-a-vis the 1968 financial turmoil had the following characteristics: first of all, it aimed to protect the process of EU integration by ensuring that the MSs would not re-introduce trade barriers. This aim was directly linked with its overall institutional mandate. As the

organisation established itself as the main proponent of EU integration its crisis-management policies ended up revolving around the maintenance of the EU project. The Commission's understanding of financial crises as systemic threats to the process of EU integration would be repeated regularly in the future.

On the actual handling of financial volatility, the Commission adopted an approach that combined market-management with market- appeasement measures. States had to coordinate their monetary responses and fiscal policies, with the aim of exhibiting a strong message of collective action. This would avert any speculation about the reversal of European integration. At the same time, with the arrival of Barre, some market-appeasement elements appeared. By using loan conditionality, the Commission asked MSs to realise domestic adjustments that were in accordance with market-expectations. All in all, the Commission's suggestions after the 1968 crisis were reflective of Barre's eclectic crisis-management approach; a mixture of market-appeasement and market-management policies.

This policy mix also constituted a compromise between the German and the French positions. On the one hand the German government emphasised the need for domestic adjustment in order to deal with external uncertainty. French authorities, on the other hand, advocated wider financial aid schemes (Howarth 2016: 85-86). Barre's approach combined the two approaches and moved the Commission from the market-management extreme towards a hybrid approach.

While the MSs adopted these proposals and empowered the Commission in the context of the Medium-term financial assistance mechanism (Maes 2006: 237, Council of the European Communities 1971 drawn from Dyson and Quaglia 2010: 222), the organisation's overall suggestions soon became outdated due to systemic

economic shocks. In August 1969, the French government faced renewed speculative attacks, due to its lax economic policies. The government chose to devalue the Franc unilaterally by 11.1 percent (Maes 2006:228) without consulting the Commission or the other MSs (Shoup 1969: 10). While the Community isolated the French agricultural market in order to negate the effects of this devaluation, a new wave of speculative attacks broke out. It targeted the German Mark, anticipating its revaluation. This development led Germany to also abandon the intra-community fixed exchange rate. It allowed the Mark to fluctuate freely for around a month, until it decided to revalue it in October 1969. While certain corrective Community actions were agreed (Shoup 1969: 10), these events made clear that the Commission's plans and proposals had little influence vis-à-vis the MS final decisions. Yet, most of them would eventually resurface and come to fruition.

Indeed, some of these measures appeared again at the beginning of the 1970s, with the publication of the Werner Report. The Werner Report was drafted by a group of experts headed by the then Prime-Minister and Minister of Finance of Luxemburg, Pierre Werner. It presented to the Council a few alternative proposals for the creation of an Economic and Monetary Union. Being an integral part of the consultations, the Commission promoted a few of its previous suggestions (Commission of the European Communities 4 March 1970 drawn from Dyson and Quaglia 2010: 203-204).

Subsequently, the final report embraced numerous previous Commission proposals (Howarth 2016: 87). It favoured the centralization of monetary decisions under Community jurisdiction. This would be done via interventions in foreign exchange markets, the collective management of national reserves and the fixing of

foreign exchange parities vis-à-vis the outside world. At the same time, having a common policy line in the international financial institutions was seen as crucial (Werner Report 1970:10, 12). The report also suggested the further coordination of MSs' policies in financial markets and the further limitation of fluctuation margins between Community currencies (Werner Report 1970: 22-23). It, finally, extended the idea of having a mechanism of financial aid for MSs. It proposed the creation of a European Fund for Monetary Cooperation, which would also absorb the mechanisms of short and medium-term financial aid (Werner Report 1970: 25).

The Commission would later repeat with much force the report's suggestions for additional monetary cooperation in the face of financial crises. It would also pick up the suggestion for a European Fund of Monetary Cooperation and suggest its further development (Commission of the European Communities 29 October 1970 drawn from Dyson and Quaglia 2010:217).

Indeed, the organisation brought forward such proposals soon after the publication of the Werner report and as the two-tier system was crumbling. Since the two-tier system was not sufficient to stop the speculative attacks against the dollar, the US continued their monetary expansion and inflated the monetary reserves of surplus countries leading to a subsequent inflationary rise (Norton-Taylor 1971:12). Given the spillover effects that were caused by this policy, the Commission had to bring forward additional crisis-management proposals.

In particular, it proposed a package of exchange controls that would regulate the Eurodollar market while retaining the existing intracommunity parity. This package included negative interest rates on dollars, restrictions on foreign dollar borrowings in Europe and an increase of banks' reserve requirements. It also

included a widening of the common exchange rate margin between the six currencies and the dollar- from 0.75 to 1 per cent. Such measures would offer an effective solution without harming the common agricultural market and the prospects for a monetary union (Norton-Taylor 1971: 12). The scheme also included crisis-management suggestions that were pertinent to the domestic sphere. Indeed, it encouraged MSs that faced with high inflationary tendencies to introduce measures intended to limit demand (European Community 1971:6).

These suggestions were, again, following the market-management approach. They aimed to bring forward a collective action plan that would convince markets that the European Community was adequately protected from financial crises. By following such a plan, the Community would ensure that no MS would be pushed to re-introduce trade barriers or devalue its currency unilaterally.

The Commission's proposals placed it in opposition to German preferences, since the German side favoured an intra-community system of floating exchange rates (Giscard d' Estaing 1971 drawn from Dyson and Quaglia 2010: 223-225). The clash between these two rationales became evident when Germany faced rising inflationary pressures due to the US Federal Reserve's monetary policy. The Commission insisted on retaining inter-Community parity, while the German government bypassed this advice and secured the Council's approval to float the Mark freely (Bordo 2017: 24, European Community Press release 19 May 1971, European Community Press Release 6 August 1971). The Commission viewed this decision negatively and argued that MSs had not reacted in a coordinated manner and that the decision to let the German Mark float upwards was detrimental to the agricultural market (European Community Press Release 19 May 1971).

Yet, the free floating of the German D-Mark did not really ease inflationary pressures. Subsequently, Britain and France expressed their intentions to convert even more dollars into gold. At the same time the US trade deficit ballooned. Subsequently, in August 1971, the Nixon administration took decisive action and suspended gold convertibility altogether (Bordo 2017: 24-25). After Nixon's announcement, the G-10 reacted and attempted to recreate a system of fixed-exchange rates with the Smithsonian agreement of 1971.

From its point of view, the European Commission reacted to Nixon's announcement by reverting to its market-management positions; common policies were needed in order to manage market expectations and mitigate market panic (European Community Press Release 17 August 1971). Its suggestions emphasised the grave implications that ongoing financial turbulences could have for the common market (especially for the common agricultural market) and for the future development of the economic and monetary union (Barre October 1971:11, European Community Press Release 1 December 1971: 2). It urged MSs to draw common solutions and agree on a common stance in international fora. Furthermore, the organisation thought that the new international financial system had to be structured around a system of fixed exchange rates with a moderate widening of the fluctuation margins around the dollar. At the same time, the MSs had to establish between them a flexible system of fixed exchange rates.

All these suggestions proposed common action plans in the monetary sphere with the aim of shifting market expectations. The Commission was trying to ensure that the European Community would react in a coordinated manner and hence would effectively manage market expectations.

The Commission kept the same stance during the brief period during which the Smithsonian agreement was in place. It argued for reduced intra-Community exchange rate fluctuations and favoured wider fluctuation margins between Community and third country currencies (Kemezis 1972: 11-12, European Community Press Release 21 December 1971). It also appeared quite sceptical of the free-flowing community currencies (European Community Press Release 4 July 1972). Finally, it urged the MSs to establish instruments that could control the excessive influx of foreign capital in the Community (Commission of the European Communities 9 September 1971: :1-4, Barre September 1971:7, Barre October 1971: 11). Concomitantly, the Commission brought forward its suggestion for a European Monetary Cooperation Fund. This new Fund would coordinate central bank interventions in money markets and harmonise the reserve policies of national authorities (European Community November 1972/ 155: 13).

In short, the Commission reacted to the Nixon shock by adopting a rather coherent market-management approach in the monetary sphere. It came up with proposals like closer monetary coordination and fixed exchange rates. Its underlying rationale was that, in seeing these policies in place, financial investors would be reassured that the Community was willing to address and mitigate the emerging financial turmoil in a cooperative manner. The MSs would appear prepared to pool together their resources and protect the Community's most vulnerable members. The latter ones would then sustain their Community-related commitments.

France, Belgium and Luxemburg supported the Commission's response to the Nixon shock and its market-management proposals. Hence, the Commission found itself, once again, in line with the camp that favoured further monetary integration

without any prior economic convergence. Yet, these proposals did not go unopposed: Germany, the Netherlands, Italy and Britain opposed this approach and suggested a joint European float without any capital controls.

These two coalitions ultimately reached a compromise that took the form of the Monetary Snake. In line with the Commission's suggestions, this plan included among other things, the narrowing of fluctuation margins between Community currencies. This would lead European currencies to fluctuate against the dollar within the standards defined by the Smithsonian agreement. In addition, intra-European fluctuations would be limited to an even narrower band (McNamara 1998:106-107). Overall, this proposal remained close to the Commission's market-management rationale since it created a framework that would enable the MSs to coordinate their monetary responses to external financial fluctuations.

Following the establishment of the Monetary Snake, the Commission managed to implement additional measures of market-management nature. In particular, its suggestion for the establishment of a European Monetary Cooperation Fund came to fruition in September 1971. The Fund's initial mandate included only modest functions, namely, the management of the credit system in the short-term, the shrinkage of fluctuation margins and the coordination of central bank interventions in the money markets (European Community November 1972/155: 9, Council of the European Communities 12 March 1973 drawn from Dyson and Quaglia 2010: 235). In effect, the new Fund had as its main aim to better coordinate the MSs' responses to financial crises, i.e. to extend and improve the Commission's market-management tools. The Commission would later try to empower the new Fund

further with a view to making it a proper instrument of monetary coordination and crisis-management.

While the Commission kept demonstrating its market-management tendencies after the establishment of the Smithsonian agreement, the new system soon proved to be vulnerable. Amid increased financial speculation over the dollar, the US devalued the dollar unilaterally. Consequently, the G-10 gradually moved towards a system of floating exchange rates. The German government was the first to move towards that direction. Increased speculative attacks had pushed the German Mark to the top of its fluctuation margin with the dollar, making the Bundesbank uneasy (State Department, Office of the Historian). In turn, the German government convinced the G-10, in March 1973, to approve the Community's decision to jointly float its currencies against the dollar (Council of the European Communities 12 March 1973 drawn from Dyson and Quaglia 2010: 235-236). This event signified the transition to a system of floating exchange rates.

Reacting to this change, the Commission re-articulated market-management measures that mainly pertained to the monetary sphere. It brought forward suggestions for a system of fixed exchange rates, both internally and externally. The MSs also had to aid their European partners that were unable to join this system. This caveat referred mainly to the countries that had already left the mechanism, i.e. to Britain, Ireland and Italy (European Community Press Release 15 February 1973, European Council Press Release 4 March 1973).

Britain and Italy recycled these suggestions and modified them to better reflect their preferences. Thus, the British wanted to tie these measures with unlimited financial support so that they could keep the pound in the system. The

Italian authorities asked for the creation of a special fund that would mitigate disparities between and within countries. Nonetheless, the other MSs saw these suggestions unfavourably due to their high financial cost (McNamara 1998:108) and, subsequently, rejected them. Ultimately, they decided to float their currencies with four out of the nine European currencies (the British Pound, the Italian Lira, the French Franc and the Irish Pound) floating independently from the others.

This decision was a clear violation of the rules that were laid for narrower fluctuation margins and went contrary to the Commission's prior suggestions. Indeed, the Commission appeared concerned with this move since it openly flaunted its proposals for collective state-action and monetary coordination (European Community Press release 13 March 1973, Commission of the European Communities 11 December 1974: 1). It, subsequently, found itself at odds with the aggregate preferences of the Council. Nevertheless, by opposing their decision it did not risk its crisis-management competences, as it did with the PSI. During that period the Commission was the only credible agent available to the Council, hence its opposition entailed limited risks with regard to competence losses.

Given its disagreement with the MSs' decision, the Commission brought up numerous additional suggestions that aimed to re-consolidate a framework of collective action. It gave special emphasis to the further development of the European Monetary Cooperation Fund: the Fund would be permanent and would progressively pool MSs' reserves together. It would end up being responsible for the coordination of the Community's external and internal monetary policies (Commission of the European Communities 11 December 1974:1-3). Moreover, the Commission proposed the improvement of the Community's credit machinery so

that it could provide uninterrupted credit lines in the long-term. Finally, it suggested the further coordination of national monetary policies as well as the adoption of common positions at the international level (Commission of the European Communities 27 June 1973: 3, 5).

All in all, during the transition phase from the Bretton Woods era to a system of floating exchange-rates, the Commission promoted a plan of coordinated monetary action and remained close to its initial market-management views. Even when international exchange rate cooperation had broken down, the Commission urged the MSs to create a new intra-Community scheme of monetary cooperation. These policies were seen as safeguards against a highly volatile environment; a way to stave-off speculative attacks by exhibiting a unified message. Subsequently, even under such uncertainty, investors would tend to coordinate behind the idea that the European Community was economically and politically stable and that its MSs would not revert to protectionism.

Taking stock of the Commission's policies during the crises of the Bretton Woods system, the analysis identifies two central and relatively constant themes. First of all, during this period, the Commission saw the emergence of international financial crises as a major risk for the Common Market. It was afraid that the Bretton Woods' crises might negatively affect the integration process. The Commission's main concern was that the MSs might renegade from their Community-related commitments. Thus, its suggestions were, firstly, aiming to convince MSs not to implement protectionist policies. Such a course of action would seriously hinder the functioning of the Common Market. More importantly it would risk the derailment

of the Commission's plan for further integration in the future. All in all, it would cast a grave shadow over the irrevocability of the European project.

In this respect, the Commission's crisis-management efforts were influenced heavily by its overall institutional mandate. The organisation entered a path-dependent process in which the preservation and expansion of European integration was seen as appropriate but also beneficial for the bureaucracy.

The Commission's overall tendency to protect the process of European integration, during eras of financial turmoil, was a corollary to its wider tendency to promote the process of European integration. As internal trade barriers were eliminated and the notion of having a common European market was coming closer, the Commission had to ensure that common rules and institutions were in place (Majone 1994: 79, 81, Maes 2002: 85-86). Its market-making efforts were accompanied by the recognition that such operations could not be performed sufficiently at the national level; some form of supranational coordination was needed (Majone 1994: 85-86). In that sense, its crisis-management thinking followed its integrationist motivations. It proposed crisis-management measures that would lead to further EU integrations and, consequently, to additional competences for the bureaucracy.

In addition to the tying of financial crises with EU integration, the Commission sought to stave-off such risks by managing market expectations. It aimed to avert speculative attacks by consolidating a proactive mechanism of crisis-management. Inside this framework, the MSs had to respond to financial fluctuations and speculative attacks collectively and in a coordinated manner. They had to remedy their financial status with active monetary and fiscal support from their European

partners. The Commission's insistence on a system of fixed, or at least tightly coordinated, exchange rates aimed to create such a framework of coordinated action. Moreover, its planning for the establishment of a financial aid instrument and of fiscal coordination schemes aimed to complement this strategy and create a coherent crisis-management structure. By establishing such a structure, the Commission sought to align market expectations with regard to the irreversibility of the European Community project. No MS would need to break away from the Community or violate its rules since it would receive adequate help and effective support whenever it found itself under financial pressure.

Of course, the above approach did not remain unchanged during the Bretton Woods period. Marjolin's successor, Raymond Barre changed the organisation's approach with regard to financial aid. In their original conception, the Commission's financial aid instruments would provide unconditional aid, until the coordinated actions of MSs managed to ward-off speculative pressures. Yet, under Barre's leadership, loans were accompanied by some form of conditionality. The aim of such clauses was to promote additional economic convergence and appease market forces. Hence, at the end of the 1960s the Commission's market-management approach, while still dominant, appeared to be more moderately applied. The organisation appeared more receptive to the idea that there were "good" policies that the markets would reward.

Finally, with regard to its interaction with the MSs the Commission would usually side with the French side and the monetarist camp, while Germany generally opposed the Commission and the French side as a result of its scepticism regarding the virtues of inflation (McNamara 1998: 87-92). Such positioning was indicative of

the Commission's tendency to take part in the Council's advocacy coalition conflicts in order to push its suggestions for further integration. It sided with the coalition that was more likely to advocate faster and deeper integration and, thus, a substantial increase of the Commission's competences.

3.3 The oil crises and their aftermath

The 1970s were marked by the two major oil crises. Reacting to these incidents, the Commission brought forward even more elaborate crisis-management plans. While these plans still aimed to protect and preserve the EU integration process, the way they sought to do so was different to the Commission's strategy during the Bretton Woods era. During this period the Commission gave much emphasis to the appeasement of market expectations. While it still employed market-management policies in the monetary sphere, it started employing, at an increasing rate, conditionality-based lending. It argued that loan conditionality would restore market confidence by aligning domestic economic policies with market expectations. In this sense, the Commission used market-appeasement measures much more than it did during the Bretton Woods era.

The Commission's policy shift occurred in conjunction with the overall intellectual and political shift that took place during that period. Already from the beginning of the 1970s and throughout the next two decades the Keynesian consensus of the time was challenged. Rising rates of inflation along with poor economic growth and stagnating employment led policymakers to question the validity of the Keynesian paradigm. Moreover, governments faced unexpected volatility in the market for government debt and were increasingly called to

implement measures that were in line with market expectations. Facing such pressures, politicians, usually of Conservative orientation, opted to replace the Keynesian paradigm with an alternative one (Hall 1993: 284).

The one that seemed most developed and coherent at the time was based on monetarist economic theory. It favoured the maintenance of balanced budgets and less state intervention in the economy (Hall 1993: 285). The new paradigm offered solutions to some of the most pressing issues of the era- the ones that the Keynesian paradigm was unable to address. Subsequently, it attracted wider political and electoral support (Hall 1993: 284-285).

The Commission was also influenced by this wider turn. Despite maintaining features of the previous paradigm (Maes 1998:404, 409), it started using certain monetarist ideas already in the early 1970s (Maes 1998:403). Its gradual shift towards the new paradigm also influenced its crisis-management proposals. This became evident, already, during the first oil crisis, in 1973.

The first oil crisis occurred when the Arab oil producing countries (OPEC) imposed an embargo, i.e. a cutback of production and price increases against certain Western states. Given the region's high dependence on oil, these measures severely affected Western Europe (Painter 2014: 189). Subsequently, numerous Community countries, i.e. the Netherlands, Belgium and Germany implemented demand-mitigating measures in order to reduce their oil consumption (New York Times 7 November 1973). Yet, these sanctions did not have the same effect on all 9 MSs: France and the UK were labelled as friendly countries (and hence being prioritized vis-à-vis oil delivery), while the Netherlands and Denmark were subject to a full embargo (Pietrantonio 2010: 169, Lieber 1979: 533).

The Community countries within the friendly tier appeared hesitant to show any solidarity to their less privileged partners in fear of OPEC retaliation (Pietrantonio 2010: 170, Lieber 1979: 533-534). The US suggestions for the creation of the International Energy Agency (IEA) exacerbated this cleavage. On the one hand, most MSs were sceptical of the US effort to reassert their leadership via the IEA, but went along with the proposal. On the other hand, the French government openly opposed the US strategy and accepted it only late in 1974 (Painter 2014: 192-193, Turk 2014: 220-221).

The MSs were also divided with regard to the handling of the crisis inside the Community. On the one hand, the anti-inflation camp, which included Germany, the Netherlands, Belgium and Denmark, wanted a policy that would fend off inflation, independently of the effects that such a policy would have for unemployment. On the other hand, the Keynesian camp, composed of France and Italy, opted for expansionary policies (McNamara 1998: 119-120).

The respective Commission proposals for the first oil crisis did not really meddle with MS conflicts. As the Commission's institutional interest was uncertain, they aimed to preserve the process of EU integration by addressing the short-term effects of the oil crisis. Its proposals repeated its steadfast assertion that the crisis threatened the Community's integrity. It tied the spillover effects of the energy crisis, i.e. inflationary pressures, reduced growth and high balance of payments deficits, with the risk of Community disunity and disintegration (Simonet 28 November 1974: 9). The Commission was afraid that the MSs might abandon their exchange rate commitments and re-introduce trade barriers in order to mitigate the effects of the oil crisis. Subsequently, it argued that protectionist measures, disinflationary policies

and competitive devaluation had to be avoided since they would produce undesirable results both at the national and the Community level.

Apart from expressing its fears for a potential reversal of the integration process, the Commission also came up with concrete policy proposals in order to help countries under stress. Yet, this time it proposed measures that mainly aimed to align MS economic policies with market-expectations. It urged MSs to implement numerous domestic reforms in an effort to limit their dependence on oil and reassure financial investors that they were able to fully handle the unfolding crisis without much outside help. It subsequently came up with new economic policy guidelines that broadly aimed at restructuring national economic policies (European Community Press Release March 1974).

In addition to these suggestions and as soon as it had a better overview of the energy crisis, the Commission came up with an additional proposal of market-appeasement nature. In particular, it proposed the establishment of a new financial aid mechanism that would supplement the existing mechanism of financial assistance (Council of the European Communities 17 February 1975 drawn by Dyson and Quaglia 2010:257). This new loan facility did not simply aim to complement the existing strategies of the IMF, the World Bank and of the G10 for the recycling of petrodollars (Simonet 28 November 1974: 13). It also intended to help the Commission steer MSs towards policies that market participants saw as appropriate responses to the unfolding crisis. This would happen via conditionality clauses that were attached to the Commission’s loans (European Community Press Release 18 October 1974, Simonet 28 November 1974: 8, European Community Press Release 22 March 1976).

The way the above policy scheme worked, and especially its conditionality elements, is best showcased with the case of Italy. Italy requested financial support due to its negative balance-of-payments and the dire state of its foreign exchange reserves (Simonet 28 November 1974: 7). Following this request Commission officials suggested that Community loans were given to those that strived to help themselves. They argued that such programme of financial aid work as signalling devices; exhibiting a message of credibility to the financial markets. Granting a Community loan signified that the receiving state was willing to reform substantially and in accordance with market expectations (European Community Press Release 22 March 1976). Subsequently, the loan conditionality scheme for Italy included the following conditions:

> "1) The Italian authorities shall immediately take measures to eliminate gradually over the next five years the gap between central government current expenditure and revenue. To this end: expenditure and the number of semi-public organisations shall be restricted; direct taxes shall be increased and the campaign to combat tax evasion stepped up; special efforts shall be made to improve administrative organisation and to prevent the transfer of powers from central government to regional authorities from leading to duplication of tasks. In the next five years, monetary financing of Treasury requirements must be gradually and substantially reduced. In public capital spending priority shall be given to the development of public transport and increased use of autonomous energy sources. 4) Savings shall be made in the consumption of petroleum products for domestic use. 5) The relevant authorities shall take the necessary steps, making use where necessary of the

> Community instruments available, in particular the Social Fund, to improve the operation of placement services and the vocational training of workers.
>
> 6) Special effort should be made to promote and assist foreign investment in Italy and more particularly in the Mezsogiorno." (Commission of the European Communities 14 November 1974:6-7).

It is clear from the above that these loan packages entailed extensive programmes of economic adjustment in the form of conditionality. Governments had to take measures of immediate economic stabilization like cutting expenditures, reducing the overall number of semi-public organisations, raising additional taxes, curbing tax evasion and rationalising the system of public administration. They also had to fundamentally alter their economies by developing autonomous energy sources and reducing crude oil consumption (Commission of the European Communities 14 November 1974:6-7, European Community background note 12 May 1976). The overall aim of these measures was to achieve trade surpluses and to get MSs back to a fiscally sustainable path.

As will be explicated in the following chapters the above conditions were very similar to the ones that were included in the Greek programme. Greece also had to implement a series of substantial structural reforms, consolidate its budget and mitigate chronic "malaises" like tax evasion.

All in all, the first oil crisis signified the further expansion of market-appeasement policies within the Commission. The organisation's financial aid schemes followed the notion that financial aid was to be given under strict conditions with the aim of bringing MSs in line with market expectations and closer to their most productive Community partners. The MSs were expected to address the implications

of the oil crisis mainly via domestic adjustments with the partial help of Community funds. Seeing the government's willingness to reform towards the "right" direction, markets would then "reward" this policy shift.

The MSs supported this new approach and renewed this form of conditionality-based lending in November 1975. Given its positive results, they maintained it in order to mitigate the financial and economic uncertainty that was prevalent at the time (Commission of the European Communities 28 November 1975:1). The perpetuation of this system had direct and immediate benefits for Ireland and Italy (European Community Press Release 15 March 1976).

Given the success of the above measures, the Commission attempted to bring forward additional crisis-management suggestions. Its overarching aim was, again, to make the Community immune to external financial shocks. In order to achieve this, the new Commission President, Roy Jenkins suggested the abolition of exchange rate fluctuations inside the Community and the establishment of a fixed exchange rate system. Such a measure would create a stable exchange rate system that would be immune to small random events and accidents. It would also contribute to the further stabilisation of the international monetary system. In effect the European exchange rate would become a new pillar of stability for the global financial system. In turn, dollar fluctuations would be far less decisive for the global economy and would have less distortive effects for the European Community (Jenkins 27 October 1977 drawn from Dyson and Quaglia 2010: 281-282).

Despite the Commission's market-appeasement suggestions during the first oil crisis, Jenkin's suggestion vis-à-vis the monetary sphere were leaning towards market-management. They aimed to steer market-participants into believing that

the EU MSs would always maintain their strong exchange-rate commitment in the face of financial crises. In this sense, Jenkin's monetary suggestions were aiming to create a positive equilibrium in which markets would reckon that EU MSs were willing to respond to external economic volatility by closely coordinating their monetary policies.

Jenkin's proposals should be seen as tied with his wider effort to reinvigorate the process of European integration as well as the EMU debate. He believed that monetary stability would be central for economic recovery in Western Europe. He thought that the establishment of the European Monetary system was necessary for the achievement of this goal (Ludlow 2016: 116, 120, Ludlow 2016b: 129-130); fixed exchange rates would bring increased investment and better-targeted unemployment policies (Ludlow 2016: 127, 130). He advocated the implementation of these measures without tying them with the implementation of other measures of economic integration. In this respect, he came in stark contrast with the Commissioner for Economic and Monetary Affairs, Xavier Ortoli, who advocated a gradual and more wide-ranging integration strategy (Ludlow 2016b:131, 134). Nevertheless, Jenkin's suggestions won the argument and became the Commission's official policy line.

While the Commission had, already, articulated proposals for a fixed exchange rate (Ludlow 2016b: 129), this time its suggestions did not face the opposition of the German government. The new German Chancellor, Helmut Schmidt, supported the idea of fixed but adjustable exchange rates. He believed that monetary instability and inflation harmed business confidence. A stable system of exchange rates would remedy this situation. France, under the presidency of Giscard

D’ Estaing, and the premiership of Robert Barre, also backed this scheme on similar grounds (Statler 1981:110-112). Consequently, Jenkin’s suggestion found the necessary political support in order to move forward. Yet while the Commission reignited this debate, it soon lost the lead in this process. National politicians worked out the practical details of the plan (European Council 6-7 July 1978 drawn from Dyson and Quaglia 2010: 285, McNamara 1998: 126, Ludlow 2016: 134).

The final outcome of this negotiation, the European Monetary System (EMS), *de facto* changed the way the Community approached financial crises in the monetary sphere. It signified the realisation of exchange rate stability- an arrangement that the Commission was promoting for a long time. The MSs undersigned the Commission’s long-standing view that further monetary integration would push market expectations towards a “good” equilibrium point. The new system would exhibit a message of coherence to financial markets. The MSs strong exchange rate commitment would align market expectations and lead market participants to believe that the European integration process was well secured from financial volatility incidents.

The effectiveness of the new arrangement became evident with the emergence of the second oil crisis at the beginning of 1979. The Community faced, once more, grave spillover effects resulting from its high dependence on oil imports (Lieber 1979: 537). However, due to the EMS, the MSs were able to easily change the Community parity with other international currencies in a coordinated manner (European Community Press Release 25 September 1979).

Building on the EMS framework, the Commission brought forward suggestions on how to employ, more effectively, the Community’s financial aid

schemes. The MSs had at their disposal the loan mechanisms that were established during the first oil crisis. Recognising the importance of these facilities, the Commission proposed an increase in funds that could be allocated to MSs. It also promoted the simplification of their allocation procedures (Commission of the European Communities 30 October 1980). This would allow the organisation to extend its lending programmes and subsequently expand its conditionality-based reforms. These proposals show that, after the establishment of the EMS, the Commission continued promoting measures of market-appeasing nature. It presented domestic adjustment programmes that were in line with market expectations.

All in all, during the two oil crises, the Commission made extensive use of the common financial assistance mechanisms. The use of conditionality in these loan facilities acted as a safeguard against competitive devaluations and protectionist measures. It also constituted a signal of increased credibility in front of the financial markets. Conditionality clauses would direct MSs closer to practices that market participants saw as economically effective. Budget consolidation, structural reforms and low inflation were all integral to this approach. At the same time, it would lead MSs closer to their Community partners that enjoyed market confidence. Overall, the logic of "financial carrots" appeared to take deep roots inside the Commission during that period.

At the same time the Commission was becoming more adept at managing the Council's coalition dynamics. During the first oil crisis, it chose to abstain from any coalition conflicts and to propose measures that would gather unanimous support. It did so in order to avoid provoking the discontent of the, already sceptical, MSs

while safeguarding the integrity of the EU project. Later on, during Jenkin's presidency, it sought to approach MS preferences strategically in order to push forward the establishment of fixed exchange rates.

3.4 Crises in the EMS

Soon after the consolidation of the EMS the Commission faced another crisis. The dollar's steep appreciation in 1979 affected the German Mark and, subsequently, the other Community currencies (Commission of the European Communities 18 March 1982:2), leading the Commission to draft proposals on the issue (Thorn 5 June 1981:2-3).

According to the Commission, the Community's reaction was, generally, successful. Central banks intervened in a timely and coordinated fashion, leading to equally coordinated intra-community exchange rate realignments. This strategy left no room for speculative attacks (Jenkins 24 October 1980:3, Ortoli 27-28 February 1984:5). Moreover, MSs realigned their exchange rates after collective consultation and agreement - a position that the Commission had endorsed throughout the years (Thorn 14 June 1982).

Aside from praising the system's efficiency, the Commission nonetheless expressed certain concerns. It feared that the European exchange rate mechanism might not be able to handle crises of that magnitude in the future. Subsequently, it proposed the development of common exchange rate parities with the currencies that laid outside the system. This would allow MSs to handle more effectively future swings in exchange rate (Jenkins 24 October 1980:6-7, Thorn 5 June 1981: 4, Thorn 14 June1982: 7). It would also create a pillar of monetary stability in the global

system- a theme that was reminiscent of the Jenkins and Thorn Commission (Thorn 5 June 1981:5-6, European Community Press Release May 1983).

In this respect, the Commission went back to its theme of market-management via monetary coordination. It suggested measures that would lead markets to align behind the view that the MSs exchange rate commitments were incontestable and that they would not change even during crises.

With the same aim in mind, the Commission also re-emphasised the necessity of establishing a European Monetary Fund (EMF). This Fund would act in the capacity of a quasi-central bank. It would intervene in the foreign markets, coordinate the monetary policies of Community countries internally and externally, decide potential exchange rate realignments and issue conditionality-based loans (Bulletin of the European Communities 1983 drawn from Dyson and Quaglia 2010: 313).

All in all, at the beginning of the 1980s the Commission emphasised the need for closer interstate coordination in the monetary sphere so that the Community could push markets towards a “good” equilibrium.

MSs with weak currencies, like Italy and France, backed this proposal. On the opposite side, the German side objected the plan. The German government was very hesitant to transfer further authority to the supranational level. The creation of the European Monetary Fund would create ambivalences regarding the authority of central banks and would also create risks of excessive liquidity in the Community (Dyson and Quaglia 2010: 176, 189, 311).

The second incident of financial panic that the Commission faced during the 1980s had to do with the French Franc. In this case the Commission’s proposals went beyond the monetary sphere. Moreover, as during the oil crises, they aimed to

appease market forces via conditionality-based loans. By doing so they came in opposition to the demand-management policies of the new French government.

The French crisis erupted after the election of Mitterrand in 1981. His government embarked on a road of fiscal expansion by increasing government expenditure by 23 percent in 1982 (Lee 2004:41). It also expanded the public sector, via nationalisations, and increased redistribution (Sachs and Wyplosz 1986: 268-269, 273). These measures led to rising unemployment, inflation and an even greater current account deficit (Sachs and Wyplosz 1986:263). To add insult to injury, Mitterrand was ambivalent on whether France would stay in the EMS. Subsequently, market participants doubted whether France's debt was sustainable and whether it would retain its exchange rate commitment (Sachs and Wyplosz 1986: 290-291).

Despite the unfolding market panic and the 12 percent devaluation of the Franc (against the Mark) that occurred in 1981, the French government appeared determined to move forward with its agenda. Consequently, the Franc devalued even more in 1982, i.e. by 10 percent against the Mark. To address the Franc's free fall, the government introduced a package of austerity measures that included new taxes and a freeze upon taxes and wages (Sachs and Wyplosz 1986: 276). With the French economy not recovering new speculative attacks erupted in 1983. In order to avoid further devaluation, the government contemplated leaving the EMS and taking protectionist measures.

Mitterrand saw the 1983 speculative as an opportunity to prove that politics could triumph over financial markets (Dyson and Featherstone 1999: 63). His manoeuvring during that period constituted a last effort to manage, rather than follow, market expectations. This practice was, after all, part of the French

Republican tradition (Dyson and Featherstone 1999: 69). Yet, pressured by other MSs and the Commission, he decided to stay in the EMS. In turn, the MSs realigned the exchange rate in order to halt the transpiring crisis; Germany revalued the Mark by 5.5 percent and France devalued the Franc by 2.5 percent. Moreover, a harsher programme of fiscal consolidation, that included increased taxes and lower government spending, followed this devaluation (Lee 2004: 42-43).

In view of the transpiring events, the Commission offered new policy guidelines. It first, commended the MSs for consensually realigning exchange rate parities. This realignment was not just based on France devaluing its currency, but also included the revaluation of the other currencies (Commission of the European Communities 18 March 1982:2, Thorn 14 June1982 :4). Indeed, the 1981 realignment consisted of a 3 percent devaluation of the Franc and a 5.5 percent revaluation of the Mark, while the one in 1982, of a 5.5 percent devaluation of the Franc and a 4.5 percent revaluation of the Mark (Lee 2004: 41). These realignments showcased the high degree of monetary cooperation between the MSs; a state of affairs that the Commission had long lobbied for.

Nevertheless, the organisation also expressed its scepticism with regard to constant exchange rate realignments (Bulletin of the European Communities 1983 drawn from Dyson and Quaglia 2010: 314). Realignments had to be the exception rather than a recurring event, otherwise, marker participants would get a sense of instability and constant fluidity. In this sense, the Commission's suggestions in the monetary sphere kept following the market-management logic. They aimed to convey a message of stability and close cooperation in the monetary sphere in an

effort to convince market participants that the MSs' exchange rate commitment was stable and irreversible.

Apart from its monetary suggestions, the Commission also proposed financial aid measures of clear market-appeasement rationale. The organisation criticised the French socialist policies as being incompatible with the overall trajectory of the Community. It made clear that Mitterrand's policies had provoked a crisis of confidence (Sachs and Wyplosz 1986: 291-294). Hence, they had to change in a way that would be concomitant with market expectations. In order to achieve this the Commission proposed the implementation of austerity measures, i.e. spending cuts, wage freezes and tax increases (Thorn 14 June 1982:4). By following such a plan, the French government would gradually regain market confidence and stave off speculative attacks. Yet, despite the Commission's insistence to attach harsh conditionality on the Community loan that was given to France, MSs rejected this course of action. They rested assured that the French government would realise its programme of domestic reforms without any external pressure (Russo 23 April 1984:16).

The Commission's open opposition to Mitterrand's policies and its further shift towards market-appeasement (Dyson and Quaglia 2010:37) can be attributed to numerous factors. Firstly, MSs themselves had gradually shifted towards a more monetarist paradigm (McNamara 1998). In addition, the Commission's last experience with coordinated Keynesian policies led to rising inflation and balance-of-payment problems (Maes 2002: 119). Moreover, the organisation itself experienced a clear policy shift in favour of more liberal policies during that period. While this

shift had started already during the 1970s it was intensified during that period (Maes 1998: 405-407).

A big part of this shift should be attributed to the influence of the new Italian director of DG ECFIN, Tomasso Padoa-Schioppa. Unlike numerous other directors, he was not only an administrator but also a skilful economist. Schioppa had graduated from MIT, working closely with Modigliani, a moderate Keynesian. He was also heavily influenced by Paul Samuelson and Robert Solow (Masini 2016: 194-196). He ended up writing a well-cited paper with Modigliani, in which they argued that expansionary monetary policies are ineffective in the real economy and lead to inflation. They argued that the only way to have a positive external balance was to supress wages to a level that is compatible with productivity (Masini 2016: 199).

In conjunction with the former elements, Schioppa's ideas proved to be influential within the Commission. His ability to influence the Commission's stance was facilitated by the fact that the organisation lacked strong leadership at the time. The Thorn Commission, which was in office between 1981-1984, gave a lot of autonomy to the organisation's permanent staff and the ECOFIN Commissioner, Xavier Ortoli, granted a lot of freedom to his new Italian director. Given his intellectual and managerial skills, Schioppa used this autonomy to become very influential. In a way one can see his views driving the Commission's argumentation against Mitterrand's policies.

The Commission's extensive use of market-appeasement measures became even more evident during the next incident of financial panic, i.e the ERM crisis in 1992. This crisis was attributed to various factors; the increased liberalisation of currency markets, and the subsequent inability of central banks to intervene, the

chronic discrepancies between the German Mark and the other Community currencies, the economic implications of the German reunification and the hesitance of certain MSs to ratify the Maastricht Treaty, all contributed to the creation of the perfect storm (Eichengreen 2010: 6, Lee 2004:43).

After the unfavourable outcome of the Danish referendum in June 2nd, investors began panicking. In their minds, the economic commitments of the countries that aspired to join the Maastricht Treaty were in doubt (Sandholtz 1996: 87). Subsequently, the Italian Lira and the British Pound came under speculative attacks. In turn, Britain and Italy were forced to leave the EMS (Harmon and Heisenberg 1993:19). Spain and Portugal also had to devalue their currencies but remained in the EMS (Eichengreen 2010:12-13, Maes 2002:158). Finally, twice in 1992 and once in 1993, the French Franc came under speculative attacks. This led the MSs to widen the fluctuation band of the EMS by +/-15 percent. With this new policy in place, countries under economic pressure could stay in the EMS and avoid devaluations. Consequently, speculative attacks decreased significantly (Lee 2004:43-45, Eichengreen 2010: 14, Agence Europe 2-3 August 1993 drawn from Dyson and Quaglia 2010: 536, Abdelal 1998:250). Market participants calmed even further as MSs took adequate measures to increase their competitiveness and reduce their budget deficits (Maes 2002:158, Abdelal 1998:249-250).

Contrary to previous crises, the MS reaction to the ERM crisis did not follow a cooperative pattern in the monetary sphere. The MSs tried to balance their national interests with the perpetuation of the overall monetary system without much success. The main bone of contention between them was whether states under economic pressure should devalue their currencies or defend them with the

Bundesbank's help. The British and the Italian case were perfect illustrations of this impasse. In both cases, national officials clearly stated their intentions to defend their national currencies. Yet, the German Bundesbank was implying that they should devalue them (Aykens 2002: 372-376).

In the context of growing MS dissent, the Commission steered clear from the question of exchange rate realignment/devaluation (Maes 2004, Hodson 2016: 227). It identified three main sources of instability, i.e. global currency problems, augmented economic problems in certain European countries, like Italy and Germany and finally psychological factors, like the spreading of fears regarding the UK's participation in the EMS.

Following this diagnosis, the Commission tried to smooth the potential spillover effects of the crisis in order to protect the integrity of the Union. It did so by offering financial aid packages. In particular, it suggested the renewal of the medium-term financial assistance mechanism (until 1992). This facility was created in 1988, via the integration of the 1971 Medium-term financial assistance scheme and the 1975 Community loan mechanism. This mechanism would avert potential balance of payment crises and help states better manage balance of payment difficulties. It would also help them to abide by their convergence programmes without using protectionist measures (Commission of the European Communities 24 November 1992: 3-6).

Of course, the Commission did not fail to emphasise the role of conditionality in this scheme. Loan conditionality entailed the adoption of a multiannual programme that would promote further economic convergence in the EU (Commission of the European Communities 24 November 1992: 3-6, Hodson 2016:

219). Moreover, loan conditionality would help MSs to reobtain market confidence and to catch-up with its European partners in terms of productivity. The organisation suggested the provision of such a loan to Italy, in 1992-1993. After seeing the effectiveness of this arrangement, it proposed its renewal, in anticipation of future crisis (Commission of the European Communities 4 February 1996: 1-2).

All in all, during the period of the ERM crisis, the Commission's approach to designing financial assistant instruments remained consistent with its previous market-appeasement practice. It resorted to conditionality-based lending, which, in turn, entailed significant domestic adjustments that were in line with market-expectations. The survival of such practices over a long period of time and its increased use suggest that the market-appeasing rationale was consolidated over time. The Commission appeared convinced that countries could mitigate a crisis' effects by implementing domestic measures that were in accordance with what market participants saw as "good" economic policies.

Summing up the Commission's reactions during the crises that occurred inside the EMS framework, one can identify certain themes. First of all, its suggestions tried to ensure that crisis spillovers would not hinder the process of further economic and monetary integration. The Commission was afraid that the MSs might abandon their exchange rate commitments in order to mitigate the spillover effects of various crises.

Moving to how the Commission chose to address these crises, the analysis argues that the Commission kept suggesting market-management measures in the monetary sphere. MSs would be able to handle crises more efficiently if they sustained and extended their monetary coordination. The underlying logic was that

further monetary integration would exhibit a unified message, warding off financial pressures and speculative attacks, while also managing market-expectations.

Nevertheless, during the EMS period, the Commission also employed conditionality-based lending at an increasing rate; far more than it did during previous crises. It used loan conditionality to guarantee that countries under stress would meet market expectations and hence reobtain market credibility. This course of action would also bring them closer to the MSs that were following economic policies that market participants conceived as “good”. All in all, during the EMS years the Commission’s financial aid schemes leaned towards market-appeasement. They focused on ensuring that the MSs would keep their commitment to the EMU, while being in line with market expectations (Abdelal 1998: 240).

This rationale also affected the macroeconomic governance of the EU in the last two decades. The Maastricht Treaty was based on what was later labelled as the Brussels-Frankfurt consensus. This body of interlocking beliefs, i.e. price stability, sound public finance and domestic economic adjustments, were at the basis of the EMU and also followed a market-appeasement logic (Jones 2013).

Finally, the Commission’s interaction with the Council during the EMS crises shows the continuation of its strategic approach to MS preferences. It sought to place itself in MS coalitions according to its interests and preferred solutions in order to obtain additional competences. Moreover, it averted from taking a clear view whenever preference heterogeneity was high and the MSs appeared sceptical of its expansionary tendencies.

3.5 Stasis and development: Gauging the Commission's past with the Commission's present

Looking at how the Commission handled a number of different financial crises we observe continuity and change. Despite the ever-changing institutional environment and the radically different type of crises, the organisation employed two enduring cultural features around which it built its views on the management of international financial fluctuations. At the same time, the Commission's experience and the overall changes in economic knowledge, led it to gradually change elements of its approach to financial crises. Finally, the chapter also offered certain insights vis-à-vis the Commission's tactical approach to the Council's internal dynamics during such periods.

The first theme, that of continuity and path-dependency, was established already from the Commission's creation as an independent supranational bureaucracy. Throughout the years, the Commission tied the potential spillover effects of financial crises with the process of European integration. The fear that financial crises might reverse the process of EU integration underlay its proposals and reflected its institutional role as the guardian of EU integration.

Hence, during the Bretton Woods era the bureaucracy was initially afraid that external financial shocks might push the MSs to reintroduce trade barriers (Maes 2006:228). In later decades, and as the integration process intensified, these fears were complemented by fears of monetary divergence. From the first oil crisis and on, the Commission feared that international financial volatility might lead national politicians to break loose from their exchange rate commitments and seek to fix their financial woes via competitive devaluation. Hence, the Commission's fears were later

structured around the notion that the process of monetary convergence might be abandoned.

The analysis in the next two chapters demonstrates that in the recent crisis the Commission's concerns revolved around the only channel that seemed able to put in doubt the MSs' commitment to the euro, i.e. the bond market. The Commission was concerned that a poor handling of the Greek debt would lead to a sell-off of sovereign bonds. This would lead to the subsequent collapse of the common currency. All in all, the Commission had fears that the process of EU integration might be reversed independently of the degree of economic and monetary integration. Even during the recent crisis, and under the particular constraints and dynamics of the Monetary Union, this fear remained present and prevalent.

The above analysis suggests that despite the fact that the recent crisis was very different in magnitude and type from all the previous ones that the Commission had dealt with, the organisation ,nevertheless, orientated its thinking and proposals around experiences and knowledge that it had drawn from past crises. While the personnel that has initiated this policy had left the organisation, their successors instinctively looked back at the organisation's history and previous policies in order to find solutions to the recent crisis. In other words, there is remarkable continuity with regard to what the Commission saw as being at stake every time it had to offer suggestions on financial crisis management.

Such continuity can be explained by the Commission's institutional role. Its mandate to protect and expand the process of EU integration did not only influence its proposals for the overall development of EU governance but also its crisis-

management suggestions. The fact that the Commission brought forward such proposals without taking into much account the wider developments in the international financial system and the lessons learnt from crises that occurred outside Europe, is indicative of the prevalence of certain internal cultural features within the organisation.

Apart from continuity, this chapter also discussed a process of change and development. Over the years, the Commission changed how it practically handled financial crises. This feature was not so much dependent on the Commission's institutional role. Numerous variables influenced its views on the topic, including the views of its top officials in DG ECFIN. The latter ones were ultimately responsible to decide how EU integration was better served during financial crises.

Consequently, during its early days, under the influence of Marjolin, the organisation adopted policies that exhibited a message of collective state action. The close coordination of monetary policies and the collective intervention of central banks in the currency markets were supposed to actively change the incentive structure of financial investors. Fiscal coordination between MSs also had the same aim. Even the Community's financial aid instruments, in their original format, were envisaged as tools that would offer the necessary time until collective state action altered market expectations.

This rationale started changing at the beginning of the 1970s. During this period, and with much speed after the first oil crisis, the Commission changed its approach. While it kept proposing market-management policies in the monetary sphere, its approach to financial aid changed substantially. In particular, it opted to provide, consistently and at an increasing rate, conditionality-based lending to MSs.

This policy was not just an act of community solidarity; it was tailored to promote the convergence of European economies and to appease market expectations. The countries that benefited from Community loans had to adjust their domestic economic policies in a way that would satisfy market expectations and bring them closer to their most productive partners. The Commission's rationale with regard to financial aid was that whenever financial spillovers threatened the cohesion of the Eurozone, markets had to be appeased at the domestic level as well. This strategy was consistently used for different types of crisis and under different historical circumstances suggesting that this feature transcended institutional constraints and was part of the Commission's culture.

The rest of the thesis shows that this logic was also prevalent during the recent crisis and despite the particular framework of the Monetary Union. Even with a common currency in place, the Commission's crisis-management proposals pushed individual MSs, i.e. Greece in our case, to meet market expectations. The Commission, once again, employed programs of financial aid that were based on the "cash-for-reforms" logic. It also positioned itself against the MSs' effort to manage market expectations, i.e. the PSI. The organisation's policy proposals along with its steadfast opposition to any debt-relief signifies its further shift towards the market-appeasement rationale. It showcases, in conjunction with the analysis in this chapter, that the market-appeasement logic with regard to financial aid was consolidated as the standard crisis-management practice within the Commission. Commission officials would refer back to this market-appeasement logic in order to draw ideas on what was appropriate to enact in order to address the current crisis. The fact that the Commission used this logic consistently after the 1970s to address financial crises

of very different kind suggests that it drew from a limited amount of experience and knowledge in order to inform its debt-management suggestions.

Apart from the Commission's rationale and ideas vis-à-vis crisis-management, this chapter also, implicitly, discussed the Commission's strategic approach to the Council during such periods. The analysis presented the Commission's tendency to tactically position itself vis-a-vis the MSs' crisis-management preferences. It did so in order to gain or to, at least, preserve its competences. Subsequently, it either sided with one of the two major Council coalitions or chose to not take a position whenever preference heterogeneity was high and its institutional interest uncertain. The following analysis will argue that the Commission's approach to the recent crisis broke this long-established pattern. It opposed the MS debt-management preferences, i.e. the PSI, even when it was clear that this opposition would entail institutional losses for the organisation.

4 *The management of the Greek debt until the PSI: Converging from different paths*

This chapter examines the Commission's immediate reaction to the financial panic over Greece's debt sustainability, i.e. the period between 2009 and July 2011. It zooms in on a moment of extreme uncertainty in order to discuss what truly motivated the Commission during such ambivalent times; was the Commission driven by MS interests, as most of the relevant literature would suggest, or by its organisational culture? How consistent was the Commission's response with previous crisis-management features that it had developed during past financial crises?

My contention, in this and in the following chapter, is that the Commission was motivated by internal organisational features that were presented in the previous chapter, i.e. its pro-integration institutional culture and its tying to market-appeasement measures. I argue that it was fears over financial spillovers that drove the content of the Commission's response to the question of debt relief. A central feature of the Commission's culture consisted in the fear that the emergence of such financial spillover effects might lead to a reversal of the EU integration process. In this sense, poor handling of Greece's sovereign debt might have led to widespread market panic, capital flight and Euro-wide instability. Subsequently, the Commission was afraid that such a chain reaction might jeopardise the Monetary Union as a whole. Overall, I do find evidence that H2b, i.e. the tendency of the Commission to see the process of EU integration protected and expanded, led it to oppose the MS's preferences in the field of debt-management.

While I argue that financial instability fears of the Commission were its primary motivation, I also contend that the Commission did not lose its well-known appetite for additional authority and competence-maximisation (Pollack 2003, Cram 1994: 14). It used the crisis and MSs' desire to address its root causes in order to suggest measures that would expand the EU competences and, by extension, its authority. Indeed, the organisation was central to the crisis-management effort and managed to expand its influence into other policy fields, e.g. the closer monitoring of national statistical authorities. Yet, as the next chapter argues, this tendency towards competence-maximisation was non-existent during the PSI period because the Commission's pro-integration culture brought it into conflict with the MSs.

Admitting that financial fears and expansionary desires drove the Commission's actions amounts to saying that the MSs were not as influential as most of the literature asserts and as was assumed in H1. Of course, this is difficult to establish for the first phase of the crisis, i.e. until the Deauville agreement of October 2010. This is so because during the early days of the crisis, the MSs and the Commission converged in regard to their debt-management policies; they were both against early debt-relief for Greece and were in agreement on most other policies. Yet, this chapter argues that their motivations overlapped only partially. The MSs were afraid of moral hazard, financial spillovers and the possibility of elevated bailout costs. The Commission was also motivated by its desire to secure the Eurozone from market panic but did not share any of the other concerns. In this sense, I argue that the two parties reached the same debt-management position despite different starting points and different paths. Subsequently, I suggest that the state-centric explanation (H1) cannot fully explain the behaviour of the Commission vis-à-vis the

handling of the Greek debt at the beginning of the crisis. Their different incentive structure would become even more evident and influential during the PSI negotiations; they would ultimately come into conflict over what was the optimal debt-management policy for Greece.

This chapter does not only establish the analytical leverage of the bureaucratic explanations that were presented in Chapter 2. It also discusses and rejects the other hypotheses presented in Chapter 2, namely, the dominant state-centric explanation- H1- the advocacy coalition framework (ACF) -H3- and finally the policy field explanation-H4. Starting with H1, the analysis shows that the state-centric narrative has mainly been based on an imperfect understanding of the Commission's position and internal working during the debt-relief debate. It shows that the thesis' first hypothesis fails to adequately examine the P-A relationship between MSs and the Commission in the crisis-management framework; it fails to delineate adequately the sources of actors' preferences at the beginning of the crisis. With regard to the ACF, this chapter shows that the Commission reached its positions without much internal strife thanks to Barroso's leadership style. It also shows that the *modus operandi* of the Commission's technical team made prolonged and intense disagreements difficult. This observation undermines the view that the Commission's suggestions might have been produced after extensive internal conflict (Trondal et al. 2010: 200).

Finally, this chapter equally discusses the policy field explanation, namely, H4, and suggests that the strenuous relationship between the Commission and the ECB does not support the view that the Commission's debt-management positions were shaped by the ECB's views. Indeed, such a mechanism would require extensive

socialisation and knowledge- exchange between the two bureaucracies. Their conflictual interaction suggests that the inter-institutional dynamic was far from non-adversarial; if anything, the two parties would fight inside the Troika framework, and not form a coherent community of policymakers/ experts.

This chapter proceeds as follows: the first part establishes the Commission's steadfast opposition to any debt relief measures, from the beginning of the crisis until before the realisation of the PSI. It proceeds along these lines since the existing academic literature has not yet traced in detail the evolution of the debt-management discussion between 2009-2012. It then presents the Commission's internal motivations from 2009 until July 2011; namely its fears of Eurozone instability and its competence-maximisation desires. It finally demonstrates why other potential explanations do not fully explain the Commission's behaviour in the field of debt-management during that period. It successively tests the state-centric explanation, the ACF and the policy field explanation. The last section sums up the chapter's findings and discusses its linkage with Chapter 5.

4.1 Establishing the Commission's position

The Commission's debt-management position during the early days of the crisis is a moot point among scholars and policymakers. Its position is often confused with the European Council's decisions on the issue (Matthijs and McNamara 2015, Brunnermeier et al. 2016). Yet the interaction between the two was much more complex than what is generally acknowledged. Indeed, it is important to bear in mind the fact that the Commission's role was to suggest debt-management policies to the Council. It was then up to the MSs to decide if they would follow them or take a

different course of action. Given this *modus operandi,* the Commission had the opportunity to form its suggestions without significant state interference and , potentially, to bring forward independent suggestions.

The following section thus presents the Commission's positioning with regard to the management of the Greek debt. It traces its views and argumentation for every step of the policy process, from the emergence of the Greek crisis to the eve of the PSI. It focuses on the organisation's official publications and reports in order to disentangle the views of the Commission from those of the Council. It seeks to examine documents that were created solely by the Commission's staff via internal consultations. Such material includes the Commission's analysis of the macroeconomic and financial situation in Greece, communications that were submitted to the Council and the Commission's reviews of the Greek programme. These documents are the closest thing we have to establishing the Commission's distinct preferences, since it was very difficult for MSs to intervene in their drafting process (European Court of Auditors 2017: 28- 29). To reinforce the validity of my claims, I triangulate these observations by looking at the material that other relevant parties, such as the Greek government and the IMF, have produced. I also use material from the public discourse and from the elite interviews that I conducted. Overall, I establish that the views on debt-management held by MSs and the Commission did not always converge and that the two sides ultimately ended up opposing each other.

If we focus our attention on the very beginning of the crisis, we observe that the Commission ardently opposed debt relief. As financial volatility intensified, the Greek government attempted to contain market panic by announcing a self-imposed

package of austerity measures, i.e. the stability programme. During that period, the Commission's suggestions also favoured such policies of domestic adjustment. Its proposals emphasised the need for internal economic adjustment and avoided any reference to debt relief schemes. While the Commission recognised that the Greek debt was reaching exorbitant levels, it focused on the risks that the stability programme entailed even if enforced sluggishly (European Commission 2010a: 13-15). Hence, Greece had to move forward quickly and address long-seated economic imbalances and structural problems. To that end, it had to realise a mix of structural reforms and spending cuts (European Commission 2010a:15).

While these measures of fiscal consolidation and domestic adjustment did not halt the unravelling crisis, the Commission remained true to its initial position. It argued that the debt overhang was and remained a major strain on the Greek economy (European Commission 2010b: 2). Hence, it was essential for Greece to reverse its growing debt dynamic for its stability programme to be successful (European Commission 2010b: 14-15). The Commission's prescription to achieve this was an even more ambitious and radical programme of domestic adjustments. The plan provided for a swift consolidation of the most spendthrift sectors, with the pension system being the first to take a hit. Cutting expenses fast and vigorously would, in turn, lead to surpluses and increased revenues in the medium term. Ultimately, this would enable the state to regain market confidence, attracting investments and, hence, lead to a declining debt dynamic (European Commission 2010b: 18-19).

Both senior and high-level Commission officials agreed that this was the right policy mix for Greece. The College of Commissioners, that is to say, the big gathering

of the organisation's higher executives, gave its full support to such policies. In the meeting that took place on the 3rd of February 2010, 4 months before the first Greek bailout and as the Greek crisis was emerging, the then President of the Commission, Jose Manuel Barroso, expressed the institution's willingness to help Greece. The government, however, was expected to implement a tough adjustment programme. The Commissioner responsible for Economic and Financial affairs, Joaquin Almunia, praised the Greek stability programme and explained that it would help Greece to regain market confidence. The Commissioner designate for Economic and Financial affairs, Olli Rehn, reiterated the same points and confirmed that this policy line would remain unchanged when he took over (European Commission Secretary General 2010a: 15-16).

Subsequently, the College kept pushing for the same policy mix despite increasing market volatility. In a meeting that took place during the following month, (European Commission Secretary General 2010b) Olli Rehn re-emphasised the need to combine sustainable reforms with fiscal consolidation. (European Commission Secretary General 2010b: 13). Yet, for this programme to work the Greek government had to do more (European Commission Secretary General 2010b: 14). In practical terms, Greece had to mitigate its deficit by 4 percent GDP points in 2010. It had to keep implementing reforms and measures that would meet market expectations, and, and convey, even more decisively, its commitment to internal adjustment (European Commission Secretary General 2010c: 17).

The above policy was not only supported by the College, but equally by the Commission's permanent officials, the mid-level officials that were working on the Greek stability programme. One might argue that the College steered its

subordinates to draft technical reports that reflected its rationale. Yet, available data does not support this argument. The Commission's permanent officials were equally convinced by the soundness of the Commission's approach to the emerging crisis. They managed the stability programme as a wide plan of economic and institutional reform with very precise budgetary and structural deliverables. To them, the programme was more like a management report (Interview 5) for a project that had to be implemented within three years (Interview 11). Their proposals were based on the assumption that the Greek debt overhang was tied to the country's deep-rooted structural problems. These structural problems were considered to be the real impediments to economic growth. In this sense, Greece did not need debt-relief; it required time to implement the necessary reforms (Interview 6,7). By doing this, it would reach its full production capacity and reduce its twin deficits, i.e. the budget deficit and the current account deficit. As a result, at the end of the programme, its sovereign debt would assume a declining trajectory. This would allow the state to regain market access; increase its competitiveness and foster faster and sustainable growth rates in the future (Interview 5,6,7,11).

The convergence of views of the mid and high-level Commission officials led to the incorporation of these into the Commission's official suggestions to the Council. The organisation was in favour of a wide and deep programme of economic adjustment with no debt relief involved. Simply put, Greece needed to follow the suggested reforms and its debt levels would soon become sustainable.

However, on seeing that these measures were not working as predicted, and that the crisis had deepened, and market volatility intensified, the Council decided to, finally, to offer Greece financial aid. The technical discussions were assigned to

the Commission, the IMF and the ECB, i.e. the Troika. With the Greek debt now having reached exorbitant levels, numerous debt-management suggestions were articulated during these technical discussions. The IMF suggested an early debt relief from the outset and its calls intensified, in early 2011, as soon as the first signs of programme derailment became visible (International Monetary Fund 2013: 33). The Fund delineated the significant risks that the first bailout programme entailed; according to its assessment, Greece's debt sustainability was far from guaranteed. Consequently, a far safer path would be to grant Greece early debt relief, as this would mitigate output contraction (International Monetary Fund 2013: 27-28). The IMF was not the only party pushing for such a solution. Daniel Gros and Thomas Mayer, in a CEPS publication from February 2010, also advocated an early debt relief and the creation of a European Monetary Fund. These authors suggested that such an institution could organise an orderly default of an EMU member and collectively manage any debt-relief negotiations. The Eurozone would then possess a clear framework covering sovereign bankruptcy and debt restructuring (Gros and Mayer 2010: 4-5). In turn, this would eliminate market volatility (Gros and Mayer 2010: 2).

For its part, the Commission fervently opposed all these plans. It suggested that an early debt-relief would have destructive implications for the Eurozone's overall stability and would not solve the Greek debt problem. Its alternative proposal consisted in an ambitious programme of internal adjustment. Greece needed to adjust its balance-sheet from an 8.5 percent deficit in 2009 to an almost 6 percent surplus by 2014. It also had to balance its external account, which meant a 10 percent reduction of the existing deficit. In addition, the fiscal consolidation of the public sector would require measures amounting to 13 percent of GDP in just four years.

The programme also specified how Greece was to reach these fiscal aims. Expenditure cuts would account for around 7 percent of GDP, while revenue-raising tax measures would approximate 4 percent of GDP.

The underlying rationale was that Greece had to achieve a considerable primary surplus in a very brief period of time. If implemented adequately, the programme would drive the public debt to decline from 2013 onwards (European Commission Directorate-General for Economic and Financial Affairs 2010a: 12-14). Markets would, subsequently, look at the government more favourably given that its debt-servicing capacity would be substantially expanded (European Commission Directorate-General for Economic and Financial Affairs 2010a: 26, 42, 45). All in all, the approach of the Commission to the first Greek bailout consisted in perpetuating the rationale that was employed to draft the government's stability programme at the very beginning of the crisis. Radical domestic adjustment was sanctioned as the best path towards recovery and discussions on the potential effectiveness of a debt relief were nowhere to be found. The choice of the Commission not to raise the question of debt relief was far from inevitable. Given the proposals that were articulated by the IMF and CEPS, one can argue that the Commission had numerous alternative strategies from which to choose and a few potential allies that would help it steer the debate towards that direction. In this sense, its plan of internal adjustment and no debt-relief was a conscious political and economic choice.

The strategy of the Commission did not change much until the implementation of the PSI, despite the fact that the adjustment programme was constantly off-track. The Commission kept publishing programme reviews that clearly opposed any type of debt relief. Its first review published only 3 months after

the ratification of the programme (August 2010), conveyed a worrisome tone in reference to market sentiment and the trajectory of the Greek debt. Despite the conditionality of the first Greek programme, investors were still unconvinced that the Greek debt was sustainable. They believed that Greece was unable to follow the prescribed reforms and, hence, that the adjustment programme would fail. In turn, this would lead the state to the point where it would either default on its debt or write it down.

In an effort to eliminate these fears, the Commission explicitly discussed a potential debt-relief scenario. It acknowledged most of the arguments made in relation to the Greek debt sustainability. Yet, it remained unmoved from its initial position and rationale. It argued that the programme had been established on a solid basis and that the Greek government was willing to abide by it. It equally noted that overall Greek citizens were overall positive towards the reforms. Hence, their political feasibility was high. Finally, it renewed its faith in the original plan; if Greece implemented the programme adequately, it would manage to restore investor confidence. This would lead to reduced risk premia and debt-servicing costs (European Commission Directorate-General for Economic and Financial Affairs 2010b: 9-11, 25, 34).

The second review of the Greek programme, published eight months after its ratification, perpetuated the same debt-management strategy (European Commission Directorate-General for Economic and Financial Affairs 2010c: 29). This was quite surprising, considering the fact that, between the first and the second review the overall economic circumstances had changed quite dramatically. Indeed, early signs of inadequate programme implementation had appeared. The initial

programme was ambitious, and its lagging status created a pervasive sentiment of pessimism and uncertainty. Seeing the Greek programme falling behind schedule, investors became convinced that its deliverables were out of reach and that future debt-restructuring was highly likely.

Nevertheless, the event that really convinced markets that a debt-restructuring was looming came from France, not Athens. In October 2010, the French President and the German Chancellor met in Deauville and agreed that private investors should also contribute to any future Eurozone bailouts. In case a Eurozone state needed financial aid in the future, private bondholders would have to incur losses on their holdings. This announcement constituted a major policy shift. Until then, the ECB and the Commission were adamant that private investors were safe in the Eurozone; they would be protected no matter what. The Franco-German announcement radically changed this narrative and introduced the possibility that a Eurozone state might not fully service its debt obligations in the future.

Despite the fact that the Deauville announcement had such an effect, the Commission remained unmoved. While the second review recognised certain striking policy failures, it did not re-examine the Commission's strategy of domestic adjustment or other alternative strategies. It recognised the transpiring debate on debt-management, but it continued to oppose any potential debt-relief (European Commission Directorate-General for Economic and Financial Affairs 2010c: 6). The review maintained that nothing had really changed regarding Greece's path towards economic recovery and debt sustainability. The deterioration of the economic situation, the government's failure to achieve certain fiscal targets and the revision of the debt-related data, did not affect the sustainability of the Greek debt.

For the Commission rising bond yields and market uncertainty over the sustainability of the Greek debt was attributed to doubts about the decisiveness of the Greek government to implement the necessary fiscal measures, not to an overall scepticism about the feasibility of the program and the contractionary effects of fiscal consolidation. As one of the Commission's later assessment argued "*Later on, serious doubts emerged whether the consolidation measures undertaken would be sufficient to permanently reduce sovereign debt, as manifest in rising government-bond yields (to above 35% at the end of 2011). A sovereign-debt restructuring eventually took place in February 2012, resulting in private investor losses. Thus, the Greek case cannot be considered as a consolidation associated with increasing private sector confidence, a precondition for consolidations being less damaging to growth prospects in the short run* " (European Commission Directorate-General for Economic and Financial Affairs 2012:43-44).

Following the above logic, the government simply needed to step up its privatisation efforts and continue its fiscal consolidation programme. Specifically, the state had to move quickly towards further privatisation of its public services in order to reach the programme's revenue targets (European Commission Directorate-General for Economic and Financial Affairs 2010c: 1-2). The programme would then be considered to be on track again and the sustainability of the Greek debt guaranteed as investors' confidence would be restored (European Commission Directorate-General for Economic and Financial Affairs 2010c: 13, 18, 71). Despite the fact that the MSs had introduced a debt-relief option, the Commission did not even explore this as a potential scenario.

Notwithstanding the Commission's recommendation against debt-relief, MSs decided to move forward with such a scheme. They opted to pursue a scheme that would impose losses upon Greece's private bondholders, i.e. the PSI. Yet, even when MSs explicitly argued in favour of such a solution, the Commission kept to its staunch anti-debt-relief stance. This discrepancy became even more evident in the Commission's third review of the Greek programme. The review accepted that Greece faced significant challenges in terms of reform capacity and economic recovery. It also recognised that market participants remained unconvinced regarding the sustainability of the Greek debt (European Commission Directorate-General for Economic and Financial Affairs 2010d: 15). Yet, the overall plan of fiscal consolidation remained intact. The Commission based its hopes, once more, on the government's privatisation and real estate programme. The revenues from these schemes would keep the programme on track. They would also substantially reduce the ever-accumulating mountain of public debt (European Commission Directorate-General for Economic and Financial Affairs 2010d: 1-2, 26, 87).

To prove the viability of these measures, the Commission presented three alternative scenarios on how Greece's macroeconomic situation might evolve. In two of these scenarios, privatisations and consistent high surpluses in conjunction with low nominal interest rates, would make the Greek debt sustainable. However, in the third scenario, in which Greece failed to follow most of the programme's provisions, a debt-restructuring was deemed as necessary in order to close the Greece's financing gap (European Commission Directorate-General for Economic and Financial Affairs 2010d: 27).

However, the Commission understood that such projections were not enough to calm market participants; the debate around a potential debt-relief would keep coming up if the issue were not addressed explicitly. Hence, the review, purposefully, discussed various debt relief scenarios and analysed different alternatives under which such a scheme might unfold. Yet its overall assessment and final recommendation were, once again, negative with regard to potential debt-relief. According to the Commission's assessment any debt-relief scheme would have only limited and temporary effects ("modest and one-off contribution to debt sustainability"). Consequently, any discussion about debt restructuring had to be avoided; it would only lead to further market volatility. It might also lead the government to delay some of the agreed reforms in anticipation of the PSI (European Commission Directorate-General for Economic and Financial Affairs 2010d: 3). All in all, the third report suggested that Greece did not require debt-relief. It just had to stick with the existing programme. It made clear that, despite the dramatic external developments and the MSs' shift in favour of debt-relief, the Commission still backed a strategy of domestic adjustment.

Despite the Commission's efforts to appease market expectations and fears, its arguments proved ineffective. Market uncertainty increased and discussions on a potential debt relief scheme kept occurring in public and in private between states and financial institutions. Notwithstanding these developments, the organisation followed the same policy line as before; it attempted to convince MSs and investors that Greece did not need debt-relief. In a College meeting that took place in April 2011, Olli Rehn pointed out that Greek debt sustainability was guaranteed by three factors: 1) the fall in interest rates, 2) the extension of debt servicing deadlines as

part of the support mechanism for Greece, and 3) the government's ambitious privatisation plan. (European Commission Secretary General 2011a). He also made similar claims publicly, in an effort to repel any speculation about a potential debt restructuring (Blusteien 2016:200).

The next College meeting took place in May 2011 and followed the exact same theme. Rehn noted his concerns about the extensive speculation over a potential restructuring of the Greek, Portuguese and Irish debts. Such talks were causing significant market deterioration and had to be avoided in the future. He also argued that "before any further decision was taken by the Eurogroup, the Greek government must continue ,in the long term, the economic reforms on which it has embarked and implement its programme of privatisation quickly" (European Commission Secretary General 2011b).

A similar request was articulated in the College meeting that took place in June (European Commission Secretary General 2011c), as the Council was openly discussing the finalisation of the PSI scheme. Both the Commissioner for Economic and Monetary Affairs and the president argued that only the Council could decide such a scheme and that a PSI was beyond the Commission's authority to negotiate and manage (European Commission Secretary General 2011d: 13-14). A similar picture of lukewarm reception emerged during the meeting that took place in July 2011, immediately before the Council decided the first PSI. Commissioner Rehn only updated the College on ongoing negotiations. He added that the matter was to be discussed again soon, within the European Council (European Commission Secretary General 2011e).

In addition to the College, the Commission's permanent staff also had similar anti-debt-relief positions. The permanent staff, who were involved in the first Greek programme, suggested that the Commission chose not to be at the forefront of the PSI process. The technical teams defended their original programme; they saw it as credible and sufficient. If Greece could follow its guidelines, then it had no need for a PSI. On the contrary, any debt-relief discussion risked detracting from the necessary reforms (Interview 5,6,7). If anything, the Commission was very much afraid of a potential debt restructuring due the potential financial and economic spillovers that it would entail (Interview 5,6,7,8,9,11).

The Commission's argumentation against a potential debt-relief reached a peak in July 2011, when the Council gave the green light to Greece to start its PSI negotiations. A few days later, the Commission published its last programme review. This document was the organisation's last-ditch effort to convince MSs not to proceed with their debt-relief plans (Interview 11). The report extensively discussed existing debt restructuring plans and their implications and adopted a negative stance. It strongly doubted the efficiency of any type of debt relief and expressed serious doubts about the implications of such a plan. Its fears revolved around the collapse of the Greek banking sector and Greece's future access to the financial markets. As the report stated: "All this would contribute to the debt ratio to increase again, quickly eroding the initial gains of restructuring, and international assistance loans would still be necessary for a long period." (European Commission Directorate-General for Economic and Financial Affairs 2011: 3, 7). The review also, reiterated the Commission's old mantra of fiscal consolidation and domestic adjustment. If Greece managed to reach its revenue targets, Greek debt would be sustainable. Once

again, privatisation-generated revenues and continuous fiscal consolidation were supposed to drag the cart out of the mud (European Commission Directorate-General for Economic and Financial Affairs 2011: 2-4, 7, 29-30).

The report's extensive analysis and strong language reaffirmed the Commission's opposition to any debt relief. For the Commission, debt sustainability and solvency did not constitute issues that could be negotiated and agreed upon with creditors. They solely depended upon "the political and social conditions which allow or not the implementation of the required policies" (European Commission Directorate-General for Economic and Financial Affairs 2011: 28). Its stance conveyed a message: it would not sign-off a debt-relief for Greece. If the MSs wanted to pursue this avenue, they would have to bear the burden of such a decision (Interview 5,11). By taking such a strong view, the Commission risked being isolated within the Council. More importantly, it risked losing competencies, within the crisis-management effort, to other institutions, such as the IMF or the Euroworking Group.

The MSs ignored the Commission's reservations and went on with the PSI plan. In response the Commission decided to withdraw from the field of debt-management and avoided taking a clear-cut stance with regard to the PSI negotiations. In September 2011, Commissioner Rehn suggested that there was a risk that the PSI scheme might generate financial spillovers (European Commission Secretary General 2011g). The same atmosphere of disengagement and doubt was evident in the meetings that took place in February 2012, a month before the realisation of the final PSI deal. Commissioner Rehn briefly updated the College regarding the PSI initiative. He emphasised that the Commission's role was limited to preparing the policy measures that would be included in the new adjustment

programme (European Commission Secretary General 2012a: 22, European Commission Secretary General 2012b). The bureaucracy had nothing to do with the actual PSI talks.

Following its previous rationale, the Commission demonstrated a more measured yet clear opposition to the few debt-restructuring schemes that emerged during the implementation of the second Greek programme. In a verbal exchange between the IMF's director and the Commission's president in November 2012, the head of the Fund, Christine Lagarde, made clear that she would like to see a new haircut on Greek bonds. As one would expect, the Commission opposed such a scenario (Spiegel and Chaffin November 2012). Another incident of this sort took place in July 2013. In its quarterly assessment, the IMF noted that the Greek debt needed a debt relief of around 7.4 billion euro to reach manageable levels. The European Commission once again rejected such a measure. It claimed that it was possible for Greece to have a balanced budget by April 2014. If the state managed to achieve this, a new debt-relief would be redundant (Spiegel 2013).

The analysis of the Commission's position leads to a very clear takeaway: the Commission was outright sceptical and occasionally hostile towards any type of debt-relief. Before the ratification of the first Greek adjustment programme, during its implementation, and even after the Council's PSI decision, it opposed the MS debt-restructuring initiatives. Its overall stance was in line with those who advocated a radical internal adjustment programme instead of a substantial debt-relief. The section below examines the drivers of this stance during the period between the beginning of the crisis and the eve of the PSI. It argues that the Commission's position

should be attributed to a deeply embedded institutional feature: the Commission's pro-integration culture.

4.2 Choosing a policy path: The Commission's strategy at the beginning of the crisis

This section presents evidence that the Commission's initial reaction to the question of debt-management was informed by its internal pro-integration preferences and its competence-maximisation desires. This argument pre-supposes that the Commission had, at the very beginning of the crisis, both autonomy of will, i.e. the ability to make up its own mind, and autonomy of action, i.e. the ability to act independently. Indeed, I will demonstrate that the Commission's recommendations to the Council unfolded independently of the MS preferences. They were built upon a rationale that prioritised the Union's common interest and the preservation of the integration process. In addition, I establish that the Commission's debt-management proposals consistently invoked a market-appeasing rationale; they systematically aimed to satisfy market expectations assuming that this was the only viable way via which they could ensure the irreversibility of EU integration during the crisis.

From the outset, it seems that the Commission had little room for manoeuvring and that MSs retained a tight grip on it. In numerous official documents, it is acknowledged that the institution had to follow the Council's decisions and guidelines during the crisis (European Commission Secretary General 2010d: 22, European Commission Secretary General 2011: 8). The official mandate read as follows :"1) to ensure that the conditions laid down were compatible with European legislation, which was the subject of the recommendation for a Council

decision; and (2) to coordinate and provide operational management of the bilateral loans, a task which the Commission would carry out on the basis of a mandate from the 27 MSs and which would require the empowerment of the Member responsible for Economic and Monetary Affairs,(..). "(European Commission Secretary General 2010d: 23). The European Parliament came up with the same interpretation: it recognised that the Commission, as a Troika institution, had to act as an agent of the Eurogroup (European Parliament 2014: 4).

Contrariwise, the same official sources recognised that the Commission had some measure of significant discretion within the crisis-management context. According to the same Parliamentary report (European Parliament 2014: 16) the Commission was free to negotiate the programme's conditionality. In this respect, it had some discretionary space vis-à-vis the programme's design. In addition, the organisation's responsibility to safeguard the European legal order during the bailouts went beyond the Council's mandate. It allowed the Commission to interpret its mandate without much regard for the MS preferences and in accordance with its own interpretation of the EU law.

Moreover, it appears that the Council's *modus operandi* allowed for some bureaucratic autonomy. The Council would occasionally endorse the recommendations of the Troika without extensive debate; they were not always properly reviewed. While the Council did take a closer look with regard to certain salient programme characteristics, the Commission still had some substantial autonomy in regard to the programme's design, implementation and assessment (European Parliament 2014: 16). I argue below that the organisation used its limited

discretion and autonomy to propose independent debt-management policies that would ensure both Eurozone stability and its bureaucratic expansion.

4.2.1 Market expectations and the stability of the Euro

As the Greek crisis emerged uncertainty spread among the Eurozone MSs and financial investors due to lack of clarity in terms of information. The first fundamental question to emerge was whether the Eurozone states should bailout the ailing Greek state? Could Greece climb out of the economic 'ditch' without outside help? After some confusion and hesitation, Euro area MSs stepped in and offered a package of financial aid. The second question that troubled investors was: who would pay for this bailout? Should it be the states, the investors, or both? The latter two options, obviously, caused financial markets to swivel.

The Commission's approach to the former question was that financial investors should remain untouched. Greece should be offered material and technical help but the EU MSs had to shoulder the cost. This stance was based on the organisation's fear that the Greek crisis might cause wider systemic risks. Financial investors might react negatively to any losses and flee, thus leading the Euro area to collapse. The Commission's rationale was that imposing losses on bondholders might initiate widespread market panic. If private investors were to fear that their Eurozone bonds (i.e. issued by Eurozone governments) might drop in value, then they would start unloading them (Woodruff 2016: 84). This sense of panic would lead to a "rush to the exit" event, in which everyone liquidates their sovereign bond assets, leading to their price dropping dramatically- much like a self-fulfilling prophecy (Woodruff 2016: 89). Such a fire-sale would also create serious problems for inter-bank lending

as it would hinder the function of the Eurozone repo market (Gabor and Ban 2015: 630). The Commission feared that MSs would react negatively to such market panic. Faced with rising lending costs, they would regard their Eurozone membership as being detrimental to their economic health rather than a safeguard against financial crises. Such a chain of events would cast doubt over the very existence of the Eurozone. Thus, the Commission's policy suggestions were primarily geared towards avoiding such a chain reaction.

As soon as the Greek crisis emerged, the Commission made clear that its proposals were aimed at ensuring Eurozone stability. Prior to the first bailout, the Commissioners' College was evidently worried about market volatility and panic. Subsequently, one of its first suggestions was the deployment of all available economic and budgetary instruments in order to ensure systemic resilience (European Commission 2010b: 2). In a meeting that took place in early February 2010, President Barroso pointed out that the economic situation in Greece was posing a systemic challenge to the Eurozone. To mitigate such risks the Commission's proposals had to follow market expectations. They aimed to help Greece remedy its excessive deficit situation so that it could regain its credibility in the financial markets (European Commission Secretary General 2010a: 15).

The then Commissioner for Economic and Monetary Affairs, Joaquin Almunia and the incoming Commissioner for Economic and Monetary Affairs, Olli Rehn, both conveyed the same message. Almunia stated that any upcoming communication should clearly back the Greek stability programme. This would convince market participants that Greece was a trustworthy partner. This tactic would not just put Greece back on track; it would also address market fears about the rest of the

Eurozone (European Commission Secretary General 2010a: 15,17). Olli Rehn also suggested that the Commission's overall crisis-management strategy should convey the credibility of the Eurozone, of the SGP and of the Commission itself (European Commission Secretary General 2010a: 17). He agreed that, despite the risks involved in the stability programme, all Commissioners needed to back it unequivocally. This was the only way to restore market confidence in Greece, and by extension, to the rest of the Eurozone (European Commission Secretary General 2010a: 17). Rehn also commented on the various alternative schemes that were circulating, including those proposing early debt-relief. He explained that such discussions were sending mixed signals to the markets, leading to further volatility (European Commission Secretary General 2010a: 20).

The rest of the College unanimously embraced this logic. Indeed, the crisis emerged as a test for the Monetary Union as whole. Thus, the institution's first priority should be to contain any potential systemic risks. To achieve this, it had to deploy a fully-fledged firewall composed of additional financial aid measures. In turn, this would convince market participants that their investments were safe, and that the crisis was under control (European Commission Secretary General 2010a: 19). To the same end, the Commission had to back Greece. It had to show that it trusted the government and to rubberstamp its stability programme (European Commission Secretary General 2010a: 19).

A month later, as the crisis was spiralling out of control, the College reiterated this message. The Commissioner for Economic and Monetary Affairs sustained that the Greek stability programme was on track. Yet, more actions were needed to mitigate market volatility (European Commission Secretary General 2010b: 14). The

Commission had to continue displaying its trust in the original plan and the Greek authorities' ability to implement reforms (European Commission Secretary General 2010b: 13). The Commissioners also agreed that the institution had to unequivocally back the programme and ensure that the suggested reforms were "credible, sustainable and transparent". Such a tactic would, eventually, restore market confidence.

In the college meetings that took place over the following months, Commissioner Rehn reiterated this theme again and again. The whole Eurozone was at risk and the Commission was striving to save it; the Greek stability programme was an important part of its effort. It would ensure the Greek state's debt-sustainability and put to rest any instability fears (European Commission Secretary General 2010g: 23). The Commission's President also appeared to concur with these remarks. He pointed out that the Commission's preparations were first of all designed to safeguard the Eurozone. The organisation put forward a unified response; making clear to external observers that the EU could settle its own affairs and maintain Eurozone stability in a coherent and uniform manner (European Commission Secretary General 2010g: 26). With that in mind, the organisation's plans and suggestions were concomitant with market expectations; its entire policy planning was tailored to calm financial markets (European Commission Secretary General 2010c: 17, 22).

Mid-level Commission officials, entrusted with the assessment of the Greek stability programme, also had voiced concerns about market volatility and the potential emergence of financial panic. Yet, they equally shared the College's market-appeasing rationale. Subsequently, their proposals were aimed primarily at

addressing fears of financial spillover and at steering Greece towards a plan that would appease financial investors. Consequently, their technical suggestions were aimed at guaranteeing that the country's fiscal stance was sustainable, keep Greece in the financial markets and, finally, reduce market volatility (interviews 5,6,7,11).

This line of thinking was reflective of the Commission's prior understanding of debt-management and fiscal consolidation during crises. Already in 2008, the Commission published a paper entitled "Received Wisdom: Lessons from fiscal consolidation in the EU" in which it offered insights on how it defined successful fiscal consolidations. The study argued that successful fiscal adjustments are mainly expenditure based (Larch and Turrini 2008: 24). It also pointed out that, at the EU level, cuts in the current primary expenditures are expected to be more effective comparing to cuts in public investment (Larch and Turrini 2008: 6). In addition, the authors, both Commission officials, argued that the existence of strong fiscal rules and well-designed budgetary procedures would help the consolidation effort as the country would gain credibility in front of market participants. They attached similar importance to structural reforms as they would have the dual effect of helping the economy to recover (increasing revenues) and improving the way public money is spent (Larch and Turrini 2008: 18-20). In effect, from the very beginning of the Eurozone debt crisis, the Commission pointed out that the most viable way out of a financial crisis was via a program of fiscal adjustment coupled with strong fiscal rules and structural reforms. Such a course of action would convince markets about the credibility and durability of these reforms.

The following year, in a paper with the telling title "Determinants of intra-euro area government bond spreads during the financial crisis", the Commission

went more in depth with regards to the interaction between fiscal adjustment, market credibility and debt dynamics. This study argued that, even within the Eurozone, the differentials between bond yield spreads are decided by international risk perceptions; with risk perceptions interacting significantly with the respective country's macroeconomic situation. This interaction has turned out to be of extreme importance during crises as investors discriminate between countries based on their macro-economic fundamentals. Hence, large current account deficits and deteriorating public finances in conjunction with high financial risk aversion lead to rising bond yield spreads (Barrios et al. 2009: 2-3). This mechanism also implies that countries with high-debt levels and big current account deficits, like Greece, would experience particularly high bond yield increases. The paper concluded that the above dynamic should provide additional incentives for countries with such characteristics to consolidate their public finance in an effort to change market perception and regain market confidence (Barrios et al. 2009: 22-24).

The appeasement of market fears and expectations via fiscal consolidation also drove the Commission's approach with regard to the first Greek adjustment programme. In the College meeting that took place in May 2010, only a few days after the signing of the first Greek bailout, the Commissioner for Economic and Monetary Affairs noted that the agreed programme provided Greece with ample time to restore its competitiveness and fiscal credibility. The programme also provided concrete reform guidelines that the government could use to restore its credibility and re-access market financing (European Commission Secretary General 2010d: 22). The other Commissioners praised this policy package as it exhibited a

coherent message that guaranteed the stability of the Eurozone (European Commission Secretary General 2010d: 23).

For Commission officials who helped with the technical drafting of the first Greek bailout, market volatility was their primary concern. In their eyes, there were quite a few risks of that sort. First of all, the proposed lending facility entailed risks for the contributing MSs. Indeed, Greece's Eurozone lenders would have to register these loans on their balance-sheets; an additional burden that might change their economic outlook and raise concerns among market participants (Interview 6).

Moreover, in reaction to the Fund's proposal for an early debt relief, they thought that such an option would be destructive for the overall economy. They argued that the domestic banks would become insolvent; leading to further market volatility, domestic unrest and rising lending costs. More importantly, such a move would create an atmosphere of economic uncertainty that might affect Italy and Spain (Interview 11). In comparison with these countries, Greece was seen as a manageable project. The agreed programme was feasible, and market fears could be appeased (Interview 5,6, 7,11). However, having to save Spain or Italy was a different thing altogether- it was neither feasible nor manageable to contain market panic in relation to such big economies. Hence, it was of primary importance that such contagions was avoided at all cost. In this sense, early debt relief for Greece was out of the question because it would open the door to unsustainable debt relief to other countries.

Third parties that interacted with the Commission during the drafting of the first bailout programme confirmed that such a rationale was in place. A senior Greek official suggested that only certain people inside the IMF, namely the Chief

Economist of the Fund, Olivier Blanchard, came close to suggesting an early debt relief. Other members of the Fund's staff, including the Fund's head, Dominique Strauss-Kahn, were opposed to such a plan due to spillover fears. The same official suggested that Olli Rehn never brought up this issue during the bailout negotiations. Not being an economist himself, Rehn was convinced by the analysis of DG ECFIN. He thought that systemic spillover risks were immense and that the whole Eurozone was at risk (Interview 1). Overall, Rehn's stance clearly demonstrated that the Commission's primary concern, during the Greek bailout negotiations, was to secure the stability of the monetary union. Its debt-management proposals were geared towards this end.

Fears of market panic also drove the Commission's handling of Greek debt after the ratification of the first bailout. With the Greek programme straying from the projected objectives, rumors of an imminent debt-restructuring spread. Yet, for the Commission, a potential failure of the Greek programme was not an option; it could be the spark that would lead to the collapse of the Eurozone (European Commission Secretary General 2011d: 14). Hence, its reaction was to assure bondholders that their assets were guaranteed.

Even when the Greek program and the Commission's strategy were evidently lagging behind, the organisation kept producing technical papers that were theoretically and empirically backing its approach of fiscal consolidation and no debt-relief. Between 2010 and the summer of 2011 DG ECFIN strove to offer investors and the public studies that proved the viability of its approach. In July 2010, a year before the PSI, the Commission published a paper that sought to draw conclusions from fiscal consolidations in previous crises. It argued that successful fiscal consolidations

depend on the repair of the banking sector and the vigour of the fiscal consolidation effort. Especially for countries facing high debt levels and low growth potential the authors suggested that sharp and continuous fiscal consolidations are more likely to be successful. At the same time the study argued that real and nominal exchange rate devaluations were not necessarily a precondition, or even conducive, to more successful fiscal consolidation efforts (Barrios et al. 2010: 29-30).

A couple of months later, in December 2010, two DG ECFIN officials published another paper that reiterated the argument that decisive fiscal consolidation was the most viable way to decrease bond yields. The authors proposed that, during crises, bond yields are closely tied with the government's credibility vis-à-vis its fiscal consolidation reforms. In other words, the more committed the government appeared the more likely it was for market expectations to shift and for the country to regain market confidence. Subsequently, the authors showed that governments with strong fiscal rules in place were more likely to gain market confidence and convince investors about their credibility. The authors took this argument even further by suggesting that a fiscal rule that is more binding and easier to enforce would lead risk premia to lower (Iara and Wolf 2010: 2-3). In effect, this paper reiterated the importance of following a credible path of fiscal consolidation in order to regain market confidence. The authors, based on this assumption, argued that fiscal rules were an efficient way to reduce market uncertainty (Iara and Wolf 2010: 24).

In an even more topical paper that was published two months later, as the PSI discussion was picking up steam, the authors attempted to defend the Commission's persistent debt-management strategy. The study proposed that

during the crisis intra-EMU differences in spreads should be attributed to the heterogenous transfer of banking sector risk to sovereign borrowers and to the differences in macro-fundamentals between countries. During the crisis, investors appeared to penalise macroeconomic imbalances, like excessive current accounts, while they also priced the latter's interaction with international risk factors (Arghyrou and Kontonikas 2011: 6). Focusing on the Greek crisis, the authors suggested that the country's deteriorating macro-fundamentals led investors to doubt its EMU commitment and hence the country's spread to rise. They also reinforced the Commission's contagion fears by arguing that the majority of EMU countries, and especially Portugal, Ireland and Spain, had experienced contagion because of Greece; the Greek bond yield acted as a proxy for EMU-wider risk. Subsequently, other EU countries experienced rising borrowing costs that cannot be attributed to their macro-economic profile and international risk factor (Arghyrou and Kontonikas 2011:2-4). Following these insights, the study suggested that EMU-periphery countries had to amend their fiscal position and external competitiveness in order to achieve a more favourable shift of market expectations. Especially for Greece the authors argued that the country needed to regain market confidence by appearing fully committed to its fiscal consolidation effort. Only then markets would not doubt the country's long-term participation in the EMU.

Commissioner Rehn articulated the same strategy in a College meeting that took place in May 2011. He noted that there was significant deterioration of the European sovereign debt markets due to the statements of certain politicians, such as the German Finance minister. These politicians suggested that the sovereign debt of programme countries would eventually have to be restructured (European

Commission Secretary General 2011h). As one would expect, investors reacted negatively to such a prospect. The Commissioner for Economic and Monetary Affairs pointed out that such talks undermined the existing adjustment programmes in Greece, Portugal and Ireland. After suffering a debt haircut, investors would never again view these countries as being credible again. Hence, in an effort to halt these fears, Rehn tried to contact big investors in order to convince them that the Greek programme was working as expected. Greece was willing to reform substantially and there was no risk of a financing gap, hence a debt restructuring was not needed (Interview 7).

Nevertheless, the deteriorating state of the Greek economy made the above reassurances sound hollow. By July 2011, the Greek programme was evidently failing and MSs, after extensive discussions, were about to approve a PSI scheme. Despite this radical policy change, the Commission's stance and rationale did not change. In the respective Council meeting, the Commission argued that the biggest problem facing the Greek economy was that it could not sustain market confidence (European Commission 2011a). The most viable tactic to restore credibility was the successful implementation of the initial programme. Greek authorities had to mitigate the county's deficit and remedy the state's chronic imbalances. Only then would the state see its debt dynamic follow a downward trajectory and eventually return to the markets (European Commission 2011a: 3).

The above insights are indicative of how the Commission approached market volatility as the Greek program was going off-track before the PSI. While Commission officials were in communication with market participants (interview 7) and some of them had reiterated the need for more holistic solutions and for some type of debt-

relief (Dow Jones Institutional News 20 December 2010, Wall Street Journal 7 July 2011, Bradsaw 2011, Ablan 2010), the underlying assumptions of the Commission's forecasting did not change. It continued to argue that a program of fiscal adjustment and structural reforms would restore confidence. This is not to suggest that the Commission was wholly unaware or dismissive of market signals. It was very much responsive to market demands vis-à-vis fiscal consolidation and the creation of additional Europe-wide crisis-management institutions. Yet it appeared less receptive to market signals when the latter ones were in favour of debt-relief and hence in profound discordance with its pre-crisis institutional views.

For instance, the Commission's extensive program of fiscal consolidation was in accordance with the views that most investors have expressed publicly. Moreover, its institutional layering effort, i.e. the attempt to create institutional and financial mechanisms that would make the crisis-management effort more efficient in the future, was also in response to respective market demands (interview 7). Yet, the Commission appeared much less responsive to certain market proposals, as the ones articulated by PIMCO, advocating a mix of fiscal adjustment and debt-relief (Bradsaw 2011, City A.M 17 January 2012). The organisation kept its anti-debt-relief narrative intact despite certain market indications pointing to the opposite direction. Its econometric models, as described above, were premised on the idea that market unrest and rising bond yields were due to the government's inadequate fiscal efforts, not the need for a policy that would include some type of debt relief along with fiscal adjustment (Bradsaw 2011, City A.M 17 January 2012).

This approach shows that the Commission had a more "historical" understanding of market expectations and was not fully aware of how to meet them

in the field of debt-management. Its logic was very much in line with its previous experience and approach to the handling of financial crises. All the above studies and arguments were reflecting the Commission's market-appeasing tendencies as those had started in the mid-1970s. Commission officials were instinctively defending and perpetuating this logic as it had been established by their predecessors when faced with financial volatility. Hence, it can be argued that the Commission's debt-management views were products of well-embedded reflection and conviction within the organisation. Its reaction and insistence in the face of market reaction demonstrates that the Commission was locked in a "historical" understanding of what market-appeasement meant in that field of debt-management and what market actors wanted.

The Commission's argumentation did not convince the Council. Consequently, the MSs went on to approve the PSI. However, even after this decision, the Commission remained convinced that its initial approach to the Greek debt was the only sustainable one. It reiterated its faith to its initial consolidation strategy during what was called the "battle of the boxes", i.e. the public conflict between the IMF and Commission over the real effect of fiscal consolidation (Cohen-Setton 2012).

In this publication the organisation clarified and repeated the assumptions that led it to such a such a stance vis-à-vis the Greek program. For Greece in particular, the Commission recognised that its respective forecasts proved wrong, but it attributed this to the fact that the adopted consolidation measures were deemed as insufficient and poorly implemented by market participants. This was then reflected on rising government-bonds yields. Nevertheless, this did not change

the theoretical premises of DG ECFIN's models. For the Commission the positive effects of permanent fiscal consolidation would outweigh the costs of temporary output contraction. This would be the case due to the influx of private consumption and investment that an expected increase in net income would bring (European Commission Directorate- General for Economic and Financial Affairs 2012:41).

All in all, even after the PSI, the Commission believed that the problem with Greece was that the initial fiscal consolidation measures were not enough to convince private investors that the country could reduce its sovereign debt adequately. Subsequently, markets reacted to the insufficient fiscal consolidation path with more adverse risk-assessment for Greece and the Eurozone in general. This is important because, in the Commission's words, "forecast of the fiscal stance (in spring 2010) and the subsequent change in the bond yields are correlated ". In this sense, inaccurate forecasts with respect to the effects of fiscal consolidation could be explained by negative market reactions caused by the seemingly insufficient fiscal effort of the respective authorities (European Commission Directorate-General for Economic and Financial Affairs 2012:43-44).

The Commission's defence during the "battle of the boxes" was, again, following its long-standing market-appeasement logic as expressed in its technical papers from that period. With regards to fiscal consolidation, a Commission publication from September 2010 had already argued that the loss of output from permanent fiscal consolidation is smaller than that from temporary changes in fiscal stance. This is so as the permanent nature of the fiscal consolidation would make economic agents anticipate lower taxes in the future. As the country's outstanding debt gradually declines, along with its servicing costs, the created fiscal space would

allow for tax cuts. In the medium and long run, this would lead to increased employment and output and hence to positive GDP effects (Roeger and Veld 2010: 31).

Another paper published by the Commission only few months prior to the "battle of the boxes" also offered similar insights. In this publication it was argued that while fiscal consolidation might have an adverse effect on a country's debt-ratio, such effects are short-lived unless the country's fiscal efforts are not credible. In this sense, even when the debt ratio rises at the beginning of the fiscal effort, it is important for all countries to initiate and sustain intense fiscal consolidation efforts so that they put their debt quickly in a declining trajectory and ,when needed, convince myopic markets about their sincere intentions (Boussard et al. 2012:28-29).

In addition to all the above, when the IMF published its 2013 report, accusing the Commission of not accepting early debt-relief, Rehn reacted by bringing forward a more straightforward argument against an early debt-relief; that of contagion. He claimed that the IMF did not understand how a monetary union operates and that an early debt relief entailed big spillover risks. It was the Commission's job, within the Troika, to contain such possibilities and, thus, reject such a scheme (Spiegel and Hope 2013).

Overall, the Commission's debt-management strategy up until the PSI was based on one overarching theme: it had to protect the Eurozone from contingencies and financial panic. Therefore, it suggested market-appeasing policies, i.e. measures that, in accordance with its experience from previous financial crises, would address the concerns of market participants and meet their expectations for substantial fiscal

consolidation. A central part of this strategy was the handling of the Greek debt in a way that would not threaten private bondholders.

The bureaucracy's reflex action, at the beginning of the crisis, was to act as the guardian of European unity, not as the Council's agent. For the Commission, the preservation of the Euro was tied to the perpetuation of the process of European integration. The collapse or the rollback of the monetary union would be a serious blow to this ever-progressing process. In this sense, the Commission geared all its policy suggestions to protect its posterchild, i.e. the Eurozone. It showcased the same rationale vis-a-vis similar debt-related questions that were raised during that period. The following section discusses the Commission's approach to the question of debt-management in Ireland. It demonstrates that the same drivers led it to oppose the bail-in of senior unsecured bondholders.

4.2.2 The Commission's debt-management policies in Ireland: Spillover fears and market panic beyond Greece

The Commission's stance with regard to the debt-management debate in Ireland is a strong indication of its persistent positioning and rationale against any debt relief. In Ireland the Commission fervently opposed any policy that would spell losses for private sector actors on the grounds that it would cause wider systemic panic in the rest of the Eurozone.

Ireland had been the poster-child of EU integration up until the crisis. It enjoyed robust growth rates from the mid-1990s until 2007. Based on favourable demographics, increasing educational levels and a series of successful structural reforms, the state reached high productivity rates. Yet, the excessive bank exposure

to the real estate market and its reliance on short-term inter-bank lending, led to its economic demise. A combination of rising policy rates, over-supply in the construction sector and uncertainty over the tax-treatment of property led to a decline in the estate market. The advent of the global financial crisis exacerbated this trend which led the Irish banks to incur heavy losses. At the same time, the halting of inter-banking lending brought the Irish banking sector to a state of despair (European Commission 2015: 20). The Irish government attempted to save its banking sector by issuing a two-year blanket guarantee of the liabilities of Irish-controlled banks (Breen 2013:115). Yet this proved to be fruitless and ended up reinforcing the negative feedback loop between the state and the financial sector (European Commission 2015: 25). Subsequently, on the 21st of November, Irish authorities formally applied for assistance from its European partners and the IMF (European Commission 2015: 27)

While Greece and Ireland had very different economies and their financial meltdowns were caused by different factors, the Commission's approach with regard to their debt problems was fairly similar. The Economic Adjustment Programme for Ireland was formally agreed on December 2010 and amounted to 85 billion euros. As with the Greek programme, it was destined to last for 3 years, from 2010 to 2013 and was mainly funded by EU MSs while the IMF participated as the junior lender. In addition, the ECB provided liquidity support for Irish banks (European Commission 2015: 17). The programme aimed not merely to restructure the Irish banking sector but also to implement long-term budgetary and structural reforms. Hence, it covered a wide range of economic activities. In addition to the overall adjustment strategy, the optimal debt-management policy for Ireland also proved to be a major bone of

contention between the involved parties- exactly as was the case in Greece (IMF 2015: 39).

At the centre of this dispute was the question of whether unsecured senior bondholders should suffer losses in the form of a bail-in. The senior unsecured and unguaranteed debt of Irish banks that was available for recapitalisation amounted to 11.2 billion euro. A 50 percent haircut would have effectively contributed 6 billion euro to bank recapitalisation and thus would have lowered the overall bailout costs. The Irish authorities, with the IMF's support, actively advocated for such a solution. They argued that senior bondholders of Irish banks should incur some losses if the government's guarantees did not cover them.

Yet the European side and the US mounted considerable opposition to this suggestion. In particular, Germany, the UK, France and the US threatened that they would not participate in the programme, unless the Irish government committed to cover all bondholders, even the unguaranteed ones. For the French and the German governments this was a question of utmost importance given the ties that most of their domestic banks had with the Irish banking sector. German banks had an exposure of around 250 billion dollars, while UK banks had an exposure of around 225 billion dollars. Hence, potential debt-restructuring would seriously affect the balance-sheets of their domestic banks and would put them in serious risk of needing a bailout themselves (IMF 2015: 28). Furthermore, the two governments were afraid of domestic electoral backlash; early debt-relief for Ireland would signify to their domestic audiences that Ireland was being treated leniently. In addition, the US administration was opposed to a potential bail-in, mainly due to spillover fears and due to its banks' exposure to the Irish financial system (Breen 2013: 117-119).

Within the Troika, the European Commission and the ECB appeared to be against a bail-in, whereas the IMF argued in favour of such a policy. The Fund suggested, that when a bank defaults, its uninsured creditors usually shoulder a substantial loss. This is important because it reduces moral hazard and helps contain risks of a future crisis. It also limits the interconnection between the banking and the public sector and, hence, mitigates the effects that a negative bank balance-sheet can have upon a state's debt-sustainability. In the case of Ireland, the exposure of senior unsecured bondholders was bigger in size compared to the fiscal measures that the state had to take. In this sense, a bail-in would ease the fiscal cost for the Irish government and would be seen as fair measure of burden-sharing by the domestic electorate (IMF 2015: 28).

As with the Greek programme, the Commission had a very different view on the issue. It argued in its ex-post evaluation of the Irish programme that the question of whether a bail-in should occur involved a major trade-off. On one side, it would substantially reduce the cost of bank recapitalisation. On the other side, however, a bail-in also entailed numerous problems. First of all, it could lead to " negative spillovers and financial instability in Ireland and Europe" (European Commission 2015:44-45). The Commission suggested that investors would expect to see similar procedures applied in other Eurozone countries. Financial markets had not yet priced in such risks yet and there was no framework to govern this process. Thus, market fears over the costs and the implications of such a policy would grow even more substantially. In effect, the realisation of a bail-in would lead to the spreading of market panic that would in turn raise lending costs for several Eurozone MSs. This would reflect on the EFSM and EFSF loans and hence lead to higher interest rates for

the financial assistance that was provided to Ireland (European Commission 2015: 50). The Commission used the same reasoning to reject a more limited bail-in that would include only non-viable Irish banks, i.e. Anglo and INBS. It noted that the extensive funds that would be needed to counteract contagion and financial spillovers would counterbalance the potential benefits of a more targeted bail in.

In addition to spillover fears, the Commission raised “timing” concerns. Indeed, the Commission estimated that an early bail in would not have provided enough funds in time for recapitalisation of Irish banks. It also raised concerns regarding the effects that an early bail-in would have on the sector’s competition regime in the medium term (European Commission 2015:44-45).

The Commission’s analysis further suggested that a bail-in in 2010 would stand on very shaky legal grounds. Given that no such exercise had taken place in the EU before, the Commission would have had to come up with ad hoc legislation that would be open to litigation and, hence, cast a considerable shadow of uncertainty over the overall programme. In addition, coercive debt-restructuring of that sort would produce a financing gap for Irish banks since it would lead to massive deposit outflows. Hence, an effective bail-in would require capital controls that would, in turn, bar Ireland from the Eurosystem’s funding. The banks would then lose one of their major sources of funding (European Commission 2015: 50).

On the whole, the Commission’s narrative was that a bail-in of unsecured senior bondholders would prove counter-productive for the Irish banks. It would impede their return to normal lending conditions, prolong their reliance on government funding and intensify the negative feedback loop between the financial and the public sector. With the ECB and the major MSs sharing the same narrative

the no-debt-restructuring position prevailed and the Irish government had to guarantee all bond holdings without exception (European Commission 2015: 59).

The Commission's stance and argumentation during the debt-management discussions in Ireland demonstrate that its anti-debt-relief views at the beginning of the Greek crisis were genuine. They were based on deeply held beliefs on how financial volatility should be managed during crises. As in the Greek case, the Commission opposed any type of a debt-relief due to its spillover fears. Despite the fact that the Irish crisis was mainly caused by the domestic banking sector, the Commission's concerns and argumentation did not change all that much. A debt-relief would cause market panic and thus instability across the Euro area's banking sector. Consequently, such a policy was to be avoided at all costs, even if the alternative entailed increased fiscal costs for the Irish government.

As discussed in Chapter 5, this strategy was applied not only to different countries but also to different times. The above rationale shaped the Commission's stance during the PSI negotiations two years after the first Greek bailout. In the following chapter, I examine more closely the bureaucracy's argumentation during this phase, and demonstrate that the Commission structured its objections, once again, around the notions of market panic and of a potential reversal of EU integration.

4.2.3 Additional Integration: The Commissioner as an opportunistic competence maximiser

The following section suggests that, aside from trying to avert financial spillovers in the Eurozone, the Commission managed the Greek debt in a way that

favoured further integration of the EU and the expansion of its authority. While it framed its suggestions as efforts to meet market expectations and appease market fears, their content enabled substantial expansion of its competences via further supranational integration.

Certain high-level executives, Barroso and Barnier among them, appeared to guide this process, yet the organisation's tendency to promote further integration was embraced by most Commission officials independently of their background, post and seniority within the crisis-management team. These tendencies cannot be attributed to a sole individual, i.e. a policy entrepreneur with ideas and aspirations of that sort. As argued in Chapter 3, the Commission's tendency to tie financial crisis-management to the integration process was a recurring pattern owing to its institutional culture. In this sense, with the emergence of the crisis the bureaucracy found the opportunity to move forward numerous pro-integration plans and ideas that it had been keeping in its drawers for some time before the crisis. Yet, as discussed in the following chapter, these tendencies would be abandoned during the PSI period as the Commission's debt-management preferences were no longer in line anymore with the preferences Eurozone members.

The Commission's budget-maximisation tendencies became evident from the very beginning of the crisis. In February 2010, as the Greek crisis gathered in intensity, the Commissioners linked these developments to the need for further budgetary convergence between the Euro area MSs (European Commission Secretary General 2010a: 19). In response to this plea, Almunia suggested that the Europe 2020 framework be utilised as a proper forum for discussion of such actions (European Commission Secretary General 2010a: 20-21). In another College meeting

that took place in March 2010, Olli Rehn argued that the Greek crisis revealed the flaws in the existing Eurozone framework (European Commission Secretary General 2010c). In response, MSs needed to adopt concrete structures of financial aid and economic coordination (European Commission Secretary General 2010c: 18). The President added that the Commission had suggestions on both topics; he was ready to bring them forward as soon as the MSs asked for them (European Commission Secretary General 2010c: 22). He also emphasised that the Greek crisis had uncovered major flaws in the existing system of economic surveillance. Drawing lessons from these experiences, the Commission had explored and suggested new economic surveillance instruments (European Commission Secretary General 2010c: 24). All these observations pointed to the same conclusion: the European framework needed further integration so that a crisis of similar proportions would not emerge in the future. The Commission suggested that this should be realised via better fiscal surveillance and further economic integration. Subsequently, the organisation needed additional competences and tools to achieve these goals.

As the Greek crisis gathered momentum, the Commission suggested measures that would lead to further economic integration and, by extension, to its further empowerment. The timing and content of these proposals revealed, even more, its competence-maximisation inclinations. As the MSs discussed the creation of the crisis-management mechanism, the Commission proposed a plan that would enable it to borrow from financial markets backed by Community guarantees. It would then provide financial aid to Greece; as it did with the Balance of Payment process for the non-Euro area countries (Interview 7, 10). While the Council rejected this mechanism and opted for a scheme of bilateral loans, this proposal was telling

of the Commission's desire to expand its authority. It aspired to put the bureaucracy at the centre of the crisis-management effort. More importantly, it would grant the Commission with extensive autonomy from the MSs. Borrowing money in the Commission's name would allow the organisation to design and manage the adjustment programme more deliberately and without being directly dependent on the MSs' prior approval.

While the Council rejected the above Commission proposal and opted for a scheme that would be based on bilateral loans, the discussion on a more permanent crisis-management mechanism continued. Thus, the Commission saw another window of opportunity and reinserted itself in the debate. Commissioner Rehn argued that discussions for a more permanent structure would continue. They would, potentially, lead to the introduction of a tax on financial transactions and the strengthening of the SGP. The President supported these proposals and clarified that the Commission would soon suggest concrete measures to strengthen the Stability and Growth pact. It would also assist with the further coordination of economic policies. These measures would be accompanied by policy initiatives that would increase the transparency of the derivatives markets and the functioning of credit rating agencies (European Commission Secretary General 2010d: 24). The above policies, apart from expanding EU competencies, would give the Commission extra clout since it ended up with additional regulatory authority in the financial market

A constant feature of the Commission's narrative on the crisis was that it framed its calls for additional economic integration as responses to the crisis' underlying causes. The Commission argued that if one lesson could be drawn from the Greek crisis, it was that a tighter supranational structure of economic governance

was needed. Based on this assumption, Commissioner Rehn presented a package of wider institutional reforms. These proposals had three overarching aims: 1) strengthening of the Stability and Growth Pact, 2) deeper and broader economic surveillance of the economies of the EU MSs and 3) the creation of a permanent crisis-resolution mechanism. As was previously the case, these measures would entail additional EU integration and lead to enhanced Commission competencies. Rehn announced that the Commission would bring these proposals to the MSs' attention during the preparatory discussions for the Europe 2020 strategy. If the MSs accepted, the Commission would then incorporate them in the official strategic document (European Commission Secretary General 2010f: 15).

Indeed, the MSs agreed to the above suggestion and the Commission went on to unfold its plan in the new Europe 2020 strategy. It framed most of its suggestions as responses to the causes and consequences of the sovereign debt turmoil and recognised that the only way out of the economic turbulence was for the Union to pursue further economic and financial integration (Copeland and James 2014: 11). As the President of the Commission stated, the debt crisis was the trigger that led both the Commission and the MSs to bring forward such an agenda (European Commission 2010c: preface, 3, 5-6). In practical terms, the 2020 plan vested the Commission with additional powers over the MS fiscal planning and budgets. The MSs had to follow the guidelines established by the SGP and to pursue closer coordination at the European level (Europe Commission 2010c: 24). They also had to adopt a new framework for broader and more substantial economic surveillance. Such a system would include provisions on fiscal discipline, macro-economic imbalances and competitiveness. The plan also proposed the parallel

evaluation of the MSs' progress towards the SGP and the Europe 2020 framework. This would allow the Commission to propose integrated and comprehensive fiscal and reform strategies. Finally, the Commission also found the opportunity to argue in favour of stronger external representation for the Euro area. The Eurozone needed a more effective voice when dealing with global financial challenges (Europe Commission 2010c: 24-25). Given the Commission's role as the Council's representative in such *fora*, this was more of a call for the Commission's further empowerment on the international stage.

Finally, one of the most important innovations in the Europe 2020 plan was centred on the Commission's ability to draft country specific reports with regard to the MS fiscal and reform strategies. These reports would propose concrete policies on how the MSs could meet their targets. They would go so far as to require the revision of their national budgets in accordance with the Commission's proposals (Europe Commission 2010c: 25-27). In this sense, the Commission was to obtain effective tools via which it could substantially influence and steer the fiscal planning and policies of individual MSs. All things considered, the Europe 2020 plan ended up being the vehicle via which the Commission tied the emerging crisis to proposals that would lead to further integration and, hence, to further Commission empowerment of the Commission.

Apart from Europe 2020, the Commission also used other platforms in order to tie the crisis-management effort to further European integration. One such platform was the issuance of Eurobonds. Until then, bond issuance had been conducted in a decentralised manner. In contrast, Eurobonds entailed the common issuance of sovereign bonds among Eurozone MSs. MSs would then share revenue

flows and debt-servicing costs (European Commission 2011b:2). The rationale behind this proposal was that such an instrument would calm markets and help Greece obtain a new source of funding (European Commission Secretary General 2010a). Such suggestions first came up early in the crisis and as market volatility intensified, they became more prevalent. Between September 2009 and June 2010, three policy think-tanks came up with similar suggestions for the creation of a common debt-instrument (Matthijs and McNamara 2015: 236-237). The issue re-appeared officially and with much force in November 2011.

The Commission published a Green Paper in which it explicitly recognised that the emergence of the debt crisis had made the issuance of Eurobonds, or Stability bonds, crucial (European Commission 2011b: 2-3). Hence, it discussed potential ways via which the Eurozone MSs could issue a common sovereign bond (European Commission 2011b: 2). The introduction of such bonds would be beneficial for the Eurozone and would alleviate the current climate of uncertainty. MSs that were seen as risky would benefit from the stronger creditworthiness of their more reliable partners. In effect, the mere possibility of having a common Eurozone bond could influence market expectations and lead to lower funding costs for numerous MSs (European Commission 2011b: 4, 19).

While the Commission suggested different modes of implementation (centralised by a common agency or decentralised by the MSs but with tight coordination), it recognised that the Eurobond scheme involved important sovereignty questions (European Commission 2011b: 3, 11). The creation of Eurobonds would lead to further Eurozone integration. This was so because the issuance of such a bond could not be done unilaterally. It would have to be

accompanied by additional economic convergence, further coordination and tighter fiscal surveillance (European Commission 2011b: 4, 8, 19-21). The Commission appeared willing to undertake these tasks. While this proposal did not move forward due to the MSs' opposition (Matthijs and McNamara 2015: 239), it once again showcased the Commission's competence-maximisation tendencies; its Eurobonds suggestions entailed concrete institutional benefits for the bureaucracy.

The above suggestions by the Commission all proposed significant institutional leaps that would lead it to acquire extensive and substantial powers in the field of economy policy. Yet, the bureaucracy also used the crisis to expand its authority over policy fields that were not directly relevant to economic policymakingmaking and financial crisis-management.

Starting from the field of financial market regulation, the Commissioner for Internal Market and Services, Michel Barnier, proposed a policy proposal that would introduce a new regulatory framework for Credit Default Swaps (CDSs). As its name implies, CDSs are a type of insurance against the potential bankruptcy of a borrower. By buying such a financial product, a company is making sure that it will be compensated to a certain amount in case a credit event occurs. The holder of the CDS has to conduct periodic payments to the seller of the CDS, while the seller of the CDS has to pay the face value of the bond or of the loan in case of default.

According to Barnier, such CDS transactions had vastly exacerbated the Greek crisis (European Commission Secretary General 2010c: 18). He argued that this justified the Commission's examining of whether an outright ban of such sovereign debt transactions was appropriate (European Commission Secretary General 2010c: 18-21). As a first step, he proposed a system that would make the CDS market more

transparent. The Commission President backed these suggestions and agreed that stricter regulation, or a ban of CDSs altogether, was needed (European Commission Secretary General 2010c: 22-23). Of course, the Commission would be the de facto regulator and supervisor of such new rules. It would subsequently obtain additional regulatory authority over financial markets and, in particular, the CDS market. In effect, Barnier's suggestions used the Greek debt turmoil as a window of opportunity to promote the Commission's regulatory competencies in financial regulation.

The Commission also managed to use the crisis in order to increase its oversight over national statistical authorities. According to the Commission's assessment, the MSs' ability to present falsified financial data contributed to the emergence of the crisis in the first place. In order to mitigate such risks in the future, the Commission suggested that Eurostat, the European authority in the field of statistics and national accounts, needed to become truly independent and obtain real powers over national authorities. Indeed, it obtained additional competencies and additional control mechanisms over the national statistical authorities. Moreover, the latter's ties with national governments were, to a great extent, severed (Interview 7).

Most of these proposals from the Commission were neither new nor innovative. The bureaucracy had worked on them long before the crisis and had, repeatedly, tried to convince MSs to adopt them. In fact, Commission officials suggested that most of their proposals were based on plans that were previously rejected by the Council and the Parliament. The crisis provided a window of opportunity for the Commission to pass these plans that had been previously rejected by the Council. It did so by presenting them as solutions to the existing

sources of Eurozone instability. A very characteristic example is the Commission's proposals on debt measurement and debt management. Its respective suggestions were initially rejected by the European Parliament in 2004, only to be adopted in a modified form after the crisis (interview 8). Indeed, most of the policy documents that were adopted as responses to the crisis, i.e. Europe 2020, the Blueprint for a deep and genuine economic union and the six-pack, were the offspring of previous Commission proposals (Interview 8,10).

Unsurprisingly the Commission's push for more authority also paid out in practical /budgetary terms. The DGs that were involved in the crisis-management effort saw an impressive increase in staff. This development starkly contrasted with the MS expressed intention, prior to the crisis, to push for a series of staff cuts in the Commission. In effect, the Commission's participation in the crisis-management mechanism and the subsequent expansion of its powers led to the reversal of this dynamic (Interview 10).

This effect suggests that the Commission's bureaucracy employed rent-seeking tactics previously used by IMF staff. The first one has been labelled "hurry-up lending" and refers to the IMF's tendency to lend more and deplete its quotas during periods of quota reviews (Vaubel 1996: 204, Breen 2013: 18). In a similar manner, the Commission attempted to undertake as many crisis-management responsibilities as possible in an effort to convince the MSs that it needed additional funds and personnel to fulfil its newly obtained tasks. In effect, it attempted to increase its institutional and material capacity in a period during which its services were needed the most.

While the Commission used the crisis to expand its authority and budget, its proposed measures were primarily compatible with what it saw as the optimal economic solution for the Greek economy and the Eurozone. Its suggested reforms were also aimed at mitigating the effect of the crisis and putting in place a robust crisis-management mechanism. The accounts of mid-level Commission officials involved in the process are indicative. They confirm that the College was pushing for additional authority (interview 7, 10). Yet, they also suggest that their technical suggestions were aimed at dealing with the emerging crisis. They intended to appease markets and ensure that a debt crisis such as the Greek one would not reappear in future (interview 7, 10). By putting in place a new framework of economic coordination and surveillance, it would become highly unlikely for a state to hold excessive debt. Subsequently, market participants would rest assured that a repetition of the Greek crisis was out of the question (interview 7). This argumentation effectively tied the organisation's competence-maximisation tendencies to its desire to mitigate financial spillovers and ensure the maintenance of EU integration.

The analysis in this section showed that, at the beginning of the crisis, the Commission was driven by its competence-maximisation tendencies, in addition to its spillover fears. It understood these two elements were intertwined; most pro-integration proposals were conceived and conveyed as crisis-management measures. Hence, even measures aimed at the naked expansion of EU competencies, were conveyed in the form of market-appeasing suggestions. In Chapter 5, I show that during the PSI negotiation the link between these two features was no longer sustainable. The Commission had to take an institutionally costly

position in order to secure the integrity of the Eurozone. It had to oppose the MS plan for a PSI and hence risk losing competences within the crisis-management framework. In this sense it chose financial stability and market-appeasement over sustaining its competence-maximisation efforts.

4.2.4 Rule safeguarding

Apart from the Commission's pro-integration and competence- maximisation desires, a prevalent assumption in EU studies is that the Commission is, first and foremost, the guardian of the European legal order. According to the Treaty, the Commission monitors MS compliance with the existing agreements and has the ability to bring legal action against them (Pollack 2003: 19-21). As a result, one might be tempted to argue that the Commission opposed debt-relief on purely legal grounds. After all, such a policy would violate the no-bailout clause and would constitute a destructive legal precedent. While I do not argue that the Commission did not care about these issues during the crisis, I suggest that they were neither its primary concern nort the main driver behind its debt-management measures.

Throughout the crisis, the Commission always sought to ensure that its crisis-management suggestions were compatible with EU Treaties. However, numerous policies ended up being in violation of the EU legal order. For example, the fiscal targets of the adjustment programmes were incompatible with the SGP's fiscal rules. Moreover, the recapitalisation of the Greek banks was incompatible with the EU's state aid rules. In this section, I argue that whenever the Commission faced such conundrums it, invariably, adopted the solution that seemed closer to its political aims and interests. Potential legal concerns were not seen as major limitations and

were bypassed for the sake of wider political aims, i.e. the protection of EU integration and competence maximisation.

All the above do not mean to suggest that the Commission was indifferent with regard to the *acquis Communautaire*. Its suggestions prior to (European Commission 2010b: 2) and after the bailouts (European Commission Secretary General 2010f: 15) were supposed always to be in accordance with EU Treaties. Prior to the bailouts, the institution had to work on measures and instruments already provided by the Treaty (European Commission Secretary General 2010c: 24). This rationale was also maintained after the first bailout. Olli Rehn recognised, in an initial assessment of the Commission's role in the Troika, that the Commission was primarily responsible "to ensure that the conditions laid down were compatible with European legislation, (…)" (European Commission Secretary General 2010d). The Commission always stressed that the newly established financial aid mechanisms had to be consistent with the overall rules of Eurozone governance (European Commission Legal Service opinion, 2011).

Nevertheless, the Commission occasionally had to solve brief internal conflicts that occurred around the compatibility of crisis-management policies with the acquis. In particular, the discrepancy between state-aid rules and bank recapitalisation proved to be contentious within the Commission; Almunia, the Commissioner for Economic and Monetary Affairs, had to grapple disagreements with DG COMP. The Competition Directorate was finally convinced that it was for the benefit of the Eurozone as a whole that the recapitalisation of the Greek banks be treated as an exemption and not as a state aid violation (Speech at the European

Institute, LSE, 24/11/2017). The fact that soon after, Almunia became the European Commissioner for Competition consolidated this view.

The Commission's permanent staff also recognised that the *acquis* had to be maintained; not only did their technical proposals have to be in accordance with the treaties they also had to be legally incontestable. To that end, the Commission's teams also incorporated members of the Legal Service. They made sure that the suggested measures did not violate the *acquis* and that the submitted proposals were phrased in a way that would be very difficult to contest later in court (Interview 6, 10). All things considered; these observations demonstrate that the Commission did care about the legality of its actions. However, they do not prove that these concerns drove the bureaucracy's policy choices and, most importantly, its opposition to a debt-relief.

In fact, there are quite a few observations that run contrary to the legalistic narrative of rule-safeguarding. First of all, legally challenging topics were not discussed, or even mentioned, at the highest level. For example, the compatibility of EU rules with the programme's debt sustainability and fiscal analysis was not brought up forcefully. While such a discussion took place inside the IMF (Henning 2017: 86-91), we do not see such a debate inside the Commission. It is worth mentioning that both institutions had rules covering this topic. They could both invoke these provisions and make an argument on a legal basis. Yet, it was only the IMF that did so, invoking its institutional rules and arguing that it was not allowed to sign-off a programme for a state the debt of which was not sustainable with high probability in the medium-term. Hence, its suggestions for an early-debt relief were mainly aimed

at ensuring that the Greek debt would end-up being at such levels at the beginning of the programme (IMF 2013: 1-2).

It was not only IMF staff that brought this topic to the forefront of IMF internal discussions; its non-EU MSs also raised their concerns. The Argentinian, Swiss, Australian and Brazilian directors brought up the topic of debt-restructuring and emphasised the discrepancy between the Fund's rules and the handling of the Greek debt. They all suggested that for the Greek programme to be in accordance with IMF rules the state needed an early debt-relief (Blustein 2016:135-137) While these objectors were eventually appeased and the IMF changed its rules in order to participate in the first Greek programme, its initial argumentation on the basis of institutional rules is indicative of the fact that such arguments were not missing from the debate (IMF 2013: 10). In contrast with the IMF, the Commission chose to base its whole argumentation on economic stability and contingency fears. Its legal concerns were aired only to complement these fears and never obtained centre-stage in its publication or public discourse. Hence, while both institutions had equally binding rules, they treated them very differently.

While the Commission's technical staff strived to ensure that its suggestions stood on firm legal grounds, they all acknowledged the strenuous relationship between crisis-management and the *acquis*. They qualified their legal concerns by saying that their work and suggestions were to be treated as unique legal exemptions that would not set any legal precedent (Interview 5). A telling example of this mindset was that the legal provisions needed for the financing of the first Greek programme were drafted on an ad-hoc legal basis (Interview 6).

Moreover, in certain cases their approach signified that they attached lesser importance to the preservation of the *acquis* and more to the effective handling of the emerging crisis. According to senior Commission officials, in a few cases, the *acquis* was barely taken into consideration, despite the objections of certain team members (Interview 9, 11). Moreover, external observers recognised that the Commission opted to bypass legal concerns so that it could push for its preferred solutions. Bruegel's 2013 report recognised that there were cases where the Commission's fiscal policy recommendations might have been incompatible with its role as an enforcer of the SGP. As a Troika institution, the Commission had to set fiscal targets that were obviously different from the SGP targets. In the words of the report: "For example, the Commission should enforce the Stability and Growth Pact's fiscal policy provisions. Yet, in the programme context, these rules are not a primary concern". (Pisani-Ferry et al. 2013: 24, 26, 110, Interview 11).

These insights point to the following conclusion: The Commission had a pragmatic discretionary approach with regard to the role of tacquis in its crisis-management effort. It was willing to respect the *acquis* and the Treaties as long as they did not directly hinder its crisis management policies. If such frictions arose, the bureaucracy would opt for the most effective solution; not for the one closest to the letter of the law. Overall, the Commission did not take legal constraints so seriously; wherever it was necessary, the EU rules would be partially "bent" or suspended to facilitate the crisis management effort.

4.2.5 *Synopsis of the Commission's internal drivers*

To conclude our discussion about the Commission's internal motives, there were two central internal features driving its debt-management stance at the beginning of the crisis; first, the Commission's desire to safeguard the stability of the Eurozone via market appeasement and, second, the Commission's tendency to expand its authority via further EU integration. Secondly, I find that its role as the guardian of the Treaties was less prominent during that period. The remainder of this chapter explains why the alternative explanations presented in Chapter 2, cannot fully explain the Commission's debt-management preferences and policies at the beginning of the crisis. I begin this discussion by outlining why the dominant narrative, the state-centric explanation, is not borne out by the data.

4.3 The state-centric explanation

The state-centric explanation could have been the null hypothesis of this study. The theoretical case in favour of such an explanation inevitably lies in the assumption that the Commission was acting as the Eurogroup's faithful agent. Numerous observers assumed that the MS influence extended over the Commission's crisis-management suggestions (European Parliament 2014, Pisani-Ferry et al. 2013, European Court of Auditors 2017, Matthijs and McNamara 2015, Brunnermeier et al. 2016). Yet, I assert that these accounts come mainly from non-Commission observers that lacked information about the organisation's internal work. They all adopt a state-centric understanding of the P-A relationship between the Commission and the Eurogroup. The analysis below shows that this approach is not entirely accurate. While the debt-management preferences of the MSs and the

Commission were aligned at the beginning of the crisis, the two parties reached this common ground via very different paths.

At the beginning of the crisis the Eurogroup, i.e. the MSs, rejected an early debt restructuring on various grounds. First the MSs shared the view that an early debt relief for Greece entailed substantial moral hazard concerns. Greece had first to suffer a fiscally painful adjustment programme, so that other Eurozone countries would be discouraged from following the same profligate path. Secondly, MSs would also have a difficult time justifying an early debt-restructuring in their parliaments and in front of their electorate. Their voters would see an early debt-relief as fundamentally unfair; Greece would be given a debt-relief and a lenient programme while their taxes would be used to pay for its rescue (International Monetary Fund 2013: 27). Finally, MSs were also concerned that an early debt restructuring would significantly increase bailout costs. A potential haircut would seriously affect Greek banks, as they would have to write massive losses onto their books. Creditors would then have to foot the bill, recapitalise the banks and cover the losses.

Moreover, a debt haircut would affect the German and French banks that were holding the majority of the Greek bonds. It would bring them to the brink of financial collapse and national governments would then have to step in and, once again, bail them out (Pisani-Ferry et al. 2013: 67-68). The potential collapse of domestic commercial banks would have grave economic implications for the French and the German economies. Given the central position of such banks as intermediaries and providers of domestic credit, their collapse usually creates problems for the domestic payments system, while it also causes systemic domestic financial crises (Copelovitch 2010a: 53). Faced with such risks, the German side

wanted to avoid a debt-restructuring at that point since it would entail serious costs and risks for its domestic commercial banks.

Finally, early debt restructuring might have led sovereign bonds to drop dramatically in value due to market panic (International Monetary Fund 2013: 27). The MSs would then have faced rising lending costs. Early debt relief would have caused the exaggeration of such costs and the potential spreading of financial spillovers into the banking sectors of other Eurozone members. Given that such outcomes were certainly undesirable for most MSs (Bechtel et al. 2014), they all fervently opposed early debt-relief for Greece.

The state-centric narrative suggests that the Commission acted, during the crisis, as the Eurogroup's agent; hence, its suggestions reflected the above preferences. For example, in its reports the European Parliament took it as a given, in its reports, that the Commission was acting as the Council's faithful agent. MEPs were convinced that the Commission had very little room for autonomous thinking and action (European Parliament 2014: 4). The Eurogroup was giving "a mandate to the Commission to negotiate on its behalf the details of the conditions attached to the assistance, while taking into account MSs' views on key elements of the conditionality and, in view of their own financial constraints, on the extent of financial assistance" (European Parliament 2014: 16). Bruegel's 2013 report also made the same argument. It posed that the Commission did not have the authority to issue loans- unlike with non-Euro area countries. Its mandate was limited to the assessment of the financial situation and the technical negotiation of the programmes (Pisani-Ferry et al. 2013: 21). Finally, similar insights were offered by the European Court of Auditors. It explicitly recognised that the Commission was

supposed to act on behalf of the Euro-area MSs when monitoring and coordinating the implementation of the first Greek programme (European Court of Auditors 2017: 17). The notion that the Commission was faithfully reflecting MS preferences was, subsequently, extended to the field of debt management. Since the Commission and the MSs articulated the same arguments with regard to debt-management, most outside observers believed that the Commission was simply reflecting MS preferences and argumentation.

Greek officials involved with the bailout negotiations also supported the above notion. They argued that the Eurogroup was at the helm of the crisis-management effort and pushed the Commission to take strong a stance against early debt-relief. George Papaconstantinou, the Greek finance minister who negotiated the first bailout, believed that the Commission's positions on debt relief reflected the positions of the German finance minister, Wolfgang Schäuble (Blustein 2016: 109). One interviewee suggested that this was the case because the Commission had to secure the Eurogroup's approval for each and every crisis-related policy. Given that the German government managed to steer the Council towards its preferred solutions, it was only normal for the Commission to anticipate German preferences and propose appropriate debt-management policies (Interview 1). Another interviewee, a senior Greek official with deep involvement in the negotiations, suggested that only the German side understood the moral hazard and contagion implications of an early debt relief. The European Commission, being new in the field and having no clear positions or strong preferences on the issue, instantly adopted the German policy. The latter was quite elaborate and clearly delineated the long-

term implications of an early debt-relief. It also presented the channels via which it could cause widespread panic across the Eurozone (Interview 2).

Despite the above accounts, a better look at these sources is enough to raise doubts concerning the validity of such explanations. Most of these accounts come from institutions and officials that interacted with the Commission only from distance and across the negotiation table. They would come in contact only with the final positions of the European side. It is quite possible that these positions might not have been reflective of the Commission's preferences. In that sense, the co-variation of the positions of the Commission and of the Council during the early days of the crisis might have concealed part of the story.

Most of the reports that support the state-centric explanation fail to discuss evidence that points in the opposite direction. The European Parliament's 2014 report noted that "each member of the Troika followed its own procedural process" (European Parliament 2014: 4). Despite having recognised that the Commission had to act as the Council's agent, the Parliament also acknowledged that the Commission had some autonomy to form its own views. It was not just given a marching order but was allowed to follow its usual intra-service consultations. This leaves open the possibility that it did not internalise the Council's preferences and that it developed autonomy of will. In this sense, it had the opportunity to develop autonomous preferences that might lead to agency slack. The Bruegel report also recognised this possibility. The authors argued that the Commission's official role as an EU institution transcended its Troika mandate. Its role and function in the wider EU policy system was embedded in the Treaties and was still in effect when it undertook its crisis-management mandate from the Council. Discrepancies between the two roles would

inevitably lead to tensions and would require the bureaucracy to choose between the MS crisis-management preferences and its overall institutional goals and aims (Pisani-Ferry et al. 2013: 3 24, 110). Yet, despite recognising the above possibilities, neither report further discussed the Commission's role and its relationship with the Council.

One can also locate evidence that the debt-management preferences of the MSs and the Commission were not necessarily compatible at the beginning of the crisis. As Randall Henning noted, Germany wanted the Fund involved in the Troika because it thought the Commission would not follow the German state's debt-management preferences. First of all, ,unlike the IMF, the Commission had very limited experience with debt-management. Moreover, the Fund would not oppose, in principle, a potential bail-in. This was of extreme importance because, if Greece needed a bail-in later in the programme, the Fund would be far more sympathetic to such an option and would work to counteract the Commission's negative approach. Seeing such a scheme as a potential future solution, Germany opted to bring the IMF in the crisis management mechanism (Henning 2017: 96).

Henning's remarks, which appear to be drawn from his interviews with German officials, imply that the European Commission and the Merkel government were not in complete agreement over the field of debt-management. German officials were planning to use the Fund's presence in the Troika to suggest a potential debt restructuring. They needed the IMF inside the Troika to fight the persistence stance of the Commission and the ECB against such a scheme. Such a narrative significantly undermines the state-centric explanation. If the German government could not suggest a debt relief due to the Commission's opposition, then the

argument that the Commission's preferences were reflecting German preferences, and hence the principal's collective preferences, loses clout. As will be shown in the next chapter, the realisation of the PSI scheme demonstrates this discrepancy in vivid colours. The Commission opposed German preferences for debt restructuring, while the IMF backed the relevant claims of the German government.

Commission officials involved with the first Greek programme offer a more nuanced picture with regard to principal-agent interactions within the crisis-management framework. The Commission was in direct communication with the MSs and always tried to incorporate their preferences into its proposals. At the very beginning of the crisis, it endeavoured to understand how much financial aid they were willing to give (interview 11). Yet, its suggestions were, primarily, designed to be economically reasonable and to offer an optimal solution to the crisis (Interview 10). The organisation conducted its technical work with the aim of identifying the most viable recovery path for Greece. It would then review MS preferences and make sure that they were compatible with its initial planning (Interview 6,7, 9,10).

Yet, the interviews revealed that this fine balance between state preferences and optimal economic solutions was non-existent when the organisation had to deal with the issue of debt-management (Interview 8, 10). Under these former conditions, the Commission was less inclined to follow MS preferences in (Interview 5, 6). The thesis argues that the Commission was less willing to compromise its debt-management positions because they were built on pre-existing conceptions and attitudes, i.e. a strong internal culture, concerning crisis-management. In other words, they were based on core features of its institutional culture. As such, they were non-negotiable.

Overall, during the early days of the crisis, the Commission and the MSs objected to early debt relief for quite different reasons. The Commission sought to safeguard the stability of the Eurozone. It opposed debt-relief, fearing the collapse of the Eurozone's bond market and the subsequent collapse of EMU. The MSs opposed early debt relief because that would lead to exorbitant bailout and domestic political costs. They were also very much afraid of potential financial spillovers into their domestic financial systems. While the Commission and the MSs converged towards the same debt-management position, they did so by following different paths and rationales. Consequently, the standard state-centric explanation that claims a causal linkage between state and bureaucratic preferences seems to have little analytical leverage in this case. The prevalent notion in the literature that the EU states dictated the Commission's debt-management suggestions at the beginning of the crisis is based on the coincidental convergence of the two sides; the above analysis shows that the principal's position cannot fully explain the bureaucracy's debt-management preferences.

4.4 Advocacy Coalition framework

Another potential explanation of the Commission's behaviour is the advocacy coalition hypothesis. This hypothesis posits that the Commission reached its debt-management policy following intense conflict between its DGs. Yet we do not find much evidence supporting this hypothesis. The core of the argument I pose here is that the Commission's modus operandi did not allow much room for widespread conflicts. DG ECFIN spearheaded horizontal teams of Commission officials that

included staff from all relevant directorate-generals. These teams worked out the official policy line and resolved any disagreements at an early stage.

In addition, the Commission's President, in cooperation with the Secretary-General, made sure that other Commissioners and DGs did not dispute this line. Contestations were rare and sporadic; in any case the President and the Secretary-General quickly silenced them. All in all, there was not enough discursive space inside the Commission to contest the official policy line that was agreed within the core crisis-management team. Subsequently, the Commission conveyed a common and uniform message against any kind of debt relief.

A few secondary sources refer to the existence of internal disagreements in all Troika institutions (Henning 2017: 86, 90). While they are very explicit about the IMF and the ECB, these accounts lack detail in relation to the Commission's internal working. In an effort to find some evidence for this hypothesis I examined the minutes from the Commissioners' College. While we would not expect to find explicit descriptions of these disagreements, we would, at least, expect to find relevant references of extensive discussions among Commissioners.

As the crisis started, Barroso suggested that all Commissioners had to stand, publicly, behind the Greek stability plan (European Commission Secretary General 2010a: 18, 21). That would send a message of credibility and coherence to the markets. Of course, certain objections were voiced. Firstly, Greece did not seem able to implement its tough and ambitious stability programme. Moreover, it was possible that in the process of achieving a 10 percent deficit reduction in 3 years, the Greek economy would implode (European Commission Secretary General 2010a: 18). Yet,

such disagreements waned as soon as the second Barroso Commission was appointed.

At the beginning of the second Barroso Commission, Greece officially applied for financial assistance. During this critical period, the Commissioners' College appeared united. Rehn and Barnier presented the Commission's short-term and long-term responses to the Greek crisis, including its debt-management suggestions. The two Commissioners backed each other's plan, while the President also expressed his support. The other Commissioners commended the plan, noting "the appropriateness of the pragmatic approach adopted" (European Commission Secretary General 2010g: 22-26).

The same picture of consensus emerged after the ratification of the first Greek bailout. The president of the Commission praised DG ECFIN and Commissioner Rehn for their work on the Greek programme. In turn, Rehn thanked the College for its unequivocal support (European Commission Secretary General 2010d: 21-22). The discussion that followed praised DG ECFIN's work and emphasised the need to expand the Commission's authority over other fields of economic governance (European Commission Secretary General 2010d: 23-24). The president closed the conversation by noting that "It was important for the Commission to speak with one voice on these highly sensitive issues, and that voice should be Mr Rehn's." (European Commission Secretary General 2010h: 32).

Not only did the College back the crisis-management suggestions of DG ECFIN and COMP but also their wider crisis-related planning. As the College was discussing the need to regulate the CDS market, DG GROW, COMP and ECFIN presented a picture of close and smooth cooperation (European Commission Secretary General

2010c :19). This atmosphere of collegiality continued, with the other Commissioners and the President supporting the proposal of Barnier and Rehn (European Commission Secretary General 2010c: 22, 24). Moreover, in a meeting that took place in mid-April, only a few days before Greece's application for financial aid, Commissioner Rehn proposed three economic policy reforms (strengthening of the SGP, broader fiscal surveillance and a permanent resolution mechanism) that were widely accepted by the College- an act that the President did not fail to praise (European Commission Secretary General 2010f: 15-16).

DG ECFIN's policies and suggestions were contested with some intensity only when the Greek programme went clearly off-track. Yet, despite the voicing of concerns about the uneven recovery of programme countries (European Commission Secretary General 2011h: 19), not much changed. In fact, the Commission's president reasserted his trust in the Commissioner for Economic and Monetary Affairs and backed the Commission's standard approach of domestic adjustment (European Commission Secretary General 2011d: 14). In addition, he designated DG ECFIN as the leading actor in a special task force that would provide extensive technical assistance to Greece (European Commission Secretary General 2011e: 20). However, the conversation did not end here.

As the MSs were about to proceed with the PSI, more trouble arose inside the College. Certain Commissioners wondered if the Greek debt was sustainable, with Commissioner Rehn defending the official policy line. For the Commission Greece needed more technical aid and additional privatisations in order to reach its revenue targets (European Commission Secretary General 2011e: 18, 21). The PSI scheme was beyond the Commission's scope; it concerned solely the Eurogroup (European

Commission Secretary General 2011e: 19). Following this exchange, the College discussed the content of the upcoming second programme. The debate evolved around whether the programme's forecasts were credible, how it would affect social stability and what kind of competences did the Commission have in regard to programme monitoring (European Commission Secretary General 2012a: 24-25). Despite voicing concerns, DG ECFIN's debt management policy remained uncontested during that period (European Commission Secretary General 2012c: 22-24, European Commission Secretary General 2012d: 18, European Commission Secretary General 2012e: 2, 17-21, European Commission Secretary General 2012f: 33-34). Even during the second programme and after the realisation of the PSI, whenever some Commissioners raised objections vis-a-vis the Commission's policy line, the President would rush to clarify that Commissioner Rehn enjoyed his full support (European Commission Secretary General 2012a: 26, European Commission Secretary General 2012b:15).

As evident from these remarks, it appears that President Barroso actively cultivated the College's consensual atmosphere and made sure that the College did not discuss to any great extent the work of DG ECFIN. While we do find evidence of disagreements, these were rare. More importantly, President Barroso rushed to dismiss such concerns as soon as they appeared. He insisted that the Commission had to have a common voice. He made clear, early in the crisis, that he did not want to see the official policy line contested and that DG ECFIN would head the crisis-management effort unhindered (Interview 7,10).

The Commission's SG was also instrumental in this strategy. By presiding in the weekly meetings of the Director Generals, she managed to ease and appease any

kind of friction or disagreement among the services and to consolidate the primacy of DG ECFIN in regard to the crisis-management effort (Interview 10). As a result, even outside observers and officials, involved with the drafting of the Greek programme admitted that ECFIN was obviously heading the crisis-management effort (European Court of Auditors 2017: 35).

Overall, it appears that President Barroso managed to limit the discursive space among the services. In turn, his efforts eliminated the possibility of intense disagreements in the field of debt-management. Importantly, the few occasional conflicts that arose did not have the characteristics of a full-fledged advocacy coalition conflict.

This finding is in line with the view that President Barroso has been one of the most assertive Commission presidents. The Commission's transformation under Barroso has been attributed to the President's political entrepreneurship (Kassim 2013b). He had clear views on how the Commission should function in order to be effective after the recent waves of enlargement. Barroso believed that the expanded College was in need of strong presidential leadership in order to avoid fragmentation of its power and an incoherent policy programme.

Subsequently, he used his Treaty-based power to create a more centralised system of governance. He used his powers with regard to appointments, portfolio distribution and resignations to gain considerable power over his fellow Commissioners. He then used this influence to steer them towards his preferred direction. The fact that most Commissioners were ideologically aligned with the President also helped to consolidate such a framework without much opposition (Kassim 2013b:176). Consequently, the College would usually not vote on or discuss

most of the agenda topics since a consensus would already have been reached before the actual meetings (Kassim 2013b: 166-168).

The Commission's Secretary- General also supported and enabled Barroso's effort to create a centralised system of power. Barroso sought to empower the Secretary General and direct her towards a more interventionist approach vis-a-vis other Commission services (Kassim 2013b:177-178). This would lead to the consolidation of the new centralised system in the Commission's lower hierarchical echelons (Kassim 2013b:179). In effect, the President turned the Secretary- General into the main vehicle via which he was represented within the service; he used it to intervene even in the most technical aspects of the bureaucracy's work (Kassim 2013b: 170-171).

Overall, Barosso managed to transform the Commission's Presidency into an institution with substantial influence over each and every policy area (Kassim 2013b:176). By shaping a centralised system of power, the President of the Commission managed to take control of the Commission's agenda and to bring forward major policy initiatives on Europe 2020, the Eurozone, financial market regulations and climate change (Kassim 2013b: 178). The Commission's mode of operation and division of power during the crisis should be seen as the offspring of this distinctive and forceful leadership style. Barroso extended this centralised mode of governance in the field of crisis-management and imposed Rehn as the organisation's primary authority on this.

In addition to the actions of the Commission President, the modus operandi of the technical teams did not allow much space for coalition conflicts neither. First of all, DG ECFIN, the department that led the crisis-management effort, adopted an

accommodating approach to the preferences of other DGs. Many Directorates promoted measures that would harmonise certain Greek policies with the EU standards. ECFIN would evaluate the economic impact of these proposals and then decide whether such measures could be integrated into the programme. Generally, such proposals were accommodated, providing they did not entail grave economic implications (Interview 11). Moreover, the creation of horizontal teams with officials from DG ECFIN, COMP, GROWTH (internal markets and services) and the Legal Service left little room for internal strife. This structure allowed the Commission to quickly create a common and coherent policy that took into account the different aspects of the various crisis-management policies (interview 8,10). For example, when DG COMP brought up state-aid violation concerns, these issues were worked out, fairly quickly, by the technical teams (interview 7,9). On the whole, the structure of the Commission's technical team made the emergence of protracted conflicts at the Commission's lower hierarchical levels quite rare. Most importantly, it ensured that the Commission's line, at this level, was coherent and uniform.

The above observations also complement Kassim's recent work on the Commission's interdepartmental organisation. He argues that horizontal coordination between the Commission's different services has improved significantly over the last few years. The use of technology, i.e. a unified system of e-signature, the existence of impact assessments and the creation of inter-departmental networks that bring together officials from different DGs that work in the same area, all contributed to the improvement of inter-departmental cooperation and coordination. Moreover, the Secretary General's empowerment has also improved the level of inter-departmental cooperation (Kassim 2013c: 190-192).

Overall, it appears that the above pattern of improved cooperation and coordination between the services was extended to the field of crisis-management. The creation of close-knit technical teams allowed the Commission to form and exhibit a clear and coherent message with regard to its debt-management views.

The only divide that appeared between the Commission's permanent officials was the one between the Eurogroup's secretariat, which was consisted of DG ECFIN officials, and the Commission's programme teams. Commission officials from DG ECFIN were seconded to the Council and staffed the Eurogroup's secretariat. They were subsequently operating under the direct control of the MSs and beyond the Commission's normal consultation procedures. They conducted their analysis in parallel but independently of the Commission's team.

For the Commission's services and especially for the Secretary-General such autonomy was unacceptable. The Commission faced the risk of having its own personnel offering a very different assessment of the financial situation in Greece. In turn, this might lead to different suggestions to the Eurogroup and, as a result, to a less unified Commission message. In reality the two bodies did not diverge that much in regard to their economic narrative. The main cause of disagreement between them had to do with the fact that the Eurogroup's secretariat could escape the Secretary General's control (Interview 10). This fear demonstrates vividly that it was of utmost importance for the Commission's senior executive that all services exhibited the same crisis-management message.

To conclude, Barroso's leadership along with the structure and functioning of the Commission's technical teams, led the organisation to convey a relatively coherent and unified message against debt-relief. A small core team of senior

officials and permanent officials shaped the bureaucracy's debt-management policies and then "pushed" this line successfully onto the rest of the service without much tangible opposition. The President dismissed occasional objections that were voiced in the College, while conflicts between mid-level officials were quickly resolved due to the horizontal structure of the technical teams. Following all the above, H3 is not sustained by the existing evidence; the Commission's debt-management policies were not a matter of intense internal debate. Instead, the organisation reached a common policy in a relatively short period of time and without much contestation.

4.5 The policy field explanation and the role of the ECB

Following H4, this section examines whether an external organisation, in this case the ECB, influenced the Commission's debt-management views and led it to oppose any debt relief. Both organisations feared that an early debt relief might cause financial spillovers and, consequently, had overlapping preferences most of the time. Nevertheless, the analysis shows that they reached these positions independently and autonomously.

The MSs sought to involve the ECB in the Troika framework mainly for two reasons: first, they did not trust the European Commission enough to represent their interests and second, because they were afraid that the IMF might propose measures that were incompatible with ECB policies. As a member of the Troika, the Central Bank would have the chance to veto such initiatives. Subsequently, the ECB participated with a sizeable team of economists, in the technical teams that negotiated the first Greek Adjustment Programme. Their contributions were mainly

focused on the reform of the financial/ banking sector, but they also provided input on the programme's fiscal side. The ECB's approach to the latter issues appeared to be stricter compared to those of the Commission and the IMF; it argued in favour of faster and more radical fiscal consolidation. Yet, its views were not limited to this and it sought to influence the MS final debt-management policies (Merler et al. 2012: 6-7). As the analysis below demonstrates, the ECB adopted a stance of stringent opposition to any type of debt-relief for Greece.

From the very beginning of the crisis, the European Commission and the ECB held comparable anti-debt relief positions. They also presented similar arguments to justify this stance. They argued that such a policy would be destructive for the Eurozone and that it should be avoided at all costs. Sharing the common aim of ensuring Eurozone stability, they consequently voiced the same fears for potential financial spillovers (Pisani-Ferry et al. 2013: 111 ,119-120).

In particular, the ECB feared that an early debt relief would undermine the credibility of the Eurozone as a whole. The Bank had already seen this scenario unfold in the aftermath of the 2005 French vote on the European Constitution, when a number of "euro-break up" trades took place. MSs with less viable public finance came under significant stress as investors would sell low-rated government bonds and buy high-rated ones (Gabor and Ban 2015: 624, Gabor 2016: 984). As Lorenzo Bini-Smaghi, a member of the Bank's Executive Board, argued debt-relief in the form of a PSI would have grave implications for the Euro area's financial stability as it would intensify this trend. He suggested that making debt-restructuring a straightforward and orderly process would incentivise bondholders to take more risky positions since they would always have the opportunity to get out of Euro area

countries easily and effectively. Such a mechanism would entail the spreading of the crisis across the Eurozone since market participants would start speculating which other MS might undergo debt-restructuring in the near future (Merler et al. 2012: 13).

In addition, the ECB had valid fears that a sudden change of market-expectations, caused by an early debt relief, would lead to the collapse of the banking sector. The ECB was fully aware of the possible contagion that the market-based governance of repo markets and inter-bank lending had put in place. Motivated by the idea that an integrated repo market would perpetuate the momentum for further EMU integration, the ECB promoted the perception that all EMU sovereign bonds could be used as collateral of identical value. The interaction between repo and collateral markets would increase liquidity in the securities markets and eventually lead to an EU capitals market (Gabor and Ban 2015: 623, 627). Yet, as soon as the assumption that EU sovereign bonds operated as collateral of equal value was contested, this policy amplified financial instability (Gabor and Ban 2015: 618). Given the volatile nature of the Eurozone repo market, the ECB was subsequently afraid that a sudden change of market expectations might lead to a liquidity spiral for the whole Eurozone banking sector. After a debt relief, the value of all Eurozone sovereign bonds would be contested as investors would lose confidence. They would then tighten collateral conditions (higher haircuts and a smaller range of acceptable collateral) leading to lower liquidity in collateral markets and subsequently more funding problems and asset sales (Gabor and Ban 2015: 621).

The risk of such a liquidity spiral was not inconsequential as the Eurozone repo market amounted to 25 trillion euros annually right before the crisis, with cross-

border repos amounting to 48% in the collateral's markets. Hence, the ECB was afraid that an official move signifying that sovereign bonds in the Eurozone were not safe from a haircut would seriously affect the collateral used in the repo market. This would cause significant volatility in inter-bank lending and to the overall Eurozone banking system (Gabor and Ban 2015: 621-623, 625).

Like the Commission, the ECB had already voiced such concerns since the beginning of the crisis. While the Van Rompuy Task Force was discussing a series of potential Eurozone reforms, the ECB voiced its strong objections with regard to the establishment of a permanent mechanism of debt-restructuring (Merler et al. 2012:13). Moreover, in an executive board meeting that took place during this period, the ECB President forcefully rejected any discussion on debt-restructuring (Blustein 2016:118). Even when the Greek programme was derailing and the Greek authorities were voicing demands for some kind of debt restructuring, the ECB remained unmoved.

In April 2011, when both market participants and MSs were discussing potential debt relief for Greece, the Greek finance minister sent an official letter asking for some type of debt-restructuring. The ECB saw this request as a declaration of war. Its President responded that if a MS did not pay its debts, the whole monetary union would be in jeopardy. The ECB was determined to avoid such a risk. Hence if Greece went on with this plan, the central bank would stop any financing of Greek banks- leading to their ultimate collapse (Blustein 2016: 197). Consequently, the Greek government soon changed course and retracted its demands for a debt write-down.

The fact that the ECB was willing to allow the Greek banking sector to collapse is indicative of its strong views against any type of debt-relief. It is also telling of its commitment that it followed the same line even when the bigger MSs decided to push harder for the realisation of a debt relief scheme (Blustein 2016: 200). Senior ESM officials who took part in these negotiations, suggested that the ECB was vocally arguing against every debt-relief plan due to spillover fears (Interview 4).

While it is obvious from all the above that the Commission and the ECB, at the beginning of the crisis, had the same stance on debt management, it is very difficult to assess whether the intense socialisation between the two bureaucracies produced this convergence. The ECB did not publish its distinct programme suggestions separately. Instead, the Commission's reviews were drafted "in liaison with the ECB" (European Court of Auditors 2017: 17). Subsequently, in order to disentangle this relationship, the analysis leans heavily on secondary sources and the accounts of Commission officials that took part in the drafting of the first Greek programme.

First of all, it appears that the Commission and the ECB did not have the same amount of "skin in the game". Despite the fact that certain Bank officials denied it (Merler et al. 2012: 13), the ECB appeared concerned about the implications that a debt-restructuring might have for its own balance-sheet. As the ECB had financed a substantial part of the Greek programme, via the Security Markets programme, it was holding a large volume of Greek bonds. Its high degree of exposure to the Greek bonds made early debt-relief extremely undesirable (interview 5,6, 9, Merler et al. 2012: 12). Subsequently, many of the ECB's suggestions, including its debt-management proposals, were aimed at protecting its balance-sheet (interview 6, 9).

In contrast, the Commission with no money "on the line", was more concerned with the political future of the EMU.

Moreover, the two institutions had very different roles in the Troika. The ECB, being independent from the MSs and a central funding partner of the programme, had a *de facto* veto. On the other hand, the Commission had to take into account the Council's collective preferences, and it had to articulate its views within its mandate as the Council's agent. Hence, while the two organisations converged on an anti-debt-relief policy, they reached this policy along very different paths.

Furthermore, given their difference incentive structures and roles, the overall cooperation of the two institutions was not seamless; in fact, it ended up being a quite tumultuous one (Interviews 6,10). The Commission's technical teams felt that, although, they were compelled to hear the advice of their ECB counterparts, but they did not have to follow it. This attitude created numerous frictions between the two institutions. The ECB expressed opinions- and occasionally vetoed policies- that had to do with a wide range of issues from debt-management to labour reforms. ECB officials would usually advocate harsher fiscal policies and more rapid fiscal consolidation programmes compared to the Commission and the IMF (Merler et al. 2012: 7). This approach came in stark contrast to the Commission's initial planning and understanding vis-a-vis the ECB's role within the Troika. According to most Commission officials interviewed for this project, the ECB was supposed to propose bank-related measures. The central bank's tendency to overstep this role, without any consideration for the political and social feasibility of its suggestions, frustrated them. Consequently, they ended up doubting how efficient it was to have the Central Bank inside the Troika structure (interview 6, 7, 9, 10).

Taking stock of all the above, it is difficult for one to argue that the Commission's argumentation against a debt-relief was driven by the ECB's views. Given the strenuous relationship between the two organisations, it is very difficult to imagine a process in which the ECB's views would be transmitted and faithfully followed by Commission officials. It is equally hard to argue that such a process led the two institutions to adopt a common position on debt-management. If anything, the Commission was sceptical of the ECB's role inside the Troika and was, as a result, unwilling to follow the Central Bank's policy prescriptions. Considering all the above, it seems that H4 is not sustained by the existing evidence.

4.6 Conclusion

The current chapter argued that the Commission's debt-management strategy at the beginning of the crisis should be attributed to two internal institutional characteristics: 1) its desire to safeguard the Eurozone via market-appeasement measures and 2) its tendency to expand its authority via further supranational integration.

Aside from consolidating this narrative, the Chapter also analysed why the dominant state-centric narrative does not fully explain the Commission's behaviour. The motives of the Commission and the MSs only partially overlapped. The MSs did not want to grant Greece an early debt relief due to moral hazard concerns, spillover fears and potentially elevated bailout costs. On the other hand, the Commission's main concern had to do with potential financial spillover effects to other Eurozone MSs. Hence, it seems that the risk for potential spillovers constituted adequate common ground to bring the MSs and the Commission together. Of course, such an

overlap is not surprising; both actors had taken the decision to keep the monetary union stable and, therefore assessed potential spillover risks as being of primary importance. Yet, as will be demonstrated in Chapter 5, this coincidental overlap would cease during the PSI negotiations. The two sides would diverge and end up opposing each other.

The analysis also discussed the explanation deriving from the advocacy coalition framework. It suggested that Barroso's leadership style and the *modus operandi* of the Commission's technical teams made the emergence of substantial disagreements rare and inconsequential. Finally, the policy field explanation also appeared to have less analytical leverage. The overlapping preferences of the Commission and of the ECB and their similar argumentation do not provide adequate reason to establish that the Commission internalised the Central Bank's preferences. The contentious interaction between the two organisations suggests that their convergence was mainly due to overlapping preferences.

The Commission's inclination to protect the Eurozone through market-appeasing policies was a harbinger of its stance during the PSI negotiations. In the following chapter, I delineate why the Commission chose to oppose its principal's preferences in such a profound and institutionally detrimental way. I argue that it was the Commission's tendency to protect the EMU via market appeasing measures that led it fervently to oppose the debt relief scheme of the MSs. The organisation understood the process of European integration as being intertwined with market forces; consequently, it could not accept a measure, like the PSI, that would run counter to market expectations.

5 *Against all odds: The Commission's opposition to the PSI*

5.1 Introduction

As previously discussed, at the beginning of the Eurozone crisis the Commission adopted a strong anti-debt-relief stance. This position remained unchanged between 2010-2012 despite the fact that the MSs eventually changed their views and were rapidly moving towards some kind of debt-relief. The Commission's choice did not serve the institution's competence-maximisation tendencies, and in fact, entailed institutional losses. The Commission was seen as less credible and efficient with regard to debt-management. Other competing institutions within the crisis-management effort, e.g. the ESM, the Euroworking group and the IMF, overtook the technical aspects of the PSI negotiation. In this respect, the Commission's stance had tangible negative implications for its debt-management competency and risked raising further scepticism among its principals, at a time when a few other institutions were available to undertake the Commission's crisis-management tasks.

The Commission's unorthodox choice can be attributed to its spillover fears. Indeed, the organisation was afraid that any policy that went against market sentiment would lead to capital flight and wider Eurozone instability. It therefore argued that the MSs' plan for a PSI was misconceived: a debt relief would trigger market unrest and lead to wider instability in the Eurozone. While the saliency of the issue would justify reflecting state preferences, this was not the case. Instead, the Commission chose to forego its immediate institutional interest and followed its own conception of what it deemed to be an appropriate debt-management policy. It

retained this rationale and policy while most other actors and, especially MSs, were arguing in favour of a different path.

Disentangling the reasons that led the Commission to act in such a way leads to counter-intuitive insights. The following analysis contends that the organisation saw the integration process as being intertwined with market appeasement. It also claims that this perception was more important compared to the organisation's competence-maximisation incentives.

This chapter develops this explanation, starting from three different perspectives. It begins with that of the MSs and moves on to those of the Commission and the ECB respectively. It contends that the MSs, and more specifically the German government, led the EU Council to adopt the PSI scheme. Yet, the Commission continued to oppose this policy and later withdrew from the field of debt-management. There follows in-depth analysis of this exceptional stance. The chapter then concludes with the ECB's reaction. It puts forth the ECB's strong opposition to the PSI and presents its arguments. It also analyses how the MSs finally managed to convince the central bank not to veto the plan. Finally, it discusses why the stance of the Commission and the ECB on the PSI should be seen as independent of each other.

The Chapter has four sections: the first section gives an outline of the Private Sector Involvement scheme (PSI). It aims to discuss the wider field of sovereign debt-restructuring, position the PSI within it and present a clearer picture of what this scheme entailed. The second part discusses the MS influence on the PSI debate. It argues that their role was central in this process. The next section looks at the Commission's reaction to this strong state impetus. It argues that the Commission's views on debt management were driven by its desire to sustain the stability of the

Eurozone via market-appeasing measures. After reaching a different assessment from that of the MSs, it ended up opposing their preferences. Finally, the fourth part looks at the ECB's role, influence and contribution to the PSI debate. It also juxtaposes the views of the ECB and the Commission on the issue and explains why the two institutions had diverging rationales. The last part sums up the chapter's insights and discusses their implications.

5.2 The road to the PSI

The PSI signifies the write-down of Greece's sovereign bonds that were held by private investors. Such an exercise proved to be quite complicated given the current framework of sovereign lending. Since the 1980s, the composition of international creditors had moved from a few hundred major commercial banks to hundreds of thousands of private bondholders. A variety of institutions could thus buy and hold sovereign bonds, from banks, investment and pension funds to individual retail investors. This shift led to a more heterogenous body of international investors; currently, each bond is a separate contract between the sovereign entity and the private investor. This new regime starkly contrasted with the previous state of affairs in which sovereign lenders were syndicated and had more uniform preferences (Copelovitch 2010: 59).

The shift from bank-based sovereign lending to bond financing has subsequently exacerbated the collective action problems that private bondholders face whenever they have to take a common decision. It is increasingly difficult for them to unite and lobby governments or international financial institutions to achieve their preferred policy outcome during a crisis. This framework also presents

problems for states and IOs that try to negotiate some kind of debt restructuring with the aforementioned group. They have to negotiate with thousands of dis-aggregated bondholders, while the bondholders themselves have to reach a common approach with regard to such schemes (Copelovitch 2010: 60). While, in the previous regime of syndicated lending private financial institutions had created a stable institution, i.e. the London Club, to facilitate such negotiations, the current regime does not allow for the creation of a similar institution (Copelovitch 2010: 62-63).

All the above make the restructuring of international bond debt more complex and time-consuming. This was also the case with the PSI. As discussed below the MSs and Greece had to overcome a number of obstacles before they finally realised this scheme. Yet, despite its profound complexity, the PSI was the biggest debt-restructuring operation undertaken in financial history. It amounted to a debt haircut of more than 100 per cent of the Greek GDP and involved a €200 billion debt exchange. At the end of this process private creditors held only €35 billion of Greek debt, which amounted to just 13 percent of their initial debt holdings (Zettelmeyer et al. 2013: 2).

The road towards the PSI had three central milestones: 1) the Deauville Agreement in October 2010, 2) the Eurogroup's decision on a PSI in July 2011 and 3) the realisation of the PSI in March/April 2012. Below, I discuss these three milestones in an effort to show how this process unfolded and provide the context for the analysis of the behaviour of the key actors. A comprehensive table (5.1) with the positions of all actors is also presented at the end of this section.

The first milestone, the Deauville agreement, occurred during a trilateral meeting between France, Germany and Russia. At the margins of this meeting, the

French President and the German Chancellor agreed to push for a permanent crisis resolution mechanism. This mechanism would also involve contributions from private sector bondholders (Zettelmeyer et al. 2013: 4). If a Eurozone MS needed financial support in the future, then private bondholders would have to bear losses on their sovereign holdings (Brunnermeir et al. 2016: 29). The German side was the main sponsor of such a demand. The rationale was that private banks should finally bear the cost of their investments. In order to accept this proposal, the French president asked Chancellor Merkel to agree to the watering down of the SGP's new automatic sanctions system. Given France's tendency to diverge from EU fiscal rules, the French government wanted to establish a safeguard that would allow it to use its influence in the Council in order to avoid such punitive measures (Chaffin and Spiegel 2010). The German Chancellor accepted, and the agreement was sealed.

The conclusion of the Deauville agreement created extensive market volatility, since it introduced a new contingency. After Deauville, it was possible for a Euro-area government not to serve its debt obligations. Hence investors thought that peripheral Eurozone countries were about to default on their sovereign debt obligations and began speculating over which country would be the first to do so. As a result, interest rates and sovereign CDSs rose dramatically in value (Brunermeier et al. 2016: 31, Blustein 2016: 160). Market participants came to the conclusion that after Deauville, Greece would soon receive some kind of debt-relief. Hence, they started selling their sovereign assets in an effort to avoid a compulsory debt write-down. Subsequently, Greece's status in the financial markets was undermined even further and its prospects for normal market access became even more distant. In

effect, the Deauville announcement caused a chain reaction in financial markets which , *de facto*, launched a discussion on a potential Greek debt-restructuring .

The German government was the first party to explore such a scenario. In June 2011, the German Finance Minister, Wolfgang Schäuble, wrote a letter to the ECB and the IMF proposing the initiation of negotiations with private bondholders. This initiative was followed by a proposal from the French banks on how a rescheduling of the Greek bonds might be realised (Zettelmeyer et al. 2013: 5). Following these initial consultations, the MSs moved forward and officially announced their support for the PSI plan in the Eurogroup meeting that took place on July 21, 2011. The Council acknowledged the agreement between "the Greek authorities and the private sector on the general terms of the PSI exchange offer, covering all private sector bondholders". The overall aim of the PSI was to achieve a significant reduction of Greece's debt. This, in turn, would lead to a far smaller and less costly second bailout. The MSs thought that only a sizeable haircut would make a new bailout viable. Subsequently, the agreement provided a nominal haircut of 53.5 percent (Eurogroup 2012).

Nevertheless, the Eurogroup's July decision never came into effect. Domestic political instability, a deepening recession and disagreements between the Troika members exacerbated market fears of a potential Greek default. This left the Greek state with bigger funding needs than expected. Therefore, if the new bailout was to have any chance of success, Greece needed a more substantial haircut. The German finance minister recognised this in October 2011. He stated that July's debt-restructuring scheme might not be enough. The IMF's analysis also concurred; it argued that a much bigger PSI was needed (Zettelmeyer et al. 2013: 8,

Papaconstantinou 2016: 217, Blustein 2016: 243). Consequently, given Greece's constantly increasing funding needs, the PSI had to be revised multiple times.

The final revision came in October 2011 when the Eurogroup published a new statement on this issue. The Eurogroup re-invited Greece's private bondholders to negotiate a new bond exchange. The new nominal discount had to cover 50 percent of the total private Greek debt (Eurogroup 2012). The subsequent negotiations were conducted between a steering group of 12 banks, representing 30-40 percent of Greece's private creditors, and the Greek authorities. By March 2012, both sides announced that they had reached a deal. This agreement covered 82.5 percent of the holders of sovereign bonds issued under domestic law. Foreign-law bondholders participated in lower numbers, i.e. 61 percent (Zettelmeyer et al. 2013: 10). Moreover, the agreement provided that Greek-law bonds would be exchanged with EFSF bonds. This led to a total participation of €199.2 billion. The agreed PSI package achieved the Council's two benchmarks, i.e. the two-thirds participation rate for all Greek-law bonds, and an overall participation rate of 90 percent. Consequently, the second Greek programme was promptly launched (Zettelmeyer et al. 2013: 12-14).

Overall, the Greek PSI was the biggest debt-restructuring operation in history, both in terms of size and in terms of losses for the bondholders. More importantly for this project, it was a radical policy shift that went contrary to previously agreed policy. In the following section I demonstrate that the German government, with partial support from the French side, spearheaded the discussion and pushed for this policy change. I also show that this policy shift was mainly motivated by domestic electoral concerns.

Position of actors on debt restructuring (2010-2012) (Table 5.1)

	April2010 (Beginning of the crisis)	October 2010 (Deauville Agreement)	June 2011 (Unofficial PSI preparation meeting in Luxemburg)	July 2011 (Eurogroup's PSI decision)	October 2011 (revision of the PSI)	March/ April 2011 (PSI Conclusion)
Germany	Against debt restructuring	In favour of debt restructuring	In favour of debt restructuring	In favour of debt restructuring	In favour of debt restructuring	In favour of debt restructuring
France	Ambivalent position	In favour of debt restructuring	In favour of debt restructuring/ambivalent	Ambivalent position	In favour of debt restructuring	In favour of debt restructuring
EC	Against debt restructuring	Against debt restructuring	Against debt restructuring	Against debt restructuring	Against debt restructuring	Against debt restructuring
ECB	Against debt restructuring	Against debt restructuring	Against debt restructuring	Conditional agreement to a PSI	In favour of debt restructuring	In favour of debt restructuring
IMF	In favour of debt restructuring	In favour of debt restructuring	In favour of debt restructuring	In favour of debt restructuring	In favour of debt restructuring	In favour of debt restructuring
Greece	Ambivalent position	In favour of debt restructuring	In favour of debt restructuring	In favour of debt restructuring	In favour of debt restructuring	In favour of debt restructuring

5.3 State influence and the PSI

The Merkel government played a central role in the PSI process. It cajoled and convinced other Eurozone MSs of the necessity of some kind of debt-restructuring. The German government's shift from a stance against debt-relief to being in favour is attributed to a multiplicity of factors: domestic political pressures, institutional and financial layering at the European level and better coverage of its domestic financial system from any financial spillover effects.

As for domestic political concerns, the German Chancellor faced rising popular discontent over the beneficial treatment of banks and private bondholders during the first phases of the crisis (Interview 7). Most governments that take part in such financial assistance programmes face similar pressures. Their electorates think of such programmes as arbitrary transfers of domestic resources to the international level. Consequently, they expect their governments to be very attentive with regard to how they use these resources and how they distribute the subsequent costs (Copelovitch 2010: 51, Bechtel 2014). Germany was no exception to this rule. In polls that were conducted in 2011 it appeared that more than 60 percent of the respondents felt that the German government had lost track of the crisis (European Commission Directorate-General Communication 2011). The insulation of the private sector from any losses, while public funds were used to fund the bailouts, provoked further anger inside the German ruling coalition and among the German electorate (Blustein 2016: 160-161). In spring 2011, a startling 85 percent of the German electorate thought that the EU needed to supervise the biggest financial groups more closely (European Commission Directorate-General Communication 2011: 20). A similar percentage supported the imposition of additional taxes on big financial

institutions (European Commission Directorate-General Communication 2011:26). Facing such mounting pressures Merkel felt that she had to appease this sentiment, especially after the poor showing of her coalition partners in the regional elections that took place held in 2010 (Schwarzer 2011:4).

In addition to rising popular discontent, Merkel felt enabled to pursue a PSI policy after the EU had established several financial firewalls that would contain potential financial spillovers. In particular, the Eurozone had created a temporary instrument of financial assistance for MSs, the European Financial Stability Facility, which was then turned into the European Stability Mechanism. With a sizeable capital base these institutions acted as a full-fledged firewall for the Monetary Union. The above institutional and financial safeguards would mitigate potential spillovers and allow Eurozone MSs to respond quickly to a state's need for bridge financing under conditions of economic volatility (Moschella 2016:814).

In addition to the above, the proposed debt-relief measure would have small economic repercussions and substantial benefits for the German economy since it would lead to lower bailout costs. A large number of German banks were overly exposed to Greek debt at the beginning of the crisis, amounting to 10.5 billion dollars (Tooze 2018: 327). Yet, after the first Greek bailout, these financial institutions limited their exposure to the Greek debt and also saw their Greek bonds repaid to a large extent. According to recent IMF data, 40 billion euro of Greek debt were fully repaid within the first year of the bailout, while another 10 billion were repaid by the PSI's realisation (IMF 2019:28). In turn, the German financial system became less exposed to the above risks and the German government felt less constrained to suggest a debt-relief policy. Greece's remaining creditors were not that influential

given that they were dispersed across a wide spectrum and their positions were not that central to the German economy. Most importantly the heterogeneity of preferences within the private creditor groups made it quite difficult for them to organise and lobby the government (Copelovitch 2010: 54).

Given the creation of institutional and financial firewalls and the limited exposure of German banks to the Greek debt, the German government could afford to change its stance only two years after opposing an early debt-relief. Merkel could finally opt for the appeasement of domestic concerns since, in her eyes, the stability and resilience of the Eurozone from future crises had been ensured. Furthermore, the realisation of such a debt-relief scheme would lower the cost of the second bailout, since part of it would be covered by the private sector (Interview 2).

Indeed, the German government played the main role in inciting the rest of the Eurozone to adopt this new debt-management policy. The fact that debt-relief discussions started only after the German government brought up this topic is indicative of its central role in the process (Interview 9). Prior efforts of the Greek government did not reap any substantial results; it was only when the German side backed such a policy that the discussion moved forward. According to the then Greek finance minister, George Papaconstantinou, the Greek government was fervently working behind the scenes to come up with a debt-restructuring plan early in the programme. These exploratory talks involved just a few major private banks and certain IMF officials. The EU side was kept outside the loop due to its initial scepticism (Papaconstantinou 2016: 189). Yet, the very fact that the EU side was strongly against any debt-relief led these discussions to a standstill.

The Greek government saw that the idea of debt relief was gaining traction within the council in January/February 2011, following statements by the German finance minister (Interview 1). The discussion on debt relief picked up, when he hinted that the current debt management policy might not be enough to convince market participants that Greece's debt was sustainable (Papaconstantinou 2016: 180). The Greek finance minister suggested that it was due to such statements that he eventually decided to file a formal request for debt reprofiling in May 2011. All in all, the Greek authorities fathomed the possibility of coming up with a debt-relief plan only when they saw the change in the German position (Papaconstantinou 2016: 189-191, Blustein 2016: 189).

The German government's strong preferences in favour of debt-relief became evident during the Deauville discussions. Indeed, most commentators agree that this bilateral agreement marked a turning point in the debt-management debate. The common French-German statement was built around three basic policies: 1) the Council would keep control of the SGP's sanctioning mechanism, 2) a permanent Eurozone crisis-management mechanism would be created and 3) private investors would be involved in all future financial aid packages. The first point was mainly promoted by the French side, the other two by the Merkel government.

President Sarkozy chose to focus on the future functioning of the SGP. The Council would be responsible to decide, with a qualified majority (QMV), whether the sanctions that were ascribed in the preventive and corrective parts of the SGP would be applied (Permanent representation of France in the European Union 2013). Allowing QMV to remain in place starkly contrasted with reform proposals that were discussed at the beginning of the crisis by the Van Rompuy Task Force. This Task

Force, comprised of MSs' representatives, Commission and ECB officials, jointly worked to prepare a package of economic governance reforms for the EMU (Task Force on economic governance 2010: 13-16). Among other things, these measures aimed to transform the SGP's corrective arm into a hard-law tool. The final report of the President of the EU Council brought together these proposals and suggested that SGP sanctions had to be applied automatically, unless a qualified majority of the MSs voted against them (Task Force on economic governance 2010: 1).

The relevant accounts suggest that these proposals benefited from overwhelming MS support, with France being the only vocal objector. The German government's decision to side with France in Deauville left the rest of the MSs frustrated; the Merkel government had, spectacularly, backtracked from its commitment to a more disciplined oversight system and went along with the more flexible French approach (Chaffin and Spiegel 2010, Bastasin 2012: 237, Schwarzer 2011: 10). In that sense, the Deauville agreement made evident the fact that the German government was willing to frustrate some of its key allies in order to obtain French support and promote a radical policy change, i.e. the introduction of debt-restructuring in the Eurozone.

Indeed, Chancellor Merkel's remarks confirm this argument. In Deauville, she focused on the need to create a permanent financial aid mechanism as well as involving private investors in any future bailouts. Conversely, she conveniently ignored the reform of the SGP (Permanent representation of France in the European Union 2013). Merkel noted that since the temporary mechanism of financial aid would come to an end in 2013, there was need for a more permanent mechanism. This new mechanism would involve contributions from private sector creditors

(Permanent representation of France in the European Union 2013). While potential private sector involvement in future financial aid schemes was already provisioned in the Van Rompuy report, it remained quite vague and was left for future discussions (Task Force on economic governance 2010: 2, 11, Bastasin 2012: 235-236). With the Deauville agreement, the Merkel government brought this topic front and centre. It *de facto* pre-empted the discussion and, unilaterally, pushed the debate towards its preferred direction, i.e. a substantial haircut against international bondholders.

On the whole, the German Chancellor bargained with the French President in order to form a coalition that would upload her government's pro-debt-relief policies to the European Council (Chang 2013:262). The existence of such an exchange was obvious to most outside observes and, of course, to other Eurozone finance ministers (Papaconstantinou 2016: 167, Brunnermeir et al. 2016: 30). Therefore, the Deauville agreement showcased the importance that the German side attached to the establishment of a new debt management policy. The government was ready to upset numerous allies and sacrifice a major part of the future SGP mechanism, in order to push forward its debt-management preferences.

After Deauville, the German government managed to create a coalition of MSs that supported a new debt-management policy inside the Council (Interview 1,4,11). On October 28th, 2010, the European Council asked the Commission to investigate a future crisis-management mechanism that would include the active participation of the private sector (European Council October 2010, Papaconstantinou 2016: 169). In the Eurogroup meeting that took place in February 2011, the German finance minister, backed by his Dutch colleague, went further and suggested that the Commission's reviews of the Greek programme were not

convincing as to Greek debt sustainability. Hence, some type of debt restructuring was needed.

The Council's decision from the 25th March 2011, brought this notion forward by reflecting the basic premises that were agreed in Deauville. First of all, it officially announced the creation of a permanent financial stability mechanism, the European Stability Mechanism (ESM). This mechanism would replace the existing temporary instruments (the EFSF and the EFSM) after June 2013 (European Council March 2011: 21). The new stability mechanism also included potential participation of the private sector. The activation of this clause would be dependent on debt sustainability analyses of the Commission and of the IMF (European Council March 2011: 29). The above Council conclusions demonstrated that the German government, soon after Deauville, consolidated its pro-debt-relief preferences as official policy despite the initial frustration of few MSs.

The influence of the Merkel government was not only evident in the official Council framework: the German government also had a leading role, during the informal consultations prior to the PSI. In an informal meeting that took place in Luxembourg, in May 2011, the German government guided the debate. The German finance minister, with the support of the French government, actively pushed for some type of debt restructuring- preferably some type of debt reprofiling. He criticised the insistent opposition of the Commission and the ECB to such a policy. He, then argued that his government would not accept a second Greek bailout without the prior realisation of a substantial debt-relief scheme (Papaconstantinou 2016: 194-197).

The German government was so determined to see the PSI through, that it was willing to go up against the United States. Senior US officials saw the Deauville agreement unfavourably, since they were afraid of potential financial spillover effects (Henning 2017: 153, 186). Yet their objections did not manage to stop the German government and the debt-relief scheme from moving forward. The country's determination to push aside any objectors was also evident in the informal Eurogroup meeting that took place on June 20th 2011. In this meeting it managed to bypass the vocal objections of Portugal, Ireland, Luxemburg, Spain and Italy (Papaconstantinou 2016: 208-209), all of whom were afraid that a PSI would lead to wider financial instability, specifically in their own countries. Yet Schäuble and his allies in the Council again bypassed these concerns (Papaconstantinou 2016: 209-210).

The subsequent Eurogroup statement reflected the German policy line. It reckoned that the lagging implementation of the Greek programme along with the overall market volatility, made Greece's prospect of gaining access to markets very limited. Following this admission, ministers agreed to offer Greece additional funding. They also encouraged the Greek authorities to agree voluntary informal debt rollovers with private investors (Eurogroup 2011a). Officially, this was the first time the Eurogroup endorsed some sort of debt reprofiling.

After this endorsement, the Eurogroup and the Eurosummit, following the lead of the German government, kept pushing the PSI forward. In the Eurogroup meeting that took place in July 2011, the MSs sketched out the outline of the scheme. Then, between the Eurogroup meeting that took place at the beginning of July and the Eurozone summit on the 21st July, the President of France and the German

Chancellor ironed out the plan's final details. In the final plan private bondholders would take a substantial hit and the EFSF would benefit from greater flexibility in buying sovereign bonds of Eurozone countries.

More importantly, Merkel and Sarkozy brought the ECB President on board by offering certain concessions. This was necessary given its important role in the funding of the Greek banks. The latter section of this Chapter discusses, in detail, how this compromise emerged. For now, it suffices to say that Merkel and Sarkozy agreed that the ECB bonds would be exempted from the PSI scheme. Moreover, the participation of the private sector would be on a voluntary basis and the Greek PSI would be presented as a unique one-off scheme. Finally, the Euro-area MSs would undertake the recapitalisation of the Greek banks (Blustein 2016: 224).

Nevertheless, extensive market volatility and the further deterioration of the Greek economy soon made the Eurogroup's initial PSI planning outdated. In September 2011, Greece's economic outlook looked dire; consumption was dropping drastically, and unemployment was on the rise. Moreover, the country's government was showing significant reform fatigue and was unable to keep up with the agreed programme; the over-ambitious target of raising 50 billion euros from privatisations was evidently out of reach. All these developments, in conjunction with the deep contraction that the austerity measures brought, led Greece to run a budget deficit of 7.6 percent of GDP with annual projections placing the actual number closer to 8.8 percent of GDP (Blustein 2016:244-246).

Given these circumstances, the German government, in accordance with the IMF, came up with a revised proposal (Interview 4, 11, Blustein 2016: 247). Greece needed to achieve a far bigger PSI, at least 50 percent of the nominal value of bonds

(Blustein 2016: 244-248, 259, Gow 2011, Erlanger and Castle 2011). While the Greek government and the International institute of Finance were officially in charge of representing major private bondholders, the Council intervened whenever necessary. (Eurogroup 2011b). It argued that the new Greek programme had to include a voluntary private sector contribution of around 37 billion euro. The MSs would then take all the necessary steps to recapitalise the Greek banks. Furthermore, the EFSF would buy a wide range of sovereign bonds. Finally, the private sector participation in the Greek programme was to be labelled as "an exceptional and unique solution" that would not be repeated in the future. To make this commitment stronger, all euro countries stated that they would honour their sovereign debt obligations. They acknowledged that this was decisive in order to ensure the financial stability of the Euro area as a whole (Eurosummit 2011a). The latter commitments were supposed to ensure private bondholders that a similar debt haircut would not occur again in the Eurozone and that their other Eurozone sovereign holdings were secure.

The subsequent Euro summit statement (October 2011) reflected a pro-debt-relief policy based on the above principles. It invited the Greek authorities to agree with private borrowers on a far deeper PSI. The new scheme had to amount to a nominal discount of at least 50 percent of all private Greek debt. The Eurozone MSs were also willing to offer a 30 billion sweetener-i.e. an upfront cash payment- aimed at attracting higher participation in the PSI exercise. Yet, the new scheme also maintained certain conditions that were present in July's agreement. It reaffirmed the willingness of MSs to finance the second Greek programme and to undertake the

recapitalisation of the Greek banks. Furthermore, it reiterated that the Greek PSI would be a unique and ad hoc operation (Eurosummit 2011a: 4-5).

In the following months, the Eurogroup continued to revise the PSI deal so that its final amount was adequate in relation to Greece's lending needs. In late February 2012 it recognised that the agreement reached between the Greek authorities and the private sector, provisioning a nominal haircut of 53.5 percent, was sufficient for launching the official PSI. Consequently, it invited all private bondholders to participate in the exchange (Eurogroup 2012). The PSI's new versions were mainly aimed at ensuring that private sector participation would be substantial. Once again, the desire of the Merkel government to see the Greek debt significantly reduced was the main driver of these new draft proposals.

In addition to redrafting the PSI, the Council also decided to postpone the conclusion of the offer, in an effort to attract more investors. In a statement released at the end of the first phase of the PSI, EU finance ministers supported the decision of the Greek government to extend the offer period until the 23rd March. The Eurogroup saw this extension favourably because it would increase private sector participation. The next statement from Jean-Claude Juncker, the President of the Eurogroup, at the end of March 2012, acknowledged the decision of the Greek government to further extend the PSI offer until the 4th of April. He encouraged private bondholders to exploit this extension and accept the Greek offer. After all, it included "unique elements provided by the official sector, which make the bond exchange particularly attractive as compared to possible alternatives."(Statement from the president of the Eurogroup, 30/03/2012). This was essentially the last push before the conclusion of the PSI. It aimed to increase the participation of private

bondholders in the scheme. The last statement that was issued argued that Greece's failure to serve its foreign law bonds would not constitute a credit event for EU MSs. Hence, private creditors could not hold back the exchange and go to court; they had to take the PSI offer (Statement from the president of the Eurogroup, 30/03/2012). Eurogroup's constant decisions to postpone the PSI's conclusion is another striking demonstration that the Council embraced the original German preferences for a substantial haircut.

Finally, the influence of the Merkel government was made evident in that German officials and experts provided the main arguments in favour of a potential debt relief. During closed-door meetings of the technical teams, they argued that the PSI scheme would signal to market participants that their lending choices were not risk-free. Moreover, the Greek programme was lagging behind, and a debt relief was required so that that second bailout was built on more solid ground (Interview 3). A smaller debt burden would imply smaller funding needs for Greece and, hence, a smaller bailout package. Finally, when Italian and French officials raised spillover fears, their German counterparts argued that such contingencies would not emerge since all necessary safeguards were in place (Interview 2).

From all the above, one can clearly see that the MSs, with the guidance from the German side and the occasional agreement of the French government, were the main drivers behind the PSI. Two reasons drove the German government to shift its stance and actively promote such a policy: 1) the need to demonstrate to the electorate that banks were finally undertaking the cost of their lending choices and 2) the desire to base the second programme of economic adjustment on much more viable debt levels, which would also lead to much smaller funding needs. Having

established that the observed policy shift should be attributed to state preferences, the following section examines the Commission's actions during the same period.

5.4 The European Commission's opposition to the PSI: Institutional culture against state preferences

During the PSI period, the Commission remained true to its initial anti-debt-relief views despite the fact that its principal, the Eurogroup, took an opposing view. The following section demonstrates that the organisation clearly diverged from MS preferences and discusses its motivations. The Commission feared that any policy scheme that would go against market expectations would lead to market panic, capital flight and wider instability in the Eurozone. At the same time a new argument appeared, namely that any debt restructuring would prove to be detrimental to the Greek economy. Specifically, it would make the state's future access to the financial markets even more difficult.

The Commission saw the early efforts of the Greek government and of the IMF to reinvigorate the debt-relief discussions as a form of "whistleblowing". Such talks would endanger extensive market volatility, particularly when the programme was still ongoing (Interview 7,11). It held the same position regarding the Deauville agreement. It saw this pact as jeopardising the Greek economy's future prospects and being a source of instability for the whole Eurozone. While the French and German government did not ask the Commission to provide feedback before the Deauville agreement (Interview 11), a small number of senior Commission officials advised against it. They mainly cited spillover fears; the involvement of private bondholders would cause extensive market volatility and would drive the risk premia

of Eurozone bonds up (Interview 7,11). The French and the German government, however, did not follow these suggestions and proceeded to announce the involvement of the private sector in any future bailouts. Thus, from the outset of the debt-relief debate, the Commission opposed state preferences due to fears of systemic spillover effects.

After Deauville and prior to the Eurogroup's July decision, the Commission opted to exert influence on MSs so that they would reconsider this policy. During the informal talks that took place in Luxemburg in May 2011, the Commissioner for Economic and Monetary Affairs argued that the Greek programme had achieved a remarkable fiscal adjustment. He repeated that the Greek government had to fully implement the rest of the programme and demonstrate increased programme ownership. Rehn's insistence that the first adjustment programme was successful and adequate, came in response to the German and French views that Greece should move towards a second programme only after achieving a sizable PSI agreement.

Nevertheless, facing intense pressure from numerous MSs, Rehn appeared more receptive at this meeting. He argued that the Commission might be able to subscribe a light debt-restructuring option in the form of a voluntary reprofiling, i.e. a change of the maturity date of Greek bonds. Nevertheless, all parties would first have to agree on such an option (Papaconstantinou 2016: 194 -196). While the Commissioner for Economic and Monetary Affairs appeared in this meeting more willing to compromise and to find some kind of middle ground between the ECB and the MSs, the Commission's official and public position on the issue did not change much. In fact, it would soon revert to its previous stance, i.e. opposing all debt relief options on the ground that they might cause financial instability across the Euro area.

Such scepticism was also evident in the Commission's internal consultations from that period. In the College meeting that took place at the beginning of April 2011, the Commissioner for Economic and Monetary Affairs sought to present a narrative that would make debt relief unnecessary. Rehn reassured the other Commissioners that the Greek debt was sustainable; falling interest rates, the prolongation of debt servicing deadlines and the rejuvenation of the government's privatisation plan were enough to guarantee it (European Commission Secretary General 2011a: 18). As in the informal meeting that took place directly after Deauville, these statements can be seen as a response to the German finance minister's desire to see in place a debt-relief policy; only a few days earlier, Schäuble had made it clear, a few days earlier, that Greece needed a debt-restructuring scheme. He acknowledged that the Commission and the IMF had to first assess if this was the case but all evidence pointed to such a conclusion (Reuters 2011a).

The Commission's argumentation intensified as MSs delved into the technical details of the PSI. In the Eurogroup meeting that took place on June 8th 2011, only a few days before the PSI decision, the Commissioner for Economic and Monetary Affairs repeated, in front of the MSs, that the Greek debt could be sustainable. Greece only had to achieve higher surpluses and rejuvenate its ailing privatisation programme (European Commission Directorate-General for Economic and Financial Affairs 2011: 30). This idea was in accordance with the econometric models that the Commission operated at the time under the assumption that further and more decisive fiscal effort was needed for Greece to regain market confidence (European Commission Directorate-General for Economic and Financial Affairs 2012:43-44). This position signified, quite clearly, that the Commission's views on debt

management were distinct from those of the MSs'. Moreover, it re-emphasised that the organisation was not shy of exposing its "heretic" views in front of its principals.

Finally, the Commission publicly and lengthily expressed its objections to the PSI in its fourth review of the Greek programme. The document was published in July 2011 and suggested that any type of debt restructuring would lead to a substantial shift of market expectations. Investors would doubt the credibility of the Eurozone and ask for higher risk premia. This would lead to rising lending costs for numerous Eurozone governments. Subsequently, MSs that were initially seen as creditworthy might now face significant liquidity problems (European Commission Directorate-General for Economic and Financial Affairs 2011: 7). Mid and high-level Commission officials also shared this argumentation. Independently of their hierarchical level and expertise, they all cited contagion fears as their number one concern with regard to the PSI (Interview 5,6,7,9,11).

The Commission also had objections regarding the PSI's implications for the Greek economy. Its fourth review hinted that all available debt-restructuring options would invariably make Greece's return to the financial markets even more difficult. It argued that independently of how low a country's debt is after its restructuring, its refinancing would prove extremely difficult due to market distrust. The Commission predicted that Greece would end up facing higher interest rates in the future-especially compared to countries with the same debt level. Furthermore, any type of debt relief would have a highly negative impact on the banking sector. This would negatively influence the economy's overall growth prospects and, subsequently, its debt to GDP ratio. In the event of a modest PSI of around 40 percent, the 67 billion euro held by domestic bondholders would lead Greek banks to a capital shortage of

10 to 16.5 billion euro. This would lead to a total wiping out of the Greek bank's capital base (European Commission Directorate-General for Economic and Financial Affairs 2011: 7, Interview 9, 11). Thus, the Commission suggested that a PSI would weigh negatively on Greece. It would lead to a rapid increase in its debt ratio, making its financing needs even bigger (Interview 9). In turn, this would increase the cost of the second bailout and hence, the contributions that the MSs had to make (European Commission Directorate-General for Economic and Financial Affairs 2011: 7).

The Commission's Fourth Review was accompanied by an alternative plan to the PSI. As discussed in Chapter 4, the organisation went back to its initial fiscal consolidation strategy based on the assumption that market participants were looking for more decisive action. It proposed maintaining the fiscal adjustment effort, the intensification of the government's privatisation plan, the adoption of the second phase of the pension reform and, finally, the consolidation of numerous structural reforms (European Commission Directorate-General for Economic and Financial Affairs 2011: 8,30). The underlying message of this plan was that Greece had to realise, in haste, a radical programme of fiscal adjustment. Such a strategy would help put Greece's debt onto a declining trajectory. Markets might be slow to react, but they would eventually get the message and trust the state again. In turn, they would reinvest in the country and would mitigate its funding needs. According to the Commission's review to achieve all this the government had to reach a 6.5 percent GDP surplus by 2015- mainly via privatisations (European Commission Directorate-General for Economic and Financial Affairs 2011: 29).

The Commission's strategy of additional fiscal consolidation was in complete discordance with the IMF's debt-management approach. The Fund's staff argued

that even the slightest divergence from the programme would make the Greek debt clearly unsustainable (Blustein 2016: 217-219). The two organisations disagreed over the sustainability of the Greek debt due to methodological differences in their models. First of all, they diverged on how they assessed the evolution of the Greek GDP. As it became clear from the "battle of the boxes" (European Commission Directorate-General for Economic and Financial Affairs 2012:43-44, Cohen- Setton 2012) the two institutions had a different understanding with regards to the effect of fiscal consolidation. Moreover, the evolution of the GDP was calculated based on the estimation of various domestic and international factors, like the impact of taxation on investment and the evolution of US interest rates. The two organisations appeared to have different evaluations vis-à-vis these factors (Marsh, Nagly, Pagoulatos, Papaioannou 2016).

In addition, the two institutions disagreed over the interest on future debt issuance. Given that in countries with high debt levels debt-sustainability is highly dependent to the rate at which the debt is refinanced, even the smaller divergence on this estimation would lead to significant disagreements over debt sustainability (Marsh, Nagly, Pagoulatos, Papaioannou 2016). As explicated before, the Commission had adopted the assumption that rising yields on government bonds were due to inadequate fiscal consolidation (European Commission Directorate-General for Economic and Financial Affairs 2012:42). On the contrary, the IMF argued that the Commission's forecasts had underestimate the fiscal policy multipliers. The Fund's analysis suggested the gradual reduction of sovereign debt via fiscal measures, in a way that would not lead to excessive contractionary effects, reduced growth and a deflationary spiral (IMF 2012 41-48). Hence, the Fund's approach

advocated a less radical fiscal approach in combination with some type of debt-relief for Greece.

While both the Commission and the Fund claimed that their goal was for Greece to regain market confidence, only the IMF's strategy was addressing the latest market signals that were asking for a more comprehensive and long- term solution to the Greek crisis including some type of debt-restructuring (City A.M 17 January 2012, Bradsaw 2011). In this sense, the Commission appeared, once again, to rely on its pre-crisis "historical" understanding of market expectations vis-à-vis debt-management.

This fundamental divergence over debt-sustainability between the two institutions had immense consequences for the Commission's relationship with the Eurogroup. It signalled to the MSs that the sustainability of the Greek debt was not guaranteed by both institutions. This violated one of the most basic preconditions that the states had established prior to the programme's fourth review; namely, for the programme to continue as initially conceived, both the IMF and the Commission had to guarantee that the Greek debt was sustainable.

Moreover, the European Council had already hinted that its understanding of debt sustainability was closer to the IMF's approach. In the conclusions of the European Council that took place in March 2011 it was suggested, with regard to the upcoming establishment of the ESM, that the involvement of the private sector would be decided on an ad hoc basis depending on the Troika's debt sustainability analysis. The Council explicitly stated that this analysis had to follow the Fund's previous practices. The decision clarified that it understood the IMF practice as being the following: "(…) debt is considered sustainable when a borrower is expected to be

able to continue servicing its debts without an unrealistically large correction to its income and expenditure. This judgment determines the availability and the appropriate scale of financing. "(European Council 2011: 29, Henning 2017: 175).

The above observations make it evident that the Council was clearly leaning towards the IMF's views on debt sustainability (Lutz and Hilgers, 2018: 10-11). In cases where Commission and the Fund diverged on this issue, MSs would back the Fund's analysis and suggestions. Subsequently, the Commission's decision to diverge from the Fund's assessments left it open to criticism from all sides and entailed that the MSs would openly reject its analysis and suggestions (Interview 4). It therefore brought the bureaucracy in direct conflict with the MS explicit preferences. In its effort to halt the debt-relief process, the Commission was willing to diverge openly from the Council's preferences and let another international bureaucracy, i.e. the IMF, gain the upper hand. Subsequently its roles as the Council's main agent with regard to the Eurozone's crisis-management effort would be questioned and potentially undermined.

Finally, the Commission also opposed the PSI on legal grounds; it occasionally brought forward the argument that a PSI exercise would be in direct violation of EU law. This contrasted with its stance on the issue at the very beginning of the crisis. As Chapter 4 suggested, at the very beginning of the crisis the Commission was concerned about the preservation of EU law but did not actively invoke it to oppose an early debt relief. Nonetheless, during the PSI negotiations, it did. Commission officials claimed that from a legal and institutional standpoint, it was inconceivable for the organisation to encourage a MS to not fulfil its debt obligations. Instead, the

organisation was to act as the guardian of the EU Treaties during the PSI and avert any instances of violation (interview 5, 6, 9).

Nevertheless, this argument appears to have limited analytical leverage. First of all, none of the Commission's publications brought up such an argument. There are no official speeches, publications or document from the Legal Service (or any other service for that matter) in which the PSI was explicitly opposed on legal grounds. While the Commission did suggest during the PSI negotiation that the debt-relief exercise would be in violation of the no-bailout clause, this position was inconsistent with regard to the Commission's overall policy. For example, the organisation did not raise the issue that this rule had already been breached two years ago with the first Greek bailout. If anything, it had supported this breach at the time (Henning 2017:82).

All in all, during the PSI period, the Commission followed its previous approach vis-a-vis the *acquis*. It invoked the *acquis* during the PSI negotiations in order to obtain a complementary argument against a policy that it saw as risky and economically destructive. In effect, its overall behaviour points to the following conclusion: the EU legal order was of low importance for as long as the MSs converged with the Commission and correspondingly higher when they diverged.

As one would expect the Commission's vocal objections to the PSI did not fly well with the MSs. They decided to ignore the view of the Commission and go on with the technical details of the upcoming debt relief scheme. Consequently, they discussed, without the input of the Commission, the different technical patterns that were available for the realisation of the debt-restructuring exercise. As matter of fact, they authorised other competing institutions to conduct this technical work and,

subsequently, to conduct the PSI negotiations. Hence, as the PSI negotiation proceeded the marginalisation of the Commission in the field of debt-management increased. Given that the organisation was very much involved with the handling of the Greek debt at the beginning of the crisis its later marginalisation constituted a loss of authority within the crisis-management framework.

In the Eurogroup meeting that took place on the 20th of June 2011, the chair of the Euroworking group, Vitorrio Grilli, presented alternative schemes regarding the management of the Greek debt (Papaconstantinou 2016: 208-209). This presentation constituted an important shift in the crisis-management framework. The Euroworking group, a purely intergovernmental body consisting of MS representatives, had usurped the tasks of the Commission in the field of debt-management. While the division of labour between these parties was not clear, the shift of authority was evident. The Euroworking group and especially its chair undertook the subsequent debt relief negotiations. Grilli was responsible for representing the MSs and advising the Greek side during its negotiations with the private sector (Blustein 2016: 214, Interview 1,2,3).

According to Greek government officials, the role of the Commission was marginal to non-existent during this process. The major burden for the technical preparation of the PSI was shared between the Euroworking group, the Greek government and its lawyers. Given that the Commission had no expertise or relevance in this process, the MSs generally ignored its input (Interview 2,3). Instead, they used some of the new crisis-management institutions to complete the PSI's technical aspects. For example, the EFSF also had a complementary role in the process; it was heavily involved with the technical realisation of the PSI, i.e.

negotiating the size of the sweetener and the handling the ECB bonds (interview 4). In other words, the technical competences of the Commission in the field of debt management were assumed by some *ad novo* institution, albeit partially.

Overall, during the PSI negotiations, the MSs delegated authority to the Euroworking Group and the EFSFS; the two bureaucracies became the Council's main agents in the Greek debt-management process. Conversely, the Commission became marginalised; it went from being closely involved with debt-management to being replaced by institutions of a purely intergovernmental nature. The MSs, seeing the Commission's unwillingness to contribute actively to a debt relief plan, chose to transfer this power to institutions that were directly controlled by them. In this sense, the persistent and public objections of the Commission against the PSI ended up having substantial institutional costs and led the bureaucracy to lose competences.

Yet, it was not only the MSs that sought to remove the Commission from the field of debt management: after they had decided and announced their intentions to push for a PSI, the Commission consciously withdrew of its own volition. While it kept arguing in favour of its alternative fiscal consolidation plan, it focused, in the main, on the technical preparations for the second Greek programme of economic adjustment. Commission officials avoided making any explicit reference or assessment vis-a-vis the PSI negotiations. Commissioner Rehn presented the private sector involvement as an issue that was to be mainly handled by the MSs, the Greek authorities and the private sector (European Commission Secretary General 2011d: 13-14). The same tone was adopted in the meeting that took place in early July 2011, as the Council's decision on the PSI was about to be finalised. Once again, Commissioner Rehn suggested that the involvement of the private sector would be

handled by the Eurogroup and the Greek authorities (European Commission Secretary General 2011e: 19).

While one can argue that the Commission adopted this approach because it wanted to protect the ongoing negotiations between the private and public sector, the accounts of certain interviewees suggest an additional explanation. The Commission decided to withdraw from the field of debt-management as it did not feel that it could credibly realise a policy that it did not believe in (Interview 5, 11). The Commission's officials that were involved with the technical preparation of the second Greek programme also decided to disengage from the PSI debate because they were afraid that they might be sued by private bondholders after its conclusion (Interview 4).

The Commission's willingness to object to the PSI in the face of its principal's preferences and the possibility of incurring institutional losses is quite remarkable given its competence-maximisation tendencies. One can argue the same with regard to its intentional disengagement from the debt-management field. Thus, the organisation's competence-maximisation tendencies of the organisation were not as important as they had appeared at the beginning of the crisis; its desire to protect the process of European integration via market-appeasement was clearly more important.

Summing up the stance of the Commission stance during the PSI negotiations, I locate two main motivations: 1) the fear of financial and economic spillovers and 2) the ineffectiveness of the PSI. Both point to the same conclusion: the Commission was driven by its desire to secure the project of European integration via market-appeasing measures. The crisis-management effort had to be compatible with

market expectations; this meant that Greece would have to take decisive fiscal action in order to convince market participants that it could reduce its sovereign debt . The PSI was seen as a major step in the opposite direction. The MSs aspired to reshape market expectations on debt-management and debt-relief in the Eurozone; they aimed to make clear to market participants that bearing Eurozone bonds was not a risk-free option. This approach was in stark contrast with the Commission's historical understanding of the issue. As was shown in Chapter 3, after the first oil crisis, Commission officials were rarely convinced that collective state action could effectively change the expectations of marker participants. Subsequently, it was inconceivable, for the Commission, that the PSI could ever work.

After identifying and analysing the Commission's motivation, in the following section I shall discuss the role that the ECB played during the PSI negotiations. It examines whether the bank's views on the issue influenced the Commission's views. It establishes that, as at the beginning of the crisis, the two bodies acted independently of each other.

5.5 The ECB and the PSI

The Commission and the ECB had overlapping preferences for most of the PSI phase. Their preferences converged in opposition to the PSI because they shared the same fears and aspirations, i.e. to ensure the creditworthiness and the stability of the Eurozone via market-appeasing measures. Yet, as the following analysis shows, the two institutions had a different understanding of the risks the PSI entailed as well as the ways that these risks could be mitigated. Consequently, as soon as the MSs provided the necessary guarantees to the ECB, the Central Bank signed-off the

scheme. In contrast, the MSs never appeased or addressed the Commission's more political fears. This explains why the institution felt it could not back the plan convincingly and, hence, disengaged from the field (Interviews 5,11).

For the most part of the PSI negotiations, the ECB was against any type of debt relief and consistently threatened to veto any such plan. The billions of euros in short-term loans that it provided to the Greek banks accepted Greek government bonds as collateral (Papaconstantinou 2016: 190, Brunnermeir et al. 2016: 322). The ECB publicly threatened Greece and the MSs that, if they were to proceed with the PSI, it would stop accepting Greek bonds as collateral, thus crippling the domestic financial system to the ground (Blustein 2016: 211). Consequently, the MSs could not move forward with the PSI without first addressing the concerns and objections of the Central Bank.

The ECB had two central concerns regarding the PSI: financial spillover fears and potential losses against its own balance sheet. The argument with regard to spillover fears appeared to dominate the ECB's public interventions on the issue. The official leading the opposition, especially after Deauville (Blustein 2016: 197), was the president of the ECB, Jean-Claude Trichet. Trichet argued that a debt restructuring would undermine the credibility of the Euro area. After the restructuring of the Greek debt, investors would be afraid that another debt-relief in the Eurozone was imminent. Subsequently, the bonds of all Eurozone MSs would be perceived as risky and lose value (Brunnermeir et al. 2016: 329).

The ECB President saw the possibility of a debt restructuring as a Lehman-like event that might lead to capital flight and to the collapse of the European banking sector. Of course, these fears were not entirely unfounded. Numerous European

banks had insufficient capital holdings and would be unable to survive even a minor incident of financial panic (Blustein 2016: 172). Trichet feared that such a chain reaction would push the ECB to the limits of its mandate. Being the only authority able to provide immediate funding to sovereign bond markets, the ECB would have to supply extensive liquidity in order to avert numerous Eurozone banks from defaulting. As repo markets would allow private investors to take positions against weak euro-area governments, the ECB would have to intervene actively by buying government bonds. This would go against its previous policy on the matter; the Bank's repo operations followed market prices and were not supposed to influence the fiscal behaviour of MSs (Moschella 2017: 810, Gabor 2016: 985). According to Trichet, outright purchases of government bonds would undermine the separation of responsibilities between the ECB and the MSs, as established by European treaties, and push the former to the limits of its mandate (Trichet 2009).

The first instance in which the ECB President decided to unfold such an argumentation was directly after Deauville. As soon as the news of the Deauville agreement reached the Eurogroup, Trichet stated, in front of all finance ministers, that such a move would lead to the collapse of the Eurozone (Papaconstantinou 2016: 168, Brunnermeir et al. 2016: 30). It would be impossible for the ECB and the MSs to convince private creditors to remain exposed to other Eurozone countries (Henning 2017: 108). Trichet felt so strongly about this that he argued, without much success, that the results of the Deauville agreement had to be reversed. The ECB would repeatedly make this recommendation in the future up until the eve of the actual debt relief exercise (Papaconstantinou 2016: 208, Brunnermeir et al. 2016:329).

Spillover fears were so central for the ECB, that its President was willing to go to extremes in order to avoid even the mildest form of debt restructuring. When the Greek finance minister filed an official request for a reprofiling of the Greek debt, he responded negatively. He also made clear that, should Greece chose to move forward, the European Central Bank would stop accepting Greek government bonds as collateral, leading its banks to default (Papaconstantinou 2016: 190, Blustein 2016: 197, Brunnermeir et al. 2016: 322). Trichet's letter also stated that a potential debt restructuring would lead to a major capital loss for the Greek banks. The latter would then need to be recapitalised- an operation that the ECB was unwilling to perform. The fact that Trichet was prepared to let Greece default is indicative of his resolution against any type of debt-relief policy (Papaconstantinou 2016: 190-191, Blustein 2016: 189).

As the PSI debate was evolving, the ECB kept up its steadfast opposition to the plan. This unwavering stance led ECB and German officials to clash in various venues throughout this process. In early 2011, Schäuble and the Dutch finance minister, Jan Kees de Jager, brought up the issue of a potential PSI. Trichet rejected the idea by arguing that such an operation would raise doubts among financial investors and cause market panic (Papaconstantinou 2016: 190). In the G7 meeting that took place in Washington on April 14th, 2011, the ECB again demonstrated its unwillingness to undersign the PSI plan. Trichet, again, voiced his usual objections in front of an international audience, one that included Chancellor Merkel (Blustein 2016: 200). The same occurred in the informal meeting that took place on May 5th, 2011. In the presence of the finance ministers from France, Germany, Italy and Spain as well as the Commissioner for Economic and Monetary Affairs, the ECB President

objected to a potential PSI and left the meeting in protest. The actions of the ECB President frustrated the MSs. Yet, while the finance ministers could not accept the ECB's suggestions for further fiscal consolidation without debt relief, they also noted that they could not go forward without the Central Bank's approval (Papaconstantinou 2016: 194-197).

Of course, Trichet was not the only Central Bank official to express this policy; ECB officials from lower hierarchical levels also conveyed a similar message. During a meeting that took place on June 1st, 2011, the Vice-President of the ECB repeated the threat that if a PSI was realised then the ECB would stop accepting Greek bonds as collateral. The German deputy finance minister responded that without some type of debt relief, Greece would be left without a second programme (Blustein 2016: 212). This incident was just one of the many that occurred whenever Troika officials would meet in order to discuss the PSI scheme. The ECB staff would recite spillover fears and express negative views with regard to the PSI, while it would always threaten to veto the scheme by withdrawing from the programme and stopping its liquidity assistance to the Greek banks (Interview 4, 5,6, 7). The ECB's persistent and steadfast opposition to the PSI shows that it did not take into account audience costs. The Bank recited the same message both in private and public meetings, in front of high and mid-level national officials and independently of how the overall economic climate evolved (Whelan 2012: 13).

Apart from potential financial spillovers, the ECB was also concerned with its exposure to the Greek debt. With its Security Markets Programme the ECB had bought numerous Greek bonds below face value. According to Open Europe by June 2011 the ECB was facing 440 billion euros in potential losses from struggling

Eurozone countries, with 140 billion euros coming from Greece (Moschella 2017: 810).The Bank was not willing to rollover its Greek sovereign bonds and, as a result, incur any losses from a potential debt restructuring (Blustein 2016: 212, Reuters 2011b). It feared that such losses might constitute a retroactive financing of the Greek government- an action that would be in direct violation of the ECB's mandate (Blustein 2016: 291, Brunnermeir et al. 2016: 333).

Moreover, ECB officials were very much afraid that, if a debt-restructuring scheme moved forward, the Central Bank would incur losses that might jeopardise price stability in the Eurozone (Merler et al. 2012: 12-14, Whelan 2012:13, interview 5,6, 7). It would also eventually require the MSs to recapitalise the ECB (Moschella 2017:810), a process that was prevised to be politically contentious. On the whole, the ECB's desire to protect its balance sheet and ensure the full and timely repayment of its bonds complemented its spillover fears and influenced its programme suggestions (Pisani-Ferry et al. 2013: 25, 104, interview 6).

While the ECB and the Commission employed fairly similar argumentation up until the eve of the PSI (until June 2011), this eventually changed. Given that the ECB had a *de facto* veto over the PSI, the MSs had to accommodate its demands. As soon as they did this, the Bank would approve the plan.

The basic elements that the ECB needed in order to accept the PSI were the following: first any debt-restructuring exercise had to be of voluntary nature. This demand mainly aimed to appease market sentiment. If private investors felt that they had a say in the process and that the exercise was conducted in a consensual manner, then they would have no profound reason to panic and leave the Monetary Union. For the same reason, MSs had to pledge that the Greek PSI would be a one-

off event and that all Eurozone MSs would, in future, serve their debt obligations in full.

In addition, the ECB requested and received preferential creditor status, meaning that its bonds would be exempt from any losses. Furthermore, MSs had to cover the recapitalisation of the Greek banks. Both demands were directly related to the ECB's fears of additional costs and losses in its balance-sheet. Its demands aimed to ensure that the Bank would not bear any additional costs out of the debt-restructuring scheme.

Since Trichet spearheaded ECB opposition to the plan, it was only fitting that he would also introduce the basic elements of an acceptable solution. In a Eurogroup teleconference that took place on May 11th, 2011, he suggested that the Bank would accept only voluntary debt rollovers (Papaconstantinou 2016: 200). This argument would be repeated with great frequency in the following months. In the Eurogroup of 16th June 2011, the ECB President announced that he would not accept any debt reprofiling or exchange of bonds, only a voluntary rollover scheme (Vienna-type rollovers) (Papaconstantinou 2016: 202). He made the same argument in a press conference that took place on 9th of June 2011. He announced that the ECB would not allow any type of debt restructuring that involved "coercion" against private bondholders (Reuters 2011b). He argued that the PSI should not be seen as a credit event since that would trigger the existing Credit Default Swaps and make Greece's funding hole even bigger. The above argumentation sketched out the ECB's red lines concerning to a potential PSI. The PSI would have to take the form of a voluntary debt restructuring that could not be interpreted as a default.

The MSs soon moved to revise the scheme in a way that would be closer to these conditions. When the Eurogroup started discussing the final form of the PSI, on June 8th,2011, the Euro-area finance ministers decided to explore options that involved voluntary bond rollovers and debt exchanges. They also sought to find a solution that would not be perceived as a credit event. Following this direction the chair of the Euroworking group, Vittorio Grilli, presented three options: 1) an offer to the banks to rollover the maturity of Greek bonds and to maintain their exposure to the Greek debt, i.e. a soft-Vienna process based on moral suasion, 2) a Vienna plus scheme where private creditors would rollover the bond maturity in a coordinated fashion due to positive incentives and 3) the exchange of existing bonds with new bonds based on the existence of positive and negative incentives. Trichet's reaction to all three alternatives was negative since they all included an element of coercion. In the debate that followed, Trichet was persuaded to water down his no-PSI position and to accept an organised voluntary PSI (Papaconstantinou 2016: 209-210).

The subsequent negotiations for the final PSI scheme were based on the above ECB guidelines. First of all, MSs went to great lengths to involve the private sector in this process and to obtain a mutually agreed deal. The private sector was directly consulted by Greece and by officials within the Euroworking group in order to find a mutually acceptable solution (Blustein 2016: 214, 225). The Institute of International Finance had organised and represented private bondholders in such a manner that the debt-restructuring exercise could proceed with the agreement of most major bondholders (Henning 2017: 187, Zettelmeyer et al. 2013:9). Greece and its private creditors ultimately managed to reach a mutually acceptable solution that

did not involve any elements of profound coercion; yet, given the governing regime of sovereign debt-markets, this was not an easy task.

Most debt-restructuring operations require the consent of all contracting parties; a condition that is difficult to achieve with such a diverse body of lenders. Some investors might try to hold out in order to obtain preferential treatment while others might negate any debt-restructuring independently of the offered terms. There is a subsequent risk that they might initiate court proceedings with the hope that they will be able to seize state assets and hence have the value of their bonds fully repaid. In order to bypass such obstacles many bonds include collective action clauses, otherwise called CACs. CACs provide that the decisions of a qualified majority of bondholders, usually t, usually two-thirds or three-quarters of those holding the face value of a state's bonds, bind all the bearers of such bonds. When a state brings forward a debt-restructuring proposal the decision of the super-majority is binding for everyone. Consequently, bondholders are, in principle, prevented from going to the courts in order to recover the full value of their bonds. In this sense, CACs dis-incentivise investors from pursuing a holdout strategy (Martinelli 2016: 2-3).

Inside the Eurozone most sovereign bonds are governed by the state's domestic legal framework and do not, usually, include CAC. Yet, foreign law governs a small part of the Euro area's debt stock since this is issued in the London bond market. The latter bonds include CAC provisions. At the beginning of the crisis Greece had 20 million euros worth of bonds governed under the provisions of English law, while 177.3 million euros worth of bonds were governed by Greek law and, hence, had no CAC. Given that the PSI mainly targeted Greek law bonds, the government

had to somehow disincentivise bondholders from holding out and, potentially, resorting to the courts. It subsequently opted to use a more "creative" approach in order to avoid any coercive measures against bondholders.

It retrospectively incorporated a CAC provision with a voting threshold of two-thirds in its domestic law bonds. The final PSI exercise would take the form of bond swaps; Greek bonds would be exchanged for bonds of reduced value that were governed by CAC provisions. Subsequently, the PSI operation would apply to all Greek bonds while markets and investors would see it as a legally sound exercise without any coercive elements. Indeed, around 85 percent of those holding domestic law bonds agreed with the exchange and Greece activated the retroactive CAC (Martinelli 2016: 3-4). Yet, despite the MSs' declaration that the PSI did not involve any coercion against the bondholders , the final deal was ,in effect, a hybrid of a "London Club" negotiation led by a group of large banks and a take-it-or-leave-it debt exchange offer for the smaller bondholders (Zettelmeyer et al. 2013: 9).

Apart from presenting the PSI as a mutually agreed plan between the public and the private sector, MSs also strived to present it as being a unique event. They explicitly stated that the PSI scheme would be considered an "exceptional and unique" incident and that it would never be repeated in the Eurozone. To emphasise this point, Eurozone leaders included, in the Eurogroup's conclusions a provision declaring that all Eurozone countries pledged to fully honour their debt obligations (Blustein 2016: 224). This statement aimed to appease market fears that another debt-restructuring was imminent in the Eurozone. Moreover, it essentially undermined one of the most basic features agreed in Deauville, i.e. the agreement to involve private investors in future Eurozone bailouts. The ECB- and Trichet

personally- had for quite some time advocated a revocation but managed to achieve it only during the final phases of the PSI (Blustein 224).

Finally, the MSs also sought to satisfy the ECB's demand for preferential treatment. The final PSI deal was on the condition that the ECB would not incur any losses, since its bonds would be excluded from the PSI exercise. The PSI would also exclude the bond holding of national central banks and of the European Investment Bank. In total these bonds amounted to around 56.2 billion euros, with the ECB holding 42.7 of those (Zettelmeyer et al. 2013: 10). At the same time the MSs would cover the recapitalisation of the Greek banks (Eurosummit 2011b: 21). As the ECB's vice-chairman, Victor Constancio, stated, it was of utmost importance for the ECB that the second Greek programme included a considerable sum of money for the recapitalisation of the Greek banks and the overall restructuring of the banking sector (Constancio 2012). Subsequently, the ECB would not have to spend any of its own capital on this operation. In effect, the MSs also agreed to protect its capital base and balance-sheet. Given that they had addressed all of these concerns, the ECB finally accepted the plan.

The Council's new PSI versions, after July, did not change any of the above elements. The voluntary nature of the PSI, its uniqueness, the MSs' pledge to recapitalise the Greek banks (Eurosummit 2011a: 4), the exemption of the ECB from any losses (Zettelmeyer et al. 2013: 10) all remained in the scheme. The only thing that truly changed was the extent of the private sector involvement and the size of the "sweetener" (Blustein 2016: 259-260, Zettelmeyer et al. 2013: 10, Blustein 2016: 298, Eurogroup 2012). In other words, the MSs drafted the renewed PSI deal bearing in mind the red lines that were previously drawn by the ECB.

As evident from all the above, the ECB used its veto in order to force the MSs to readjust the PSI according to its preferences and concerns. Of course, the MSs did not have to do the same with the European Commission. The Commission participated in the Troika as an agent of the Eurogroup- its mandate, funding and policies were subject to the approval of the MSs. On the other hand, the ECB, being an independent central bank, had a very clear price-stability mandate and was not dependent in any major way on the MSs. Consequently, the MSs, and in particular the German and the French government, focused on addressing the ECB's concerns and, hence convincing it not to veto the PSI plan. They had no incentive to do so with the Commission. This admission also suggests that the clear opposition to the PSI of the Commission was far more puzzling than that of the ECB.

Overall, while the ECB shared many of the Commission's fears it appears that the magnitude of its concerns was smaller. For the ECB, it was possible to insulate the Eurozone from market volatility by inserting certain provisions into the PSI scheme. On the other hand, the Commission had more diffused political and economic responsibilities and a different conception of the European interest. Its fears revolved around the possibility that market panic could question the political viability of the Eurozone. The above observations indicate that the preferences and views of the two institutions were created and evolved in a distinctly different manner. They also imply that the two institutions had very different conceptions of how market panic emerges and how it can be contained. In that sense, it is less likely that the preferences and argumentation of the Commission reflected those of the ECB. Their different treatment of the PSI emphasises this point.

5.6 Conclusion

During the PSI period, the Commission did not change its initial views regarding the undesirability of a debt relief. Its spillover fears led the Commission once more to oppose any type of debt-relief. The PSI proved that this insight holds even under conditions of extensive external pressure. Despite the fact that the other Eurozone actors agreed on the need for a policy change, the Commission resisted this trend.

Instead, it proposed a more intense plan of fiscal consolidation. Greece could manage without a PSI scheme; all it had to do was to intensify its efforts, especially in terms of privatisations and structural reforms. It was thus necessary to fully implement the existing programme. These suggestions were indicative of the Commission's tendency to tie crisis-management to market-appeasement. The institution's strategy and approach to the PSI was geared to meet market expectations. Any alternative policy would jeopardise the achievements of European integration and might be detrimental for borrowers and creditors alike.

Following the above rationale, the Commission was willing to go against MS debt-relief preferences. It chose to do so despite adverse conditions. First of all, it did not have a veto, and hence not enough leverage to change the policy outcome. In contrast, the ECB managed to do so by using its status as a major funder of the crisis-management effort. The Commission also had every incentive to embrace state preferences in order to expand its competences. It was quite clear that the German position would prevail in the Council and that MSs would have to choose an agent to undertake the PSI negotiations. While we would expect the Commission to position itself as a suitable agent for such a task, we observe the opposite. It openly voiced its

objections and gradually withdrew from the field of debt management, leading the MSs to look for another agent. In other words, the institutional culture of the Commission pitted it against its own institutional interests and led it to incur immediate costs.

This chapter does not argue that the Commission went against its institutional interest because it was irrational. Instead it observes and analyses a clash of rationalities. The chapter argues that the three parties- namely, the Council, the Commission and the ECB- held very different views on how market panics are caused and unfold. At one extreme stood the Commission and its market-appeasing suggestions. The organisation argued that any major action that would go against market expectations during a crisis would cause widespread panic and a sell-off of sovereign bonds, i.e. a flight to safety. The Commission's bureaucrats saw the PSI as such a measure and fought against it. At the other extreme, at least in the debt-management field, stood the Council's members and, in particular Germany. The German government believed that it could reshape market expectations by following a well-framed strategy with clear policy goals. In effect, it sought to reshape the risk assessment of market participants, to convey the message that buying government bonds was not a risk-free option. Going against private investors in a coordinated manner would not necessarily lead to panic but instead to a new set of market expectations.

Finally, the ECB positioned itself in between the two extremes. It argued that the Council would not be able to reshape market expectations fundamentally and that it needed to provide other type of reassurances in order to quell market panic. Consequently, it suggested that the PSI should be framed in such a way that would

not go fundamentally against market expectations. The Bank's insistence on the non coercion of bondholders into debt-restructuring, and on presenting the exercise as an one-off policy are indicative of its approach. All things considered, one can argue that the Commission and the Merkel government clashed so profoundly on the question of the PSI due to their very different understanding of how financial markets work and react during crisis.

Given this clash of rationalities, the Commission faced two paths as the crisis unfolded: to reflect MS preferences or suggest policies independently, bearing in mind the Union's general interest. It chose the latter path, even when this meant that it would have to go against its principals' preference and incur short-term bureaucratic costs; it would lose much clout inside the crisis-management framework. By adopting such a position, it would signal that it was not a trustworthy agent and that it could not fulfil its debt-related tasks in an unbiased way in the future. Seeing as it faced a complex regime of competing institutions, one would expect the organisation to be attentive to its mandate and attempt to hide any potential slack. In fact, one would expect the Commission to try and consolidate itself as the main agent of the Council, not openly oppose the latter's explicit preferences. Since it did not, a few other institutions, including some *ad novo* ones, undertook the technical part of the PSI negotiations and consolidated themselves as the main agent of the Council in the debt-management field. In the next chapter, we take stock of the behaviour of the Commission and discuss its wider implications for the literature.

6 Conclusions

6.1 The main argument and its implications

This chapter concludes the thesis by reviewing its main argument; its theoretical implications for the field of EU studies and international organisations and, finally, its practical policy implications.

The thesis has strived to answer why International bureaucracies might diverge from their principals during periods of crisis, i.e. periods during which agents are expected to operate under an efficient system of monitoring and hence, to follow their principal's orders. It used the Commission's stance on debt-management up until the realisation of the PSI as such a deviant and off-the-line case. I argued that the organisation formed its debt-management preferences independently from the MSs at the beginning of the crisis and ended up opposing their debt-relief preferences later, i.e. during the PSI negotiations. In this sense, the thesis' main insight goes against the standard state-centric narrative of financial crisis-management by IOs. The overall argument is articulated in three sequential steps in chapters 3, 4 and 5.

Chapter 3 examined the Commission's reaction during previous financial crises. It did so in order to present the process via which the Commission obtained a strong institutional culture with regard to financial crisis-management. Throughout the years the Commission feared that financial crises might cause economic spillovers that would jeopardize the process of EU integration. Every time the European Community/ Union faced the implications of a global financial crises, the Commission proposed suggestions that were intended to avert MSs from backtracking from

multilateral EU policies and revert towards unilateral policies. The analysis attributed this phenomenon to the Commission's institutional setup. The organisation's institutional mandate explicitly instructed the bureaucracy to seek further EU integration, which it did even during crises.

The discussion in Chapter 3 also demonstrated that the Commission aimed to limit such risks by proposing market-appeasement policies. The chapter delineated how the Commission's practical handling of financial crises changed overtime and shifted towards market-appeasement. In its early days, the organisation attempted to manage market expectations via collective state action. However, from the mid-1970s and on, it favoured the accommodation of market expectations; it primarily focused its policy suggestions on domestic economic adjustments. This policy change can mainly be attributed to endogenous sources. As Commission officials with market-management views were replaced by more liberal-minded officials, the Commission's approach changed accordingly, thereby ending up favouring strategies of market-appeasement. This approach was gradually consolidated within the bureaucracy and went beyond its initial advocates, becoming a feature of the Commission's internal culture.

All in all, Chapter 3 offered an analysis of how the Commission formed certain perceptions in the field of financial crisis-management through its historical experience. It also suggested that the Commission's insistence to invariably draw from the same set of beliefs and knowledge in order to address crises of different size and type is a first, but strong, indication that its handling of the PSI question was informed by the organisation's institutional culture.

Finally, the chapter established that, during crises, the European Commission tended to either position itself between contending state coalitions or withdraw from such conflicts whenever preference heterogeneity was high and its institutional interest uncertain. Hence, the organisation's choice to go against its institutional interest during the recent crisis was unorthodox given its strategic positioning within the Council during previous crises.

In Chapter 4, the analysis delved into the events that occurred at the beginning of the Eurozone crisis and sought to discuss what drove the Commission's debt-management proposals as the Greek crisis emerged. It traced the Commission's knee-jerk reaction when the debt-relief question first emerged. During this period, the Commission and the MSs converged with regard to their fears over wider Eurozone instability. Hence, they opposed an early debt-relief for Greece. This convergence led few scholars to argue that the Commission's debt-management preferences were dictated by the MSs. Yet the analysis showed that this was not the case.

The evidence suggested that the thesis' second hypothesis (i.e. the one emphasising the bureaucracy's institutional culture) was more relevant. The analysis contended that the Commission's desire to sustain the Eurozone project intact and to avoid any reversal of the integration process led it to oppose an early debt relief (H2b). Its view was that debt-relief might lead to market panic and wider Eurozone instability. To avoid this, its policies had to meet market expectations and protect private investors so that they don't "fly to safety". In this sense H2b appeared to have the most analytical leverage. On the contrary, the Commission's role as the guardian of the *acquis* (H2a) appeared to be less relevant. While Commission officials

occasionally invoked the EU legal order to back their debt-management proposals they did so inconsistently and in an *ad hoc* manner.

The chapter suggested that the Commission's competence-maximisation tendencies also drove its anti-debt-relief policies. The organisation saw the question of debt relief as a window of opportunity through which it could extend its power. It subsequently came up with measures that would address this problem, while furthering the EU's authority and, subsequently, the Commission's competencies. The bureaucracy exploited its initial agreement with MSs on the issue of debt-management in order to propose measures that would protect the process of EU integration while also expanding its powers.

Chapter 4 also examined the other hypotheses raised in the thesis. Starting with the state-centric hypothesis, i.e. H1, the analysis demonstrated that while at the very beginning of the crisis the MSs and the Commission agreed on debt-management, their convergence was coincidental as their positions were formed independently from each other. The MSs were mainly worried about potential spillover effects that might increase bailouts costs. The Commission, having overlapping preferences with the MSs, incorporated the latters' preferences as an outer limit to its suggestions. Yet, as the discussion showcased, its internal institutional conceptions drove it to approach the unfolding crisis in an independent manner.

The next competing hypothesis that was tested and rejected was the advocacy coalition framework (H3). This hypothesis posited that the process of preference and policy formation in the European Commission was turned into an interdepartmental battle between different DGs. Yet, the chapter presents evidence

to the contrary. First of all, the Commission President exercised his full powers in order to create a common policy line and quell any potential contestations. He was quick to establish DG ECFIN as the leader of the crisis-management effort. He, subsequently, consolidated a picture of uniformity and consensus within the bureaucracy and used the Commission's Secretary- General in order to disseminate this message to the organisation's lower hierarchical echelons. In turn, alternative views that were articulated in the College or at the director-general's level were quickly dismissed. In addition to the Commission's leadership the structure and the *modus operandi* of the organisation's technical teams discouraged such conflicting dynamics. The establishment of teams that included officials from various DGs did not leave much room for prolonged discursive fights. Any friction and disagreement on debt-management was resolved inside the team. All in all, the underlying conditions for the emergence of intra-Commission coalition conflicts were not in place during the early stages of the Eurozone crisis.

Finally, Chapter 4 also discussed the "policy field" explanation (H4). Despite the fact that the Commission's and the ECB's views converged for a considerable amount of time, the two were not causally linked. For the "policy field" approach to hold we would expect intense communication and socialisation between the two institutions. The Commission would then have had to incorporate the ECB's rationale with regard to debt-management. Nevertheless, existing evidence does not support such a view. The Commission's staff were quite sceptical, if not hostile, to many of the ECB's crisis-management views and suggestions.

Given the tensions between the two, it is unlikely that the ECB managed to easily transmit its debt-management rationale to the Commission, and it is even

more unlikely that the Commission fully embraced the Bank's reasoning on the issue. The fact that the two organisations had overlapping preferences and the same fears over potential spillovers, does not imply that they had the same understanding of how the crisis' spillover effects might be contained. Even more importantly, it does not prove that the Commission embraced the ECB's debt-management logic.

Chapter 5 engaged with the analysis of the PSI exercise and reconfirmed the explanatory leverage of the "institutional culture" hypothesis. It used the PSI incident as a most difficult- test (Gerring 2006:115) for the argument that was generated in Chapter 4, i.e. that the Commission opposed all debt-relief schemes due to its pro-integration culture (H2b). During the PSI negotiations, the Commission had every incentive to follow state preferences and reflect them as accurately as possible. The Council was very much interested in the issue and it expected its agent to follow its preferences, while it was in position to observe and potentially punish any divergence. Fearing sanctions and loss of its authority to other institutions, the Commission should have followed its principal's preferences. Yet, its tendency to protect the process of European integration, via market-appeasing measures, was more influential. It drove it to openly oppose state preferences with regard to the realisation of the PSI. More interestingly, the Commission willingly incurred institutional losses during its effort to discourage the MSs from proceeding with their debt relief scheme. Other institutions undertook the main burden of the PSI negotiations and consolidated their position as the Council's most trustworthy agent within the debt-management field.

The discussion of the PSI incident showed that the Commission's and the MS preferences were based on radically different rationales. The Council's preferences

were tied to domestic political concerns and a desire to mitigate bailout costs. On the other hand, the Commission's suggestions were tied to its role as a guardian of European integration. Subsequently, the two actors diverged and clashed during the PSI. Thus, the available evidence from the PSI negotiations suggests that the standard state-centric narrative cannot explain the Commission's steadfast opposition to any debt-relief.

Aside from the rejection of the state-centric explanation, a thorough examination of the PSI equally made evident the fact that the Commission's competence maximisation incentives were not as prevalent as they had been at the beginning of the crisis. As soon as the Commission's pro-integration incentives clashed with its competence-maximisation tendencies the latter were abandoned. The analysis also demonstrated that the Commission's previous tendency to move in and out of state coalitions, in an effort to protect and promote its institutional interest, was not in place. The Commission chose to break from such coalitional dynamics and openly oppose the Council, even when the latter appeared determined to move forward with the PSI.

Finally, Chapter 5 argued that the Commission's and the ECB's positions, on debt-management were based on different rationales. The ECB believed that the EU MSs could, under certain conditions, limit financial panic caused by the PSI. The Commission appeared less convinced and more worried with regard to the political and financial spillovers of such a decision. In this respect, the PSI demonstrated that the two organisations based their debt-management suggestions on very different rationales and, hence, the "policy-field" explanation (H4) appeared to have less explanatory leverage.

The thesis contributes to the literature that delineates how and when an international bureaucracy's culture might drive its proposals, especially during financial crises. It shows that the Commission brought forward debt-management policies drawing from internal institutional features and, in particular, from its pro-integration culture (H2b). As the crisis unfolded, it strived to protect the process of European integration via the implementation of market-appeasing measures. These tendencies remained unchanged despite the Council's changing preferences. Hence, the Commission's actions in the field of debt management suggest that it acted as an autonomous bureaucracy; it demonstrated autonomy of will and autonomy of action (Ege 2017:559). This, in turn, points to the existence of some kind of "bureaucratic personality" (Baeur 2006:29-31). The thesis argues that this bureaucratic personality can prove to be important during crises. Whenever Commission officials find some leeway vis-à-vis the handling of financial crises, it is likely that they will exploit it in a way that is concomitant with the protection and the furthering of European integration.

6.2 Theoretical implications

6.2.1 States and international bureaucracies

Drawing from the analysis of this deviant case study, this thesis proposes the following argument: high incongruence between the bureaucracy's culture and MS crisis-management preferences, can lead to agency slack during crises. This insight demonstrates the influence that deeply rooted institutional beliefs can have during periods in which we would expect the prevalence of short-term rational calculations. The analysis shows that features of institutional culture can play a significant role and

act as a policymakingmaking compass during such eras. They might even lead agents to oppose their principals' preferences and take positions that are harmful to the agent's immediate interests. In this sense, the project's conclusion reaffirms that that non-material incentives, i.e. the bureaucracy's internal culture, can influence its policy suggestions and play a significant role during crises.

Moreover, the analysis argued that an institution's historical experience and past behavioural patterns can substantially influence its actions under conditions of uncertainty and crisis. In the examined case, the Commission's policy suggestions were not produced via intense internal debate and did not follow typical rationalist calculations. Instead, they followed a pattern that was developed during previous financial crises. The Commission had established a particular understanding of financial crisis-management: the most effective way to protect EU integration from market panic was via market-appeasement measures. It subsequently used this rationale when it drafted its debt-management suggestions during the recent crisis.

One can argue that this particular conception of crisis-management came from the Commission's organisational memory, i.e. a facility that stores communicable, consensual and integrated knowledge (Walsh and Ungson 1991: 72). The organisation drew from its past experiences with financial crisis and from the subsequent internal institutional culture that these experiences had created. It then linked these past incidents and organisational features in a meaningful way with its present and future challenges (Burghausen and Balmer 2014: 394-395). Of course, such features are not necessarily predictive of the organisation's current and future choices; it is up to the decision-makers to establish their normative and predictive validity (Walsh and Ungson 1991:74).

The Commission's staff deemed that this particular aspect of its organisational past and internal culture was still relevant on how to better handle its emerging and future challenges in the field of financial crisis-management. In this sense, the perception that the process of European integration was intertwined with market-appeasement during crises operated as a schema: it facilitated information gathering, information processing and information retrieval when the Commission was called to position itself with regard to debt-management during the recent crisis (Walsh and Ungson 1991: 69). This process also explains the Commission's persistence in following a market-appeasing path. Organisations are far more likely to accept actions that are compatible with their memories rather than with entirely new courses of action (Walsh and Ungson 1991:74).

Such an admission demonstrates the need to nuance the mostly rationalist understanding of how international bureaucracies deal with emerging crises. Indeed, using a purely rationalist perspective, not taking into account long-standing institutional features and the institution's historical experiences would give us an inaccurate explanation of its behaviour. As such, any future enquiry on international bureaucracies and financial crises should also attach important to historical elements.

The above argumentation is relevant not only for the Commission. I argue that its external validity goes further and that these conclusions may be generalized to other IOs. To do so, I am proposing a contingent generalisation of my results (George and Bennet 2004: 31-32). The thesis' insights can be applied to international bureaucracies similar to the European Commission. Such bureaucracies are well-developed, they span multiple levels of governance, have extensive administrative

capacities (Trondal et al. 2010:7) and a long-standing policymakingmaking presence. The bureaucracies of the IMF, the World Bank and the OECD come to mind as such potential cases. Further research can identify which of the above institutional characteristics are necessary and/or sufficient for the occurrence of such institutional behaviour. For example, further research can show that even if the organisation has less expertise and sophistication, its strong institutional culture might still lead it to agency slack during crises.

These results and their wider theoretical implications contrast with expectations from the recent studies on the Eurozone crisis. Many scholars in the field of EU studies have operated under the assumption that, during the recent crisis, the Commission formed its views and suggestions following and anticipating MS preferences (Blyth 2013, Pisani-Ferry et al. 2013, European Parliament 2014, Matthijs and McNamara 2015, Brunnermeier et al. 2016, Blustein 2016, Henning 2017, European Court of Auditors 2017). Scholarship has been content with the idea that the organisation operated, *grosso modo*, as the Council's agent; it represented the MSs and reflected their preferences without any agency slack. Following this line of thinking, some research projects have argued that the Eurozone crisis has led to a less active and less independent Commission (Bickerton et al. 2015, Brunnermeier et al. 2016, Matthijs and McNamara 2015). The thesis' results obviously pose a distinct and substantial caveat to the above narrative.

Instead, the thesis reinforces the neo-functionalist conception of the Commission. Neo-functionalists expected supranational actors, like the Commission, to develop a distinct *esprit de corps* and bring forward suggestions, views and ideas that cannot be attributed solely to the preferences of national or subnational actors.

By foreseeing the chance that international bureaucrats might develop their own independent preferences and capacities, they also recognised that international bureaucrats might act in ways that circumvent MS interests (Schmitter 2005: 260).

The analysis showcased that during the recent crisis the Commission followed this behavioral pattern. It had a strength of independence, drawn from its accumulated history and institutional culture, that led it to attempt to lead the EU in a different direction from that of the MS preferences. In effect the Commission sought to upgrade and protect the process of EU integration according to its independent preferences and views. This insight adds to the small but emerging literature on the Commission's "policy entrepreneurial" role during the Eurozone crisis (Copeland and James 2014, Bauer and Ege 2016, Nugent and Rhinard 2016, Savage and Verdun 2016).

Of course, this is not to say that the thesis questions the importance of state preferences during the recent crisis. States made the final policy choices and substantially shaped the overall outcome. Nevertheless, it shows that the contractual relationship between the Council and the Commission needed to be more closely examined. In one of the most important policy fields, i.e. debt management, the Commission not only did not abide by MS preferences but also went against them.

The thesis also speaks against the state-centric literature on international organisations. According to this research strand, we would expect from an international bureaucracy that faces organisational insecurity and cognitive ambivalence, to, faithfully, serve its principals' preferences. During such periods, MSs tend to exert much pressure towards international bureaucracies; they require that its actions are compatible with their preferences (Koremenos et al. 2001, Lyne et al.

2006, Hawkins et al. 2006, Vetterlein and Moschella 2014). For their part, international bureaucracies, fearing sanctions, tend to abide and anticipate these preferences. The thesis discussed an "off the line" incident (Barnett and Finnemore 2004: 28) contrary to this narrative. The discussion demonstrated the centrality and causal leverage of internal institutional features. It contended that the culture of the organisation can play a major role vis-à-vis its reaction to a crisis.

The thesis' emphasis on organisational culture supplements the arguments that have been made with regard to the importance of this variable in IOs. Barnett and Finnemore, in their 2004 study of the Rwandan genocide, recognised that the UN personnel drew from its already existing beliefs in order to determine its actions (Barnett and Finnemore 2004: 148). However, given that state and bureaucratic preferences were aligned, the analysis does not delineate, clearly, whether state interests or internal features drove the bureaucracy's actions. In a more recent work, Hardt (2014) argued that the timeliness of an IO's intervention to security crises depends on its decision-making culture and the interpersonal relationships between its diplomats. Building on such insights, this analysis goes a step further. It provides a more nuanced and accurate picture of such decision-making dynamics. It argues that for certain bureaucracies, similar to the Commission, recommending salient crisis-management policies that are compatible with their organisational culture is more important than competence-maximisation incentives and state preferences.

6.2.2 Causal mechanism

The thesis also presented, by virtue of conducting process-tracing, the causal mechanism that leads from a strong organisational culture to bureaucratic slack

during crises (Gerring 2006: 122-126). As the crisis emerged, the Commission was called to express its view on debt relief. Its biggest fear was that a poor handling of the Greek debt might lead to wider Eurozone instability. In order to avoid such a scenario, the Commission drew from its previous experience vis-à-vis the handling of financial crises. Its rationale was that safeguarding the European integration process was tied with the accommodation of market expectations. Hence, it saw the implementation of market-appeasing debt-management policies as the most appropriate course of action. After constructing this set of "ideal" policies, the Commission tried to form suggestions that were compatible with state preferences. When this was not possible, i.e. during the PSI, it diverged and opposed its principals' preferences. The core of the above mechanism operated as following: the bureaucracy, drawing from its long-established institutional culture, came up with certain general goals and policy instruments that guided its crisis-management suggestions. It decided to go against the MSs only when their preferences were in clear contrast with these goals and instruments.

This causal mechanism also provides an explanation of how the Commission's fiduciary duties balance out during crises. Following Majone's assertion that the Commission acts as an agent and trustee of the MSs (Majone 2001), i.e. serving state preferences but also independently promoting the intensification of EU integration, the thesis discusses how this dilemma plays out whenever the Commission goes into crisis-management mode. It argues that even during such periods, the Commission has a fiduciary duty, i.e. a duty to reflect state preferences as well as to protect and further the project of European integration. Yet, due to the crisis' fluid environment, the two roles might not be compatible. When they conflict, the Commission chooses

to promote and protect the process of European integration, not the MS interests. The analysis shows that even if that choice entails institutional losses, the Commission, still, considers its overarching institutional aim worthy of such a sacrifice.

All these contributions tie very well with the recent developments in the field of international bureaucracies (Trondal al. 2010: 10-11). It follows the third wave of research on international organisations in its wider effort to identify the specific conditions under which international public administrations are more likely to act autonomously. In particular, it moves forward the debate of how the organisational architecture and the modus operandi of international bureaucracies can influence their views and actions in the field of crisis-management (Trondal et al. 2010: 10-11, Trondal 2016: 1099, 1104, Tallberg et al. 2016). By showing how the Commission developed a strong institutional culture on financial crisis-management and how this culture practically manifested itself in the recent crisis, the thesis makes an important contribution to the above research strand.

6.2.3 Implications for the study of the Commission

In addition to its main argument, the thesis' has produced a plurality of insights that speaks both to the narrower field of European Commission studies and to the slightly broader EU studies field. First of all, the study offers additional insights on how the Commission "does" crises. It indicated that the organisation ended up choosing "appropriate policies" drawing from its pro-integration tendencies. During each and every financial crisis its main concern was to avoid any reversal of the integration process. Consistently, the Commission tied the potential spillover effects of financial crises with the process of European integration. It believed that every

financial turmoil might have grave spillover implications. Possibly leading to a spiral of disintegration. Being the primary guardian of the European project, it strived to steer the MSs towards actions that, first and foremost, secured the EU from such dynamics. As chapters 4 and 5 demonstrated this strategy was also evident during the recent crisis.

Moreover, the thesis analyses how the Commission served this objective. During its early days, it aimed to safeguard the European project by managing market expectations via collective state action. It shifted gears after the first oil crisis and fundamentally reoriented itself towards a market-appeasing direction. During the recent crisis, it followed this rationale to the extreme. It opposed the MSs' scheme for a PSI, on the basis that it would be contrary to market expectations. In effect, the Commission's crisis management suggestions are based on the assumption that the process of European integration is intertwined with market-appeasement and financial stability. Hence, during crises, the organisation tends to appease financial investors and meet their expectations.

The thesis also contains insights on how the Commission positions itself in the Council during periods of intense bargaining and uncertainty. During crises, the Commission has tended to act as a coalition partner; positioning itself in line with the preferences of certain MSs in order to promote further European integration and the subsequent expansion of its competences (Jabko 2012).

Yet, the recent crisis marked a break from this tactic. The organisation took a steadfast position that went beyond coalition dynamics. Even when MSs agreed on a common policy line, the Commission did not concede ground; it chose to diverge from its principals and suffered losses. This admission reinforces the validity of our

case- selection strategy. The Commission's management of the Greek debt was a truly deviant case since its position cannot be explained by its strategic siding with the minority view in the Council. Crucially, it shows that the Commission's competence-maximisation tendencies might be less influential if they come into contention with the organisation's pro-integration culture.

The thesis' conclusions also speak to the limited but emerging literature on the Commission- ECB relationship during the Eurocrisis. The most central piece of work on this topic is Moschella's paper from 2016. The paper sought to explain the Commission's and ECB's opposition towards debt restructuring. Moschella suggests that both the ECB and the Commission relaxed their opposition to a debt relief scheme due to the fact that new policy tools were in place. Hence, any potential spillover effects that might have been caused by the PSI would be limited (Moschella 2016: 801).

The thesis' extensive process-tracing comes to complement, but also to negate, parts of the above argument. The two accounts overlap with reference to the admission that the Commission and the ECB opposed the PSI due to spillover concerns. Yet the current project offers a far more nuanced account. While Moschella's explanation sees the Commission as mainly reflecting MS preferences while also covarying with the ECB's preferences (Moschella 2016:809), this thesis argues that this was not the case. The Commission had independent preferences and remained doubtful of the PSI. As soon as it was clear that the PSI scheme was moving forward, it decided to withdraw from the field of debt-management. Hence, the argument that the creation of contagion safeguards led the Commission to change its views and follow the ECB is not verified.

Furthermore, the thesis also holds implications regarding the Commission's leadership during crises. On the one hand, the crisis reinforced the centralisation tendencies that already existed within the Barroso Commission. The President's office obtained extensive influence over the way the Commission operated during the crisis. It, essentially, consolidated a common policy line and ensured its maintenance throughout this period. Yet, the thesis also contains some surprising results with regard to the Commission's *modus operandi* during crises. The causal mechanism suggested that the leadership's views were not that influential in terms of policy content. The change of leadership in the economic portfolio (from Almunia to Rehn, i.e. from a social democrat to a liberal) did not have much impact on the Commission's policy suggestions. Such stability is indicative of the limited influence that the Commissioner for Economic and Monetary Affairs had on policy content. All in all, the leadership allowed the permanent bureaucracy to work out in relative autonomy solutions and plans. These plans were later transmitted and promoted by the Commissioner for Economic and Monetary Affairs and supported by the Commission's President. Thus, in this instance, the Commission's institutional knowledge and expertise seemed to guide the Commission's leadership.

This also confirms that market-appeasement tendencies that appeared after the first oil crisis have been embedded and institutionalised within the Commission's lower hierarchical echelons. As the bureaucracy gathered more experience and as it developed extensive analytical expertise, the influence of individual figures became less pronounced; new Commissioner for Economic and Monetary Affairss have to administer a DG (DG ECFIN) with extensive institutional knowledge, expertise and memories. In the recent crisis Almunia and Rehn appeared to have limited control

over the content of the Commission's policies in the field of debt management and followed the advice of their subordinates. The fact that the Commissioners for Economic and Monetary Affairss, despite being politically appointed and more exposed to national preferences, also followed the bureaucracy's policy line, implies that the organisation's long-standing institutional culture was very influential during the recent crisis.

The thesis also has implications for the literature that focuses on the sociology of the European Commission. Contrary to our previous knowledge, the individual characteristics of Commission officials, i.e. their political preferences, their nationality and professional experience (Hooghe 2000, Hooghe 2001), were not very influential during the recent crisis. Despite their different professional and national backgrounds, the Commission's officials generally agreed on what was the optimal debt-management policy for Greece. A common institutional conception that tied the process of European integration with market appeasement drove them towards that direction.

The prevalence of a wider institutional culture also negates the idea that departmental identification is the strongest form of identification in international bureaucracies (Trondal et al. 2010: 200). Commission officials did not form their policy proposals driven by their allegiance to their subunit. Moreover, during the PSI, they did not seem motivated by bureau-maximisation considerations. The latter observation is surprising since turf conflicts tend to arise during periods of uncertainty and scarcity (Trondal et al. 2010: 201). On the other hand, this insight complements the argument that Commission officials are not necessarily prone to expand their DGs' authority (Kassim 2013a: 126).

All in all, the thesis suggests that neither bureau-maximisation incentives nor the personal characteristics of Commission officials, drove the Commission's autonomous actions during the recent crisis. Instead, the Commission's unified reaction suggests that its institutional memory have led to the consolidation of a strong internal culture that gave much emphasis to the protection of EU integration (Hooghe 2001, 2005, 2012, Ellinas and Suleiman 2012) and to its harmonization with market expectations.

6.2.4 Contributions to the field of International Organisations

Aside from the EU studies literature, the thesis also aims to speak with a wider and much more diverse literature: on international organisations and international bureaucracies. Numerous scholars have repeatedly suggested that international organisations, and the European Commission in particular (Pollack 2003), tend to structure their actions and strategies with a view of increasing their authority (Hawkins et al. 2006). Yet, in the recent financial crisis, this did not prove to be the case. The examined case study suggested that in times of crisis the bureaucracy might be willing to forego its immediate institutional benefit in order to protect its overarching institutional aims. Subsequently, it might avert from expanding its authority or, even, risk incurring institutional losses in order to achieve this.

Cases of such behaviour are rare in the IO literature. One can think of the relevant contribution by Barnett and Finnemore (2004). In their analysis, they have used a long-durée study in order to explain why the IMF did not include social and environmental policies in its policy reviews and proposals (Barnett and Finnemore 2004: 159). This thesis offers an even more theorized and empirically robust case of

that sort. For the Commission its internal institutional features and policymaking conceptions proved to be more important than its competence-maximisation interests. More importantly, this incident occurred at a time when we would expect to see the exact opposite behaviour; the decision to not pursue competence-maximisation entailed clear institutional losses for the bureaucracy.

The thesis' conclusions hold an additional contribution for the field of IO studies since they offer a typical case of an IO's pathological behaviour during a crisis. By diverging from the official policy line and publishing its doubts about the upcoming PSI, the Commission contributed to the intensification of financial volatility and to the exacerbation of uncertainty. Consequently, financial investors were not sure how the EU would approach the MS' debt overhang. In turn, they overreacted to rumours or contradicting public statements by national and Commission officials. This resulted in significant costs for Greece and for the MSs; it prolonged the crisis and led to higher bailout costs.

In this respect, the Commission's internal culture promoted a dysfunctional/ pathological behavioural pattern that undermined its mandated aims; its debt-management suggestions proved to be detrimental for the MSs (Barnett and Finnemore 2004: 38).The organisation not only failed to provide credible information to its principals but also contributed to the rise of bailout and other transactional costs by engendering uncertainty. Following all the above, the thesis offers a substantial addition to the limited but growing set of cases that locate and examine incidents of pathological behaviour within IOs.

6.3 Policy implications or why you should care

To people outside academia the thesis' main argument might not mean much. Is there any practical value to the fact that the Commission's reaction on debt-management was based on its institutional culture? Should we care that it diverged from state preferences? I close the thesis by discussing why people outside the ivory tower should care.

First of all, the thesis offers practical insights for policymakers; especially for the ones that are called to design crisis-management mechanisms (George and Bennet 2004: 8). If experienced and sophisticated international bureaucracies cannot be trusted to fulfil their mandate, then politicians should be more careful when designing such crisis-management arrangements. They should take steps to mitigate or avert agency slack altogether. They should select agents and institutions having the above mechanism in mind. Finally, politicians should consider how much discretion to grant them and what monitoring mechanisms they will establish.

If principals neglect these aspects their crisis-management efforts might end up exacerbating the emerging financial turmoil. The counterfactual of having the Commission as the sole crisis-management agent is telling of the problems that might occur. If the Council based its actions solely on the Commission's assessment, it would receive a skewed evaluation of Greece's economic situation. The Commission would hide the state's insurmountable debt-sustainability problems, in an effort to avoid any action that would go contrary to market expectations. In case the Commission ended up being the Council's sole agent, its crisis-management suggestions would always be geared towards the preservation and expansion of EU

integration. Such a tendency and approach might not have always being compatible with the Council's preferences during the Eurocrisis.

To avoid such an outcome, the MSs established the Troika in order to make sure that this would not happen. The Troika structure helped the principals to receive more credible information and better policy advice throughout the crisis (Henning 2017). The three institutions kept each other in check and presented alternative policy plans. Consequently, the MSs had a palette of policy suggestions to choose from. They also had different technical assessments of how their preferences could be realised in an effective manner (Henning 2017). All in all, the thesis suggests that institutions with strong institutional culture might provide biased advice and imperfectly serve their principals' preferences. Policymakers can use frameworks like the Troika in order to avoid such precarious relationships.

The thesis also holds normative implications for the Commission. As the PSI showed, the Commission demonstrated a degree of rigid thinking that was rooted in its prior models and historical assumptions. The organisation would have done better if it was more open to modify its approach during the early phases of the crisis. At the very least, it would have caused less market volatility and hence would have helped Greece reach its fiscal targets. In order to avoid such rigid thinking in the future, it should look for expertise and input outside its narrow institutional and theoretical sphere, perhaps by creating additional ties with the academic community. It is indicative that between 2009-2012 DG ECFIN's Economic papers, the main platform via which the Commission expressed its theoretical thinking, did not include any publication advocating some type of debt-relief or even a more modest fiscal consolidation strategy. The Commission would benefit if it would

become more pluralistic in that respect; it would develop its expertise further and would become more flexible and hence more efficient in a future crisis.

Apart from politicians and policymakers, my thesis has implications for the average citizen. The reason is quite pedestrian, yet very important: agency slack during financial crises might cost them money. The early phases of the Euro crisis vividly showed this. The co-existence of different and conflicting policies on debt-management created a cacophony of dissonant signals. Public disagreements between the Commission, the IMF and the MSs created different narratives on optimal debt-management policy. Most importantly, it created confusion among market participants and led to the increase of Greece's lending needs. In that sense, the bureaucracy's autonomous actions led to higher bailout costs and to a bigger burden for European taxpayers. It also prolonged the Greek programme and led to additional social strife domestically. If the MSs had managed bureaucratic autonomy more efficiently, we would have seen a more coherent policy line. This might have reassured investors and staved-off financial uncertainty. In turn, the PSI and the second Greek bailout would have been far smaller.

Overall, agency slack, during crises, is not relevant solely for academics, politicians and policymakers. It affects citizens or, to be more precise, it affects how their taxes are spent. Of course, most international bureaucracies are not accountable to the electorate; they cannot be voted out when they fail to deliver. Yet, voters can still ask governments to be more considerate when designing their crisis responses. More importantly, voters should hold politicians accountable for contracting agents that fail to deliver. After all, it is the electorate that is usually asked to foot the bill for such missteps.

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List of interviews

	Official post held by interviewee	Location	Date
Interview 1	Senior Greek official from the Ministry of Finance	London, UK	21 February 2017
Interview 2	Senior Greek official from the Ministry of Finance	Athens, Greece	6 September 2017
Interview 3	Senior Greek official from the Ministry of Finance	Athens, Greece	7 September 2017
Interview 4	Senior ESM official	London, UK and Luxembourg (Skype communication)	10 November 2017
Interview 5	Commission official- DG ECFIN	Brussels, Belgium	14 November 2017
Interview 6	Senior Commission official- DG ECFIN	Brussels, Belgium	14 November 2017
Interview 7	Cabinet member- DG ECFIN	Brussels, Belgium	15 November 2017
Interview 8	Senior Commission Official-Secretary General	Brussels, Belgium	16 November 2017
Interview 9	Senior Commission official- DG ECFIN	Brussels, Belgium	16 November 2017
Interview 10	Senior Commission Official-Secretary General	London, UK	17 November 2017
Interview 11	Senior Commission official- DG ECFIN	London, UK and Brussels, Belgium (Skype communication)	23 November 2017
Interview 12	Senior official from the European Commission Task Force for Greece	London, UK	30 January 2018