Bank Protection in France and Germany and the Management of the Sovereign Debt Crisis (2009-2013)[1]

Michel Goyer (m.goyer@bham.ac.uk) (Birmingham Business School) and Rocio Valdivielso del Real (R.Valdivielso@warwick.ac.uk) (Centre for Globalisation and Regionalisation, University of Warwick)

Introduction

French and German banks stand at the epicenter of the current sovereign debt crisis. There are different reasons for bond markets to target countries: from state profligacy in Greece to overcommitted banks financing a massive housing boom in Ireland and Spain among others (Armingeon and Baccaro, 2012; Hancké, 2013). Yet there is a common feature of the crisis that is critical. The so-called GIIPS countries – Greece, Ireland, Italy, Portugal, and Spain – were the recipients of massive amounts of inward capital inflows, principally from French and German banks, that enabled them to maintain high levels of consumption (Avdjiev, Upper and Vause, 2011; Bloomberg News, 2011; Guardian, 2013). The exposure of French and German banks to sovereign and bank debt from GIIPS countries, in turn, is not inconsequential. Financial institutions from these two countries are among the largest in the world in terms of both total financial assets and in relation to the domestic GDP of their own governments, as well as being an important source of employment in the domestic market (Véron, 2011). Given the volumes of lending French and German banks, their own governments have been keenly aware of the need to protect them from their exposure to the GIIPS in order to avoid involving

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taxpayers in costly, and politically sensitive, bailouts of domestic financial institutions (Hall, 2012: 363-365). Moreover, French and German banks might be too big to bail given the magnitude of the sums involved and the inability of governments to print money or devalue the currency of use (Blyth, 2013: 71-75).

This paper focuses on the character of the governance of the sovereign debt crisis, namely the burden of adjustment being placed on the GIIPS countries, not on the French and German banks. This outcome fits well with the preferences of French and German policy-makers in the context of large domestic banks, both in relation to GDP as well as in the number of employees working in the home country, being exposed to the obligations of GIIPS countries. Bailouts of domestic banks would be both politically sensitive and financially costly to implement. Nonetheless, the emphasis on macroeconomic austerity, internal devaluation, and debt repayments do not follow automatically from the preferences of French and German policy-makers. The translation of preferences into policy outputs is mediated by important institutions in the decision-making process in which the governance of the Eurozone takes place. These institutions shape the power of actors to translate their political power into policy outputs. This study of the management of the sovereign debt crisis also illustrates the importance of interacting factors in generating a specific outcome, namely debtor countries being significantly constrained by the institutional arrangements of the Eurozone, an activist/innovative European Central Bank (ECB) in the secondary bond markets, and the influence of large contributor countries in the design of new mechanisms (EFSF/ESM) that provide financial assistance to Eurozone members targeted by bond markets. Thus,

the translation of the preferences of large creditor countries into outputs is contingent upon the governance process of the Eurozone.

The remainder of the paper is organized as follows. First, we present an empirical overview of the management of the sovereign debt crisis in the Eurozone. The imposition of the burdens of adjustment on debtor countries represents the main empirical feature of the management of the sovereign debt crisis. Second, we present an IPE perspective that highlights how the position of countries shapes the preferences of policy-makers. We highlight the insights associated with an analysis of the exposure of French and German banks to GIIPS obligations. Nonetheless, and despite its insights, the process of deriving preferences from the position of countries in the international economy overlooks the process by which preferences are translated into outcomes. Third, we examine the governance of the Eurozone in regard to the provision of funding to countries facing pressures from private bondholders. Three aspects are presented: institutionally driven differences in the power of Eurozone members, the role of an activist/innovative European Central Bank (ECB) in the secondary bond markets, and the influence of large contributor countries in the design of new mechanisms (EFSF/ESM) that provide financial assistance to Eurozone members targeted by bond markets.

Protecting French/German Banks: An Overview

The management of the sovereign debt crisis constitutes a novel challenge for European policy-makers who were ill-prepared to deal with massive financial turbulence on bonds markets (Cohen, 2012: 690-693). The provision of financial assistance to Eurozone member states gripped with confidence problems from bondholders was not part of the

legal purview enshrined in the Maastricht treaty (Dyson, 2012; Garrett, 1993). In fact, quite the opposite, the treaty explicitly prohibited the bail-out of Eurozone members, i.e. buying bonds on the primary markets, by either the EU Commission or the European Central Bank (ECB). In particular, the ECB's mandate was constricted to inflation fighting via its unshared policy prerogative over interest rate setting, thereby reflecting a monetarist interpretation of the importance of central bank independence for macroeconomic stability (De Grauwe, 2013; Hall, 2013).

The governance of the Eurozone is also shaped by the absence of a classic lender of last resort that, in turn, increases the vulnerabilities of Eurozone members to the pressures of bonds markets in the form of a solvency crisis (De Grauwe and Ji, 2013). Eurozone members, who by definition do not have their own currency and where government debt is denominated in Euros, do not possess the legal means to force the European Central Bank to provide the needed liquidity when hit by economic shocks. In a context where national governments lack the ability to print money and/or devalue their currency, investors can become uncertain about the ability of certain Eurozone member states to raise enough revenues, or to implement sufficient budget cuts (Armingeon and Baccaro, 2012). In this situation, the implementation of austerity policies constitutes a mechanism for gaining the confidence of the bond markets with regard to the solvency of government finances. Finally, the governance of the Eurozone is characterized by the absence of an "institutionalized" transfer union that would automatically provide liquidity to debtor countries suddenly confronted with financial pressures from the bond markets (De Grauwe, 2013; Hall, 2012). The EU budget is relatively small, less than two per cent of

GDP, and is tied to two programs: Structural Funds and the Common Agricultural Policy (Bastasin, 2012: 256).

From the above description of the Eurozone institutional environment (circa 2010), the response of European policymakers to the sovereign debt crisis has been impressive in terms of financial commitment designed to calm the turbulence in financial markets as well as in terms of protecting creditor banks from their exposure to GIIPS countries (Hall, 2012; Jabko and Massoc, 2012; Weber and Schmitz, 2011). As of July 2012, the provision of funding in the rescue plans of Greece, Ireland, Portugal and Spain has amounted to slightly more than 600 billion Euros (Degryse, 2012: 80). This commitment comes on top of the 4.5 trillion Euros provided by EU governments to rescue and recapitalize their own financial institutions (Ibid: 79). Moreover, the ECB purchased massive amounts of government bonds in the secondary markets during the existence of its Securities Market Programme (SMP) from May 2010 to December 2012: 13.6 billion Euros in Irish bonds, 21.6 billion Euros in Portuguese bonds, 30.8 billion Euros in Greek bonds, 43.7 billion Euros in Spanish bonds, and 99.0 billion Euros in Italian bonds (ECB, 2013). The ECB also provided over 1,000 billion Euros in the form of cheap loans to Eurozone banks between December 2011 and February 2012 (Degryse, 2012: 5). These outcomes were far from being preordained since the EMU was explicitly established in the context of the absence of an institutionalized 'transfer union' characterized by formalized mechanisms by which member states and/or the ECB would be legally obligated to assist each other in times of financial difficulties (De Grauwe, 2013).

Moreover, the design and content of the bailout packages aimed at assisting Eurozone members targeted by bondholders were highly favorable to the interests of

‘exposed’ French and German banks. The burdens of adjustment have been placed chiefly on the GIIPS economies (Armingeon and Baccaro, 2012; Hall, 2012). An overview of the following four bailout packages illustrates the specific character of the management of the sovereign debt crisis. The provision of financial assistance in the first Greek bailout package took the form of bilateral loans: 80 billion euros from Eurozone fellow members and 30 billion from the IMF (Blyth, 2013: 71; Degryse, 2012: 25). The rescue package was also accompanied by the imposition of austerity measures, most notably a freeze on wages and pensions in the public sector and the rise in the minimum retirement age, which amounted to an aimed reduction in the budget deficit of 11% of GDP within three years. The provision of financial support to the Greek government in the first bailout package took place without discussions of debt restructuring, i.e. which loans could be repaid and the allocation of the costs of write-down, despite the preferences of the IMF for important debt write-downs (Degryse, 2012: 23; see also Broome, 2013 and Lütz and Kranke, 2013 on the role of the IMF).

The bailout package for Ireland was also characterized by the imposition of severe austerity measures, spending cuts and taxes increases, which would amount to a reduction of its budget deficit by about nine percentage points in just five years (Hall, 2012: 363). The most controversial, and contested, aspect of the Irish bailout, however, was the refusal of three governments, France, Germany, and the United Kingdom, to frame the rescue package in terms of private bank debt turning into public debt (Véron, 2011; Young and Semmler, 2011: 17). After all, the decision of the Irish government to rescue its domestic banks, which were seriously exposed to the collapse of the real estate bubble, transformed a banking crisis into a sovereign debt crisis. In other words, the provision of

financial assistance was linked to the nationalization of the debts of Irish banks. Against the IMF's wishes, ECB negotiators and Eurozone finance ministers vetoed attempts by the Irish government to impose losses on holders of senior bonds issued by the country's banks. Financial assistance was provided to the Irish government only under the strict conditionality of full protection for bondholders and creditors.

The bailout package for Spanish banks shares many common features with its Irish counterpart (Blyth, 2013: 64-68). First, Spanish financial institutions borrowed extensively from foreign financial markets in order to support a massive housing construction boom. The collapse of the real estate bubble threatened the stability of the banking system, thereby forcing Spanish policy-makers to turn to the European Stability Mechanism (ESM) to secure 37 billion Euros. Second, tough austerity measures were imposed on Spanish banks that were recapitalized. For instance, Bankia, the largest loan recipient, was required to implement an important restructuring program amounting to a 28 percent layoff of its workforce and a 39 percent reduction in its branch network (New York Times, 2012a). Third, the provision of funds did not go directly to the Spanish banks themselves, but to a state-run asset management company, thereby potentially adding to Spain's public debt in the event of banks being unable to reimburse loans. The Spanish bailout package was a sovereign loan with the Spanish government being responsible for its repayment.

The second bailout loan for Greece adopted in February 2012 was conditional not only on the implementation of austerity measures, but also upon the acceptance of a deal whereby private creditors of Greek government bonds, such as French and German banks, would accept a 53.5% face value loss on their holdings – the so-called 'haircuts'.

The second Greek bailout and the rescue plan for Cypriot banks constitute the two cases in which debt restructuring took place. Nonetheless, the interests of French and German banks were protected as from their exposure to Greek debt was substantially reduced. The actions of the European Central Bank (ECB) enabled French and German banks to off-load sovereign bonds from Greece (Buiter and Rahbari, 2012; Goldstein and Véron, 2011). The ECB cannot perform in a straightforward manner the role of lender of last resort, as it lacks the legal ability to purchase sovereign bonds in primary markets. Instead, the Frankfurt-based supranational financial institution purchased the sovereign debt of a small number of EU member states (Greece, Italy, Ireland, Portugal and Spain) in the secondary markets under its Securities Markets Programme (SMP) between May 2010 and December 2012. The share of Greek bonds held by private bondholders fell from nearly 99% in 2008 to only about 27% by March 2012 (New York Times, 2012b). Although French and German banks agreed to a face value loss of 53.5% on their holding of Greek debt, their exposure had been significantly reduced prior to the second bailout. French (and Dutch) banks proceeded to unload their exposure to Greek sovereign debt as early as May 2010 while German banks began to sold a substantial percentage of their stake in Greek debt in December 2010 and February 2011 (Bastasin, 2012: 218 and 270). More generally, the SMP enabled Eurozone banks to lower their exposure to the GIIPS (Guardian, 2013).

Protecting French and German Banks: Position in the World Economy and International Economic Preferences

The provision of funding to Eurozone member states struggling to regain the confidence of bond markets has been impressive in terms of overall committed financial resources but, at the same time, constraining since the costs of adjustment have been imposed disproportionally on debtor countries, not on lenders. What account for this outcome?

An important theoretical approach in international political economy highlights how the position of countries shapes their preferences on important international economic issues (Frieden, 1988; Lake, 2009). A country's international investment position – creditor vs. debtor, exporter vs. recipient of international capital flows, export oriented and balance of payment surplus vs. import competing and balance of payment deficit – exercise a significant influence on its policies toward cross-border investments and sovereign debt negotiations (Wellons, 1985). The international asset positions of countries shape their international economic preferences with implications on patterns of policy adjustment. For instance, debtors/balance of payment deficit countries prefer creditors/balance of payments surplus economies to revalue their currencies, reflate their economies and provide financial assistance with limited conditionality (Putnam and Bayne, 1987; Webb, 1995). In contrast, creditor/surplus countries prefer debtor/deficit economies to implement austerity measures and other strategies of internal devaluation, favor the institutionalization of international economic arrangements that facilitate the protection of assets invested in foreign countries and encourage the provision of international monetary stability, and seek to limit impediments on the free movement of capital across borders (Goodman and Pauly, 1993; Webb, 1995).

An IPE approach stressing the position of countries in the international economy as the determinant of the preferences of policy-makers provides important insights for the study of the governance of the Eurozone debt crisis. First, French and German banks are highly exposed in their role of largest creditors to the GIIPS, thereby providing heightened incentives for their governments to protect them (Hall, 2012). The magnitude of the exposure of French and German banks to GIIPS obligations is particularly worrisome given the inability to print money or to implement currency devaluations (Blyth, 2013: 71-75). Given the volumes of lending of French and German banks, their own governments have been keenly aware of the need to protect them from their exposure to GIIPS countries in order to avoid involving domestic taxpayers in financially costly, and politically sensitive, bailouts of domestic financial institutions (Gocaj and Meunier, 2013; Hall, 2012: 363-365). Moreover, protecting domestic banks by imposing the costs of adjustment to debtor countries constitutes an interesting option given the fear is that a potential bailout of the French and German banking sector by their own governments could turn into a sovereign debt crisis (see e.g. Clift, 2013).

Second, the content of the bailout packages is consistent with the type of exposure of lending banks and the position taken by creditor countries. In Greece, the conditionality associated with the provision of funding enabled the Greek government to service its existing debts, i.e. sovereign bonds held by European banks with French and German financial institutions being the most exposed (Avdjiev, Upper and Vause, 2011; Hall, 2012: 363-365). In Ireland and Spain, in contrast, the provision of financial assistance was designed to enable domestic banks to meet their financial commitments. An important factor for the refusal of Eurozone finance ministers (and of ECB

negotiators) to frame rescue packages in terms of private bank debt turning into public debt is that French and German banks were themselves major bondholders and creditors of Irish and Spanish banks (Armingeon and Baccaro, 2012: 174; Bastasin, 2012: 233-236; Bloomberg News, 2012; Degryse, 2012: 34). The exposure of French and German banks to Irish and Spanish banks was more important than their exposure to sovereign debt in these two countries (Avdjiev, Upper and Vause, 2011).

Third, French and German banks are not only the biggest creditors to the GIPPS; they are also large in relation to domestic GDP with the implication of systemic risks for the domestic banking system and the rest of the economy (Goldstein and Véron, 2011; Véron, 2011). The exposure of French and German financial institutions to sovereign and bank debt from GIIPS countries is not inconsequential as financial institutions from these two countries are among the largest in the world in terms of both total financial assets over domestic GDP, including considerable holdings of GIPPS obligations; as well as being an important source of employment in the domestic economy (see table 1). The French and German banking sectors are heavily dominated by the presence of large financial institutions with the combined financial assets of the top five banks relative to GDP being 344% in France and 151% in Germany in 2009 – the corresponding figure for the United States was 58% (Goldstein and Véron, 2011: 39). The imposition of the costs of adjustment disproportionally on the GIPPS countries, not on French and German banks exposed to systemic risks from debt default, fits well with the preferences of French and German policy-makers.

Yet, an IPE approach stressing the position of countries in the world economy as the source of preferences for policy-makers does not constitute a perfect guide, despite its

powerful insights, for a comprehensive understanding of the governance of the European sovereign debt crisis. The preferences of French and German policy-makers for the protection of their own domestic banking sector do not by themselves determine outcomes in regard to the management of the sovereign debt crisis. The assessment of the process by which changes in the international political economy affect the political strength of actors, which is then translated into policy outputs, requires an investigation of how institutions mediates the relationship between the preferences of actors and policy outputs. The governance of the sovereign debt crisis highlights two important issues in IPE: how to distribute the costs of adjustment between creditors and debtors; and the coordination process between lenders in the provision of funding (Webb, 1995). The former is characterized by the imposition of the costs of adjustments on the GIPPS countries (Hall, 2012). The latter illustrates three factors: a) the sets of institutional arrangements of Eurozone governance enacted prior to 2010 have significantly weakened the bargaining power of debtor countries by removing institutional arrangements that would permit adjustments to balance of payments deficits (Armingeon and Baccaro, 2012; Hancké, 2013); b) the set of new institutional arrangements of Eurozone governance created after 2010, moreover, are characterized by the preponderant influence of creditor nations in the overall size and rules for providing funding to Eurozone members targeted by bondholders (EFSF and ESM) (Gocaj and Meunier, 2013); and the c) the ability of Eurozone members to provide 'sufficient' funding to countries facing pressures by private bondholders has been facilitated by the timely and crucial intervention of the ECB on the secondary bond markets (Bastasin, 2012, Gocaj and Meunier, 2013; Torres, 2013). We now turn to the discussion of these factors.

Protecting French and German Banks: Institutional Governance of the Eurozone

The parsimonious process of deriving the preferences of actors from their position in the international political economy is incomplete. The translation of policy inputs into policy outcomes requires that actors, even powerful ones, exercise their power in enacting or blocking policies. Moreover, the dangers of contagion remains important even after lowering the exposure of French and German banks to their GIPPS loans. Creditor countries would also be negatively affected by a breakdown of the Eurozone (De Grauwe, 2013). A non-agreement on the provision of funding to GIIPS countries would also hurt creditor countries. Therefore, two tasks must be accomplished from the perspective of the French and German governments: protecting domestic banks from their potential negative consequences of their lending activities and providing funding to GIPPS countries. We argue that the management of the sovereign debt crisis was shaped by three interacting factors.

First, the protection of French/German banks in the management of the sovereign debt crisis was made possible by the weaknesses of debtor countries in the current Eurozone setting. An important issue in IPE is the distribution of the burden of adjustment between creditors/balance of payments surplus countries and debtors/balance of payments deficit countries. As discussed above, the IPE literature has highlighted the presence of significant differences among actors in sovereign debt negotiations and in balance of payments adjustments (Putnam and Bayne, 1987; Webb, 1995). Debtor/deficit countries prefer creditor/surplus countries to revalue their currencies, reflate their economies and provide financial assistance. In contrast, creditor/surplus economies prefer debtor/deficit economies to implement austerity measures and other strategies of internal

devaluation. The institutional configuration of the Eurozone is important since they have significantly weakened the position of debtor countries in several ways. In the first place, membership in the Eurozone has eliminated the option of the nominal devaluation of the exchange rate as a strategy to escape balance of payments constraints (Hancké, 2013; see also Blyth, 2013: 62-68). The inability of Southern economies to devalue periodically against their principal trading partners is also constraining given that the Eurozone is not an Optimal Currency Area (OCA), i.e. it is composed of economically heterogeneous and institutionally dissimilar member states that are highly susceptible to asymmetric shocks (De Grauwe, 2013). Moreover, the absence of a lender of last resort increases the vulnerabilities of Eurozone members to the pressures of the bond markets in the form of a solvency crisis (De Grauwe and Ji, 2013). The inability to print money or to rely on a central bank to acquire government bonds could raise concerns from bondholders on whether enough tax revenues could be generated to cover government expenditures. The legal authority of the ECB is specific and limited to a mandate to fight inflation. As a result, these features constrain the policy options of GIIPS: not only are they unable to devalue their currency and/or count on the intervention of the ECB as a lender of last resort to finance their deficits, they are also unlikely to experience debt relief through inflation given the ECB's concern about price stability. Finally, these institutional characteristics of Eurozone governance would not pose a problem if the EU had a transfer union from which debtor countries could benefit from in a systematic fashion which is, however, not the case (Armingeon and Baccaro, 2012; De Grauwe, 2013).

The second factor that has significantly contributed to the character of the management of the sovereign debt crisis is the role of the ECB on secondary bond

markets. In early 2010 – i.e. the first height of the European sovereign debt crisis -- the secondary bond markets of GIIPS countries were characterized by anaemic trading in a context of uncertainty about the finances of Greece and of the piecemeal responses of EU policy-makers to financial turbulence (Blyth, 2013: 51-93; Torres, 2013). The lack of interest of investors for already circulating bonds issued by the governments of these countries raised serious concerns for their own primary bond markets, namely that prospective bondholders were unlikely to display substantial interest in the acquisition of government securities that could not be easily traded (Schwarzer, 2012). This issue was particularly worrisome with Italy and Spain having to pay relatively high interest rates to access the bond markets. The financial assistance mechanism (EFSF followed by the ESM) to debtor countries was not in place in early 2010, and later proved insufficient to deal effectively with larger countries (Italy and Spain) from summer 2011 onwards (Bastasin, 2012: 195-218).

The ECB was the best placed European institution, if not the only one, to avert financial collapse of the bond markets of Greece and other Eurozone members (Gocaj and Meunier, 2013). The ECB responded to the extreme volatility on bond markets through an important non-standard measure, namely the Securities Market Programme (SMP). The ECB purchased massive amounts of government bonds in the secondary markets during the existence of the programme (May 2010 to December 2012): 13.6 billion Euros in Irish bonds, 21.6 billion Euros in Portuguese bonds, 30.8 billion Euros in Greek bonds, 43.7 billion Euros in Spanish bonds, and 99.0 billion Euros in Italian bonds (ECB, 2013). The SMP enabled Eurozone members to borrow at lower costs despite an increase in the debt/GDP ratio for several countries, which was effective in reducing the

turbulence on financial markets (De Grauwe and Ji, 2013). More importantly, perhaps, the SMP enabled Italy and Spain to avoid requesting financial assistance from the EFSF/ESM whose interventions, moreover, have been limited to smaller Eurozone members. The SMP programme significantly contributed in keeping the 'small state' character of the EFSF/ESM.

The SMP scheme represented an important innovation in the policy repertoire of the ECB. The interventions of the ECB on the secondary bonds markets prior to 2010 were limited to minor operations designed to manage its portfolio (Bastasin, 2012: 199). The massive financial sums associated with the SMP scheme took place within a stable framework of important institutional constraints, namely the prohibition of funding of the government sector and the no-bail-out clause (Articles 123 and 123 of the Treaty on the Functioning of the European Union) (Gros, Alcidi, and Giovanni, 2012). The ECB went to great lengths to justify its actions within the context of its missions by pointing out the absence of Eurozone-level institutional arrangements for its intervention in financial markets (Torres, 2013). While acknowledging that buying bonds on secondary markets constituted a U-turn, the ECB emphasized the exceptional circumstances of financial markets that, in turn, were hampering its ability to conduct monetary policy to achieve price stability and the sustainability of the Euro itself in the medium term (Bastasin, 2012: 195-218; ECB, 2010). The ECB also emphasized that the SMP did not constitute a form of quantitative easing (Gros, Alcidi and Giovanni, 2012). The purchase of already circulating bonds did not constitute a source of monetary creation and, moreover, the overall sums involved in SMP were smaller than quantitative easing in the United Kingdom.

The ECB also linked its intervention on bond markets to the set-up of a permanent mechanism for the provision of financial assistance to Eurozone members targeted by financial markets (Torres, 2013). The German government was reluctant to turn the EFSF into a permanent institution due to future financial commitments and, as late 2011, was not convinced that the crisis was systemic in character (Gocaj and Meunier, 2011). At several junctures between July 2010 and March 2011, the ECB stopped buying from the secondary bond markets in response to slowdown in the negotiation toward the set-up of a permanent lending institution (Bastasin, 2012: 260-268). The ECB also presented the SMP as a temporary scheme designed to address the malfunctioning of financial markets. A permanent SMP was seen as a potential source of moral hazard creation (Bastasin, 2012: 202; ECB, 2013).

A third factor that has significantly contributed to the character of the management of the sovereign debt crisis is the influence of the largest financial contributors, namely France and Germany, over the creation of the institutional setting for assisting Eurozone countries facing pressures from the bond markets. The interests of French and German banks in regard to their exposure to GIIPS economies have been protected in large part because their own governments are themselves important players in the set-up, and evolution, of important new institutional arrangements, namely the EFSF and the ESF. This point is not trivial. The size of banks, as measured by their total financial assets over GDP, might not be sufficient to secure protection from exposure to bad debt. The coordination process by countries representing lending financial institutions is an inherently political process given the presence of alternatives associated with the burdens of adjustment between creditors and debtors (Webb, 1995). The institutional features of

the EFSF/ESM provide large contributors with significant influence. Future increases in ESM funding require the unanimous approval of national parliaments, thereby providing the Bundestag, among others, with veto power over the total size of the assistance fund (Bastasin, 2012; 209). Moreover, the approval of requests for funding by a Eurozone member also requires the unanimous approval of Eurozone members. In fact, the creation of the EFSF/ESM also witnessed the successful opposition by Germany to proposals for an EU Commission-backed facility whereby the Commission would itself sell bonds guaranteed by Eurozone members (Bastasin, 2012: 208; Gocaj and Meunier, 2013: 243).

Conclusion

The management of the sovereign debt crisis in the Eurozone has been chiefly characterized by the imposition of the costs of adjustment on debtor countries (Armingeon and Baccaro, 2012; Hall, 2012). Behind this overall trend, however, lies an intense political infighting about the conditionality of the bailout packages (see Bastasin, 2012 and Degryse, 2012 for case studies). Intense negotiations, often characterized by recriminations between creditor and debtor countries, have further contributed to instabilities on financial markets by raising interrogations about the ability of the Eurozone (and the European Union) to act quickly.

Our analysis suggests that the incremental nature of the reform process in the Eurozone highlights the complex character in causal inference in social sciences. Key political and social outcomes are rarely generated by the presence of one cause; they occur as the result of specific intersections of conditions (Hall, 2003; Ragin, 1987). The

management of the sovereign debt crisis highlights how preferences and institutions are part of a phenomenon of complex causation whereby an outcome results from potentially different combinations of interacting factors. The triumph of the preferences of creditor countries resulted from contingent events.

Table 1 Employees in Largest French and German Banks, 2001-2011

	Domestic Market		Total (Domestic and Foreign)	
	2001	**2011**	**2001**	**2011**
		France		
BNP-Paribas	50,596	59,520	85,194	198,400
Société Générale	49,020	58,898	86,574	159,616
BPCE	N/A	N/A	97,309(2004)	117381
Crédit Agricole	12,633	41,295	28,753	87,451
		Germany		
Deutsche Bank	48,297	47,323	94,782	100,966
Commerzbank	27,469	32,586	30,021	42,887
DZ Bank	N/A	24,528	26,651	27,825
LB Baden-Wurttemberg	N/A	N/A	12,648 (2002)	13,061

Source: Annual Reports, various years.

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