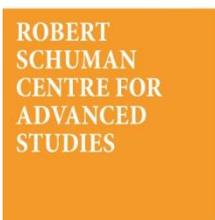




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Explaining Political Leadership:
Germany's Role in Shaping the Fiscal Compact

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Abstract

This paper explores the origins and the impact of political leadership: Why and how do political leaders emerge? And, once in charge, how do these leaders influence outcomes? What determines their success or failure? In order to answer these questions, the paper presents a theory of political leadership which takes into account both the structural and the behavioral aspects of the concept. More precisely, it argues that the emergence and the impact of leadership represent two different analytical steps. A leader emerges if there is a supply of and demand for leadership. While the supply depends on a leader's expected benefits, the demand is determined by the followers' status quo costs. Both demand and supply are also influenced by the relevant institutions' capacity to manage situational challenges. The second step, in contrast, concerns a leader's impact. Since leadership as a process consists in the use of strategies, there can be an impact only if the intensity of the strategies employed by the leader is greater than the intensity of the strategies required by the situational circumstances. While a leader's capacity to employ strategies is determined by the material, institutional and 'soft' power resources at disposal, the intensity of strategies actually needed to influence outcomes depends on the heterogeneity of preferences and on the adaptability of the institutional setting to be changed. The theory is applied within the scope of the current Euro-crisis by conducting a qualitative analysis of Germany's role in shaping the European Fiscal Compact. Although the empirical findings corroborate the theory, the case study reveals that further comparative research on political leadership is needed.

Keywords

Political Leadership, Fiscal Compact, Eurozone Crisis, German Foreign Policy, EU institutions

Introduction¹

On 29 October 2003, Keith Grint, professor of public leadership and management, entered the term ‘leadership’ on Amazon.co.uk. He found 14,139 books on the topic for sale. Assuming a reading rate of one item per day, he calculated that it would take almost 39 years to read all the material. At the time, there was no generally accepted understanding of the basic meaning of the term ‘leadership’ in his field of research (Grint 2005: 14f). With regard to political science, the situation is not so different today. On 9 December 2013, 3,289 books were itemized relating to the term ‘leadership’ under the category ‘political science’ on Amazon.co.uk. Assuming the same rate as above, this corresponds to more than nine years of reading. Despite this large volume of literature, however, research on political leadership is “disparate, under-theorised and under-researched” (Hartley/Benington 2011: 211). Rather than a comprehensive political science theory of leadership, we find a large variety of idiosyncratic approaches which are essay-like, focus on highly specific aspects, or are purely biographical accounts (Peele 2005: 190; Edinger 1990: 509).

Against this backdrop, it is my aim to elaborate a general theory² of political leadership by drawing as much as possible on the insights gained by the various studies which already exist in the field. In so doing, I introduce a crucial analytical distinction between the emergence of leadership, on the one hand, and its impact on political outcomes, on the other. Thus, the central questions are:

1. *Why and how do political leaders emerge?*
2. *How do political leaders manage to influence outcomes? What determines their success or failure?*

In order to assess the plausibility of the resulting theory, I will apply it to a first empirical case, namely Germany’s role in shaping the European Fiscal Compact.

The theoretical concept of political leadership (PL) and its application to political analysis is important because leadership is a central pattern of political decision-making. As such, PL is often taken for granted and only rarely made explicit in political science analysis. To neglect it, however, would mean ‘to miss the forest for the trees’ and might result in incomplete explanations. Moreover, as I will show in this paper, PL is a solution³ to collective action problems. By optimizing collective action through the strategic treatment of basic problems such as coordination- or free-riding dilemmas, and by creating stable expectations through the provision of common knowledge, leadership can fulfil the same tasks as institutions. Hence, the theoretical contribution of this paper is to bring PL back in to political science by combining the disparate insights gained in the field of leadership research with proper political science theorizing. The empirical added value, instead, results from the paper’s focus

¹ This paper was originally prepared for the RSCAS workshop on ‘Global Governance and the Neglected Issue of Leadership’ at the European University Institute, Florence, December 13-14, 2013. I would like to thank the organizers Adrienne Héritier, Barbara Koremenos, Aseem Prakash, and Eric Brousseau. I would also like to thank the participants of the workshop for their constructive comments. Above all, I’m particularly indebted to Adrienne Héritier, Ulrich Krotz, and Katharina Meissner for their valuable feedback on various steps of this work.

² ‘General’ means that the theory should be applicable to both institutional roles and composite actors (such as organizations and states). Furthermore, it should not be limited by a particular empirical scope. However, the theory does not cover the specific subject of *individual* (mass) leadership which is the exercise of legitimate domination by one individual over a clearly circumscribed and relatively large political group, such as a state’s citizenry, political parties, or social movements. Since this subtype of political leadership is embedded in a particular institutional context and often functions according to formalized rules (e.g. democratic elections), it is already the object of research of a distinct academic branch which strongly relies on the insights and methods of political psychology.

³ It is not a solution in the sense of Bertrand De Jouvenel (1963: 204-12), which would imply the complete removal of the problems as such, but it is a way of settling these problems: also in the presence of a leader there will be winners and losers, but the collective outcome will be improved.

on the Fiscal Compact, which is an important step among the various anti-crisis measures, but which has been widely neglected by the relevant literature so far.

While the first part of this paper serves to develop the theory, the second part is dedicated to the empirical case study. In the conclusion I summarize the results and evaluate the theory on the basis of the empirical findings.

A Theory of Political Leadership

In this section, I develop a theory of PL which is based on a ‘soft’ version of rational institutionalism. Rational institutionalism allows for the influence of single actors *and* environmental conditions. The need to consider both agency and structure in the study of PL has been frequently underlined by several experts in the field (e.g. Jones 1989; Cole 1994: 468; Masciulli/Molchanov/Knight 2009: 11). Moreover, Shepsle and Bonchek’s assessment that “(t)here is no ‘rational theory of leadership’” (1997: 380) still applies and points to a gap in the rational choice literature. To be sure, there have been some rationalist approaches to PL in the last decade,⁴ but these have focused on fairly specific aspects of PL and have avoided giving an overall picture.⁵ Hence, a rational institutionalist theory fills exactly those theoretical gaps which have been identified by one of the current experts in the field:

“there is [...] an even more urgent need to integrate the leadership factor into both rational choice analysis and the ‘new’ institutionalism. In terms of the former, to what extent does leadership affect preference formation and the articulation and definition of political choices? In terms of the latter, to what degree does leadership affect the creation of institutions and the process of institutional change?” (Elgie 2001: 8579).

Basic theoretical assumptions

1. *Micro-Level*: Political actors⁶ are assumed to be capable of intentionality and strategic action. They are motivated by the maximization of their utility and they behave individualistically according to a logic of consequentiality. In doing so, they balance costs against benefits. Note, however, that costs and benefits are perceived and are thus subjective, which implies that they can be determined only empirically.⁷ Moreover, actors are constrained in their behavior by cognitive limitations, time restrictions, imperfect information, institutions (see below), and the strategic action of others (e.g. Bendor 2001; Pollack 2006: 32f). Finally, political actors are primarily interested in their own survival, autonomy and growth. Their concrete preferences over outcomes might either be deduced from these basic interests or they need to be determined empirically (Scharpf 1997: 64-6).

2. *Macro-Level*: Actors do not exist in a social vacuum, but are constrained by institutions. Institutions are understood as “rules of behaviour in a society or constraints created by human actors that shape, reshape, and constrain social interaction” (Héritier 2007: 7). They are formal if they are written down and subject to third-party dispute resolution. They are informal if they are implicit and not subject to formal sanctioning. All institutions are endogenous in the sense that they do not pre-exist the actors, but are created by them. However, since they are created by collectivities of actors and

⁴ For an overview, see Ahlquist/Levi 2011.

⁵ Especially the question of how PL emerges remained widely unanswered: in most rationalist works, leaders are just given; and the few recent works that consider the internal emergence of a leader do not specify how this ‘endogenous leader’ is identified (Ahlquist/Levi 2011: 13).

⁶ I understand ‘political actors’ as actors in institutional roles (e.g. ministers, diplomats, civil servants) or composite actors (e.g. states, organizations). I do not include individuals outside their institutional roles, though.

⁷ Costs and benefits are neither objectively observable nor can actors calculate them with certainty under conditions of bounded rationality. It follows that they are case-specific and individually different. Hence, what concretely constitutes the costs and benefits must be assessed case by case and actor by actor.

not by single ones, they are to be considered exogenous when it comes to the behavior of single actors in concrete situations of interaction (Héritier 2007: 5-7).

These theoretical foundations are not rational-choice assumptions in the strict sense, but are, rather, a soft version of rational institutionalism. Behavior is expected to be influenced by communication among actors, credible commitments, recurring interactions, the possibility of compromises or 'third ways' (rather than 'either-or' outcomes), incomplete information and institutional constraints. Such behavior can still be rational, but it is not fully graspable with mere rational-choice assumptions or game-theoretic analysis. Nevertheless, this paper pursues a theory-testing approach. Thus, with regard to the conceptualization of PL and the empirical analysis, the results should not be misunderstood as a statement that other factors outside the theoretical framework such as norms, values or identities do not play a role in reality.

Conceptual Clarifications

Definition of Political Leadership

The existing definitions of PL are numerous.⁸ However, almost all of them are based on at least one of the following three elements:

Guidance: The most common element is 'guidance' (or direction), understood as the exertion of a determining influence on a group's behavior (e.g. Tucker 1981: 11, 15; Blondel 1987: 3-6; Underdal 1994: 178). This implies that leadership is a special form of exercising power. Power⁹ is based on resources, which constitute a formal or informal position of authority as a necessary condition for the exercise of leadership (Burns 1978: 17f, 434; Masciulli/Molchanov/Knight 2009: 6; Ahlquist/Levi 2011: 5). A leader allocates these resources in the form of strategies to guide the group towards its goals. This is where leadership differs from mere power or ordinary bargaining behavior: in addition to its positional aspect, it also comprises a behavioral aspect which consists in the use of strategies aimed at reaching a common goal and bringing about innovation (Underdal 1994: 178f, 181f; Malnes 1995: 93, 99-106).¹⁰

Common Goal: Leadership is inextricably linked with the notion of a common goal (Burns 1978: 18f, 425-32). Leaders are "those who help a group create and achieve shared goals" (Nye 2010: 306). This does not imply, however, that leadership is an altruistic sacrifice. The leader must be better off at the end of the day, too.¹¹ Thus, there needs to be a certain overlap between the leader's interests and those of its followers. Moreover, the notion of a common goal should not be misunderstood as a normative criterion. It does not mean that the actions of a leader are 'the right thing to do' or 'something good for all'; a common goal simply means that leader and followers jointly aim at a yet unreached entity or condition in their interest. Within this superordinate interest, concrete preferences over outcomes might still diverge. This implies that despite the presence of a leader there can be winners and losers.

Innovation: Leadership is commonly associated with innovation or "real change" (Burns 1978: 434; also Northouse 1997: 9; Grint 2005: 15; Masciulli/Molchanov/Knight 2009: 3). However, since 'leadership' and 'office-holding' are often used synonymously in the literature, innovation has

⁸ For an arbitrary, but nonetheless useful overview of some seminal definitions of PL, see Elgie 1995: 3.

⁹ 'Power' is defined as "ability to affect the behavior of others to get the outcomes one wants" (Nye 2010: 306).

¹⁰ Power, instead, can be used in many other ways: blocking any kind of innovation in order to enforce the self-interest against others, for instance, requires power, but is certainly no instance of leadership.

¹¹ More precisely, the expected outcomes of leading must be rated so much higher by the leader as compared to the status quo that the resulting benefits exceed the costs of leading (Frohlich/Opppenheimer/Young 1971: 7; Shepsle/Bonchek 1997: 381).

sometimes been neglected as an intrinsic aspect of leadership, which in turn has led to redundant concepts such as ‘innovative leadership’ (e.g. Sheffer 1993; Moon 1995). Furthermore, innovation might come into conflict with the pursuit of a common goal if the latter consists in maintaining the status quo. However, maintaining the status quo is the task of a manager, not of a leader (see below). The conflicting tasks of manager and leader become especially evident in times of crisis, since the crisis manager aims at re-establishing the status quo ante while the leader pushes for reform in order to overcome the crisis (Boin/t Hart 2003). In any event, if we want to avoid the methodological trap of measuring leadership by its outcomes, the criterion of innovation can apply only to those leaders who turn out to be successful: only effective leaders are innovators. Hence, innovation is a target condition of leadership – i.e. a leader is supposed to innovate – but it is not a defining criterion.

In sum, based on these elements, I define PL as a process where an actor in a formal or informal position of authority translates the available power resources into strategies in such a way as to guide the behaviour of others towards a common goal. In the case of success, this process results in innovation, namely policy or institutional change.

Leader – Entrepreneur – Manager

‘Leadership’ overlaps with ‘entrepreneurship’, on the one hand, and ‘management’, on the other. Although the three concepts have much in common, they differ with regard to some crucial criteria and should, therefore, be analytically separated. The three central elements of leadership outlined above allow us to draw a clear distinction between the concepts (Table 1).

An entrepreneur is as an actor who exploits occurring structural opportunities by defining problems and presenting solutions which imply innovative effects aimed at fostering the achievement of her individual goals (e.g. Kingdon 2003: 179-82; Sheingate 2003: 185-8; Mintrom/Norman 2009: 650-3, 656). In doing so, an entrepreneur might indirectly direct a group’s behavior, but as opposed to the leader, this is neither her task nor her motivation. The same is true with regard to the notion of a common goal. It might happen that an entrepreneur indirectly contributes to the achievement of a common goal (e.g. by promoting a public good) but this is neither a defining criterion nor her general aim. While a leader explicitly pursues a common goal, an entrepreneur is exclusively interested in the pursuit of her own goals (Malnes 1995; Miroff 2003). However, provided that they are successful, both leader and entrepreneur have an innovative effect on their environment, which is where they differ from the manager.

Table 1: Entrepreneurship vs. Leadership vs. Management

	Entrepreneurship	Leadership	Management
Guidance	X	✓	✓
Common Goal	X	✓	✓
Innovation	✓	✓	X

Reference: Own Illustration

Like a leader, a manager directs a group towards a common goal, but it is the manager’s main task to keep the system working, to produce order and consistency, not innovation: “Management is concerned with executing routines and maintaining organizational stability - it is essentially concerned with control; leadership is concerned with direction setting, with novelty and is essentially linked to change, movement and persuasion” (Grint 2005: 15; also Northouse 1997: 8-10).

Power Resources and Strategies

The exercise of leadership is based on power resources (e.g. Endo 1999: 16-26). One can distinguish between material, institutional, and 'soft power' resources (Krotz/Schild 2013: 22-4).

Table 2: Power Resources

Material	Institutional	'Soft'
Economic Power Military Power	Institutional rights, e.g. Agenda management Veto rights Executive competences etc.	Information Expertise Reputation

Reference: Own Illustration

Leadership based on material power resources has also been labelled 'structural leadership' (Young 1991: 288-93), emphasizing thereby the positional advantage of the leader compared to its followers. Institutional resources, in contrast, do not refer to positional but to procedural advantages, such as special rights of decision-making. Soft power, finally, vest the leader with purely ideational advantages, such as privileged information or reputation (Nye 2010: 307).

The exercise of leadership can be assessed by considering the strategies that an actor uses (Moon 1995: 4; Masciulli/Knight 2009: 92). Leadership strategies are thereby understood as ways of allocating power resources. However, although strategies play a crucial role, there are no comprehensive categorizations in the relevant literature. I propose the following distinction:¹²

Table 3: Leadership Strategies

Optimizing Collective Action	Providing Common Knowledge
Agenda-management Coalition-building Leading by example	Problem definition Presentation of new ideas Promotion of new ideas

Reference: Own Illustration

The first set of strategies ('Optimizing Collective Action') corresponds to what has been labelled 'entrepreneurial' (Young 1991), 'instrumental' (Underdal 1994), or 'problem-solving leadership' (Malnes 1995) in the literature. It comprises a leader's negotiation strategies which serve to "solve or circumvent the collective action problems that plague the efforts of parties seeking to reap joint gains in processes of institutional bargaining" (Young 1991: 285).

¹² Note that I do not include 'coercion' as a strategy because it contradicts the principle of a common goal. To be sure, like incentives, also coercion modifies the ratio of the followers' costs and benefits, which is why they change their preferences and their original behavior. But while in the case of incentives the followers are always better off, they are worse off in the case of coercion. Therefore they react to incentives voluntarily, but to coercion only reluctantly. Also the objection that in certain situations like free-rider-dilemmas coercion can serve a common goal is not valid, because in these cases the actors involved agreed ex ante on the 'coercion', which means that strictly speaking this is no unilateral coercion anymore, but a commonly decided sanction.

Agenda-management concerns the alteration of either issues or proposals for solutions and can be differentiated into agenda-setting, agenda-structuring, and agenda-exclusion (Blavoukos/Bourantonis/Tsakonas 2006: 146). The *agenda-setting of issues* can widen the zone of agreement. By adding differently valued or related issues to the agenda, a leader can change the ratio of the followers' costs and benefits and thus reach an agreement. This is the case when package deals or side-payments are made, when potential losers are compensated, and when a leader gives incentives in order to persuade reluctant followers (Lax/Sebenius 1986: 219f; Héri-tier 1999: 16f). Instead, by placing proposals for *solutions* on the agenda, a leader provides a focal point on the Pareto-frontier, around which a solution can ideally be found;¹³ the leader thereby helps followers to choose one equilibrium among several options (Fiorina/Shepsle 1989: 29-32; Scharpf 1997: 159f; Wilson/Rhodes 1997; Beach/Mazzucelli 2007: 8f). *Agenda-structuring*, in contrast, concerns the sequence of issues or proposed solutions, which, at least under certain conditions, can determine particular bargaining outcomes (Scharpf 1997: 160; Blavoukos/Bourantonis/Tsakonas 2006: 146). Finally, *agenda-exclusion* regarding the *issues* refers to the subtraction of a particularly divisive issue from the agenda in order to reach consensus on the other issues (Odell 2009: 279), whereas the exclusion of possible *solutions* serves to concentrate the support of the followers on only one alternative.

A second sub-set of strategies is *coalition-building*. While agenda-managing concerns the adding and subtracting of issues and solutions, coalition-building refers to the adding and subtracting of parties. A leader can facilitate the finding of an agreement by adding parties which have an interest in a settlement to an already existing coalition. Vice versa, a leader can exclude reluctant parties in order to form a group of actors, with whom a common solution can be reached (Lax/Sebenius 1986: 228-30).¹⁴ A special type of coalition-building is to start negotiations outside the central bargaining arena with a few crucial actors in order to shape a compromise which can subsequently be presented to the other actors in the actual negotiations. This worsens the no-agreement alternatives of the other actors (Héri-tier 1999: 21) and reduces the transaction costs of complex multilateral negotiations (e.g. Schild 2013: 36). A leader can thereby accelerate the negotiations and facilitate the finding of an agreement.

Finally, '*leading by example*' refers to the attraction and co-optation of other actors to the leader's way of doing things (Nye 2010). This may happen in two ways: first, actors switch to the leader's policy because it is less costly for them (Mattli 1999: 55); second, the leader actively contributes resources to the common project, thereby signaling credible commitment (e.g. Hermalin 1998; Güth et al. 2007).

In addition to a leader's strategies to optimize collective action, there is a second set of strategies: the *provision of common knowledge*. In the literature, this type of leading has been labeled as 'intellectual' (Young 1991), 'innovative' (Sheffer 1993), or 'directional leadership' (Malnes 1995), and for some authors it even covers the whole concept of leadership (e.g. Tucker 1981; Keohane 2010). 'Common knowledge' is a collectively shared set of beliefs about the world, which constitute the basis for the actors' interests and preferences. Hence, in the context of politics, 'common knowledge' can be understood as collectively shared beliefs about which policy instrument works best in a certain situation. A leader who acts as a provider of common knowledge helps a group when its common knowledge becomes obsolete or is unsettled by exogenous shocks like crises. The leader reveals the drawbacks of the status quo (problem definition), comes up with new interpretations and ideas, and promotes them as solutions to the defined problems.

¹³ This focal point might in the first place also be at the left of the Pareto-frontier – i.e. implying losers – if it is foreseen that the losers get compensated by the winners (Kaldor's principle), which ultimately moves all actors back to the Pareto-Optimum.

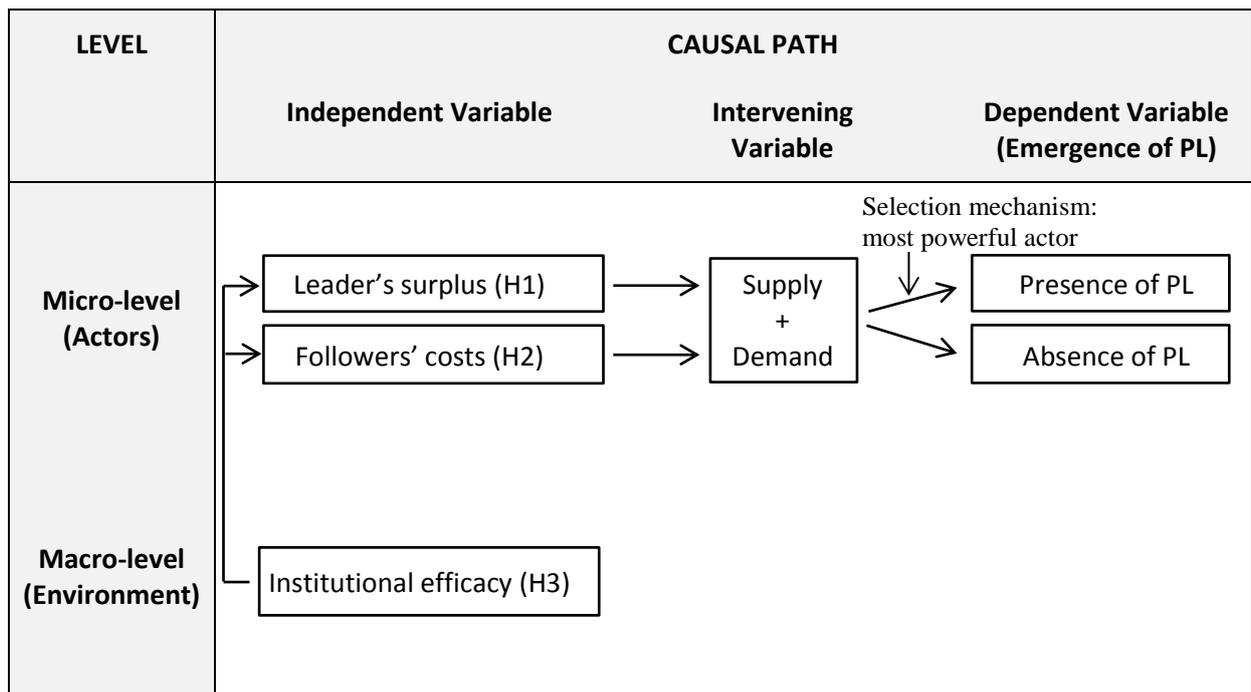
¹⁴ Furthermore, a leader can add parties to spread the risks of a common enterprise or to reap profits in the case of economies of scale. In case of diseconomies of scale, the exclusion of actors can lead to an agreement because it might reduce costs (e.g. for enforcement) and increase the remaining shares in the profit (Lax/Sebenius 1986: 228-30).

The use of one or the other set of strategies has different effects on the followers' preferences. In the case of 'Optimizing Collective Action', the followers' preferences over outcomes are already given, but are rearranged by the leader's action. In other words, the leader modifies the followers' subjective rank order of possible outcomes. In the case of 'Providing Common Knowledge', in contrast, the leader adds new possible outcomes which have not been known to the followers before. Thereby, the leader does not rearrange, but extends the followers' rank order of outcomes. Note that while the two sets are analytically separated in the theory, they might well be used simultaneously or successively in reality.

The Emergence of Political Leadership

Apart from formalized selection processes such as democratic elections, the most immediate reason for the emergence of PL is a demand for it *and* a supply of it.¹⁵ Whereas demand and supply taken by themselves are necessary but not sufficient conditions, together they constitute the necessary and sufficient condition for the emergence of PL ('compound causation'). However, the variables of interest are not demand and supply per se, but their origins. This implies that, together, demand and supply constitute an intervening variable which depends on several factors at the micro- and macro-level (Figure 1).

Figure 1: Causal Model 1 – The Emergence of Political Leadership



Reference: Own Illustration

Regarding the *supply side*, PL is provided if at least one of the actors involved is willing to take the lead. Willingness depends on the payoffs to political leaders (Mattli 1999: 13), which implies that the leader must prefer the expected outcome of leading to the status quo. However, since leadership is costly, this can only be a necessary but not a sufficient condition. In order to invest in costly leadership strategies, the expected benefits must also exceed the costs of leading. In other words, there must be a

¹⁵ In formalized selection processes, a leader has to be appointed in each case, even though there might be no demand for it.

'leader's surplus' (Frohlich/Oppenheimer/Young 1971: 7). Hence, on condition that there is a demand for PL, the following hypothesis applies:

H1. *If the expected benefits of leading exceed the perceived costs of it, PL is offered and emerges*

This hypothesis also helps to explain the so-called 'leadership vacuum', where there is a collective demand for leadership, but no supply. It is a situation in which the collectivity would benefit from a leader, but no single actor could benefit so much that its costs of leading would be covered.

Regarding the *demand side*, a leader can serve the followers as a solution to collective action problems. This might be the case in coordination problems, where the common goal and best outcome is reached through cooperation, but actors fail due to a lack of communication, organization or distributional consequences; the same is true for free-rider problems, where the common goal is jeopardized by stronger individual incentives of free-riding. By using the above-described strategies, a leader can optimize the collective action or "move the collectivity onto the Pareto surface" (Shepsle 2006: 31). In other words, a leader removes costs which are caused by suboptimal outcomes (Frohlich/Oppenheimer/Young 1971: 18-20; Beach/Mazzucelli 2007: 8f). Apart from this, a leader can also serve as a provider of common knowledge in cases where exogenous events such as crises cause pressure for adaptation. Especially under conditions of bounded rationality regarding alternative courses of action (Spender 2008: 99), a leader can provide 'new common knowledge' which helps the actors to adapt to the new situation. Hence, in both cases the demand for a leader results from the potential *followers' costs*, which are either caused by suboptimal collective outcomes or by non-adaptation to exogenous change:

H2. *The higher the aggregate costs caused by a suboptimal collective action outcome or non-adaptation to exogenous change, the higher the demand for PL, and – ceteris paribus – the more likely the emergence of PL*

However, aggregate costs can be high even if only one actor has to bear them all. Since a leader does not act on behalf of a single actor, however, but on behalf of a collective of actors, the distribution of costs is a necessary condition for the applicability of this hypothesis. In other words, there will only be a demand for leadership if all the potential followers have to bear a certain share of the costs.¹⁶

Both leader's and followers' status quo costs are partly determined by their institutional environment. The less efficacious¹⁷ the existing institutions are with regard to the solution of collective action problems or prevention of exogenous shocks, the higher are the actors' resulting costs, and the higher is their demand for a leader who compensates for the defective rules. Furthermore, institutions do not only affect the followers' costs, but also the potential leader's surplus, which increases with institutional inefficacy. Thus, the efficacy of institutions affects both the demand and supply of PL. This leads to a purely institutional hypothesis which, however, does not disregard the actors' cost-benefit calculations.¹⁸

¹⁶ The relative size of the share might vary among the potential followers, of course. The objection that it is enough if only the potential leader has to bear all the costs does not hold because it contradicts the principle of a common goal: the leader would pursue only its own goal and not the ones of its followers.

¹⁷ 'Institutional efficacy' is understood as the relevant institutions' ability to produce the desired effects, that is, in this case, to provide stable expectations (common knowledge) and to optimize collective action.

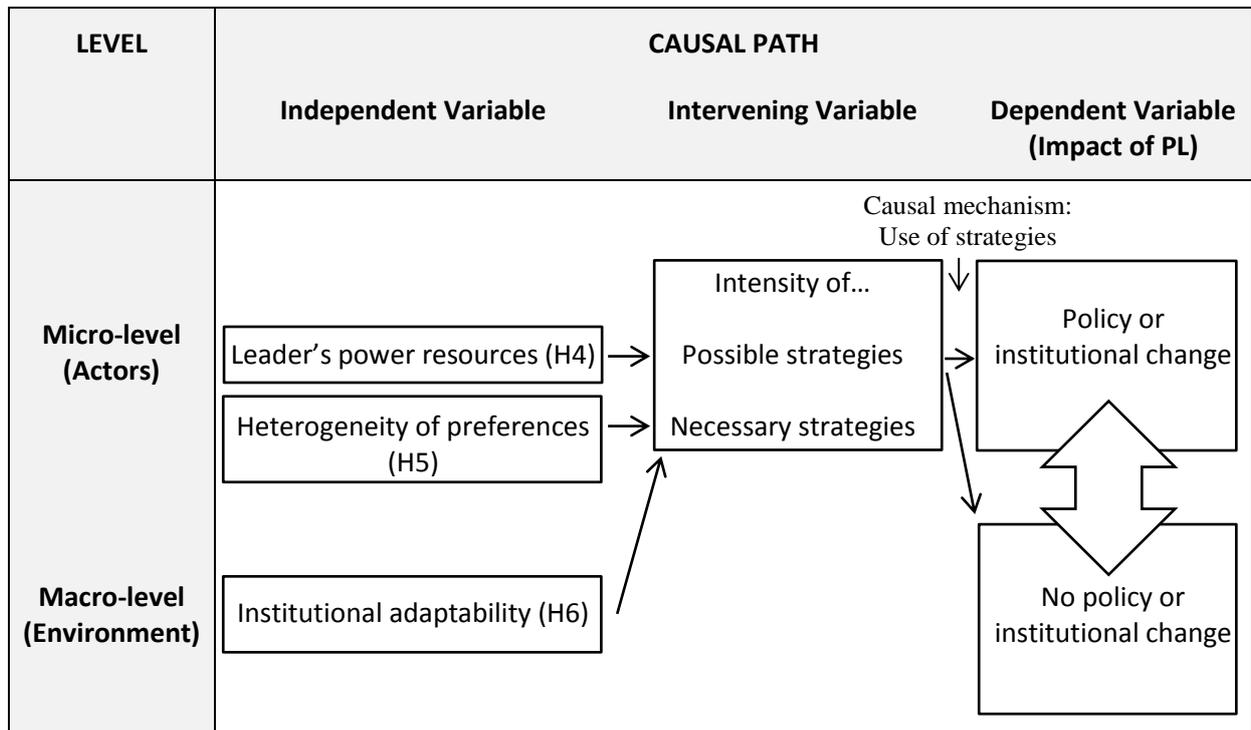
¹⁸ In turn, this implies that the institutional impact on a leader's emergence cannot be studied independently from the micro-level, i.e. by holding constant the leader's surplus and the followers' costs, since these variables are at least partly endogenous to the institutional environment.

H3. *The less efficacious the relevant institutions, the more likely the emergence of PL*

Once the demand matches the supply, PL emerges. However, if the supply contains more than one candidate, a selection must take place. The current state of art in PL research suggests that the selection of a leader among different candidates depends primarily on a candidate's available ex-ante resources (Ahlquist/Levi 2011: 19), but the underlying causal mechanism has not been explicated yet. Presupposed that there is 'real demand'¹⁹, I propose the following mechanism: If there is more than one candidate, potential followers select the most powerful actor because its absence in the final agreement would cause the highest costs. If the common solution proposed by a leader does not match the preferences of any particular actor, the actor can still decide not to cooperate; the more powerful this reluctant actor is, the more costs it causes for the others. Thus, as no leader proposes a solution that contravenes the own interests, the selection of the most powerful actor among the candidates avoids the highest possible costs. In sum, *amongst those actors who are interested in taking the lead, it is always the one whose absence from the eventual collective action would cause the highest collective costs who emerges as leader.*

The Impact of Political Leadership

Figure 2: Causal Model 2 – The Impact of Political Leadership



Reference: Own Illustration

“[...] there is little point in analysing leaders if we do not know how great their impact is or whether they have any impact at all” (Blondel 1987: 80). A leader's impact results from the employment of strategies (Moon 1995: 4; Masciulli/Knight 2009: 92). Thus, the variables of interest are the factors determining the use of leadership strategies. While a leader's power resources determine how intense the employment of strategies can potentially be (I_{sp}), the heterogeneity of preferences among the

¹⁹ Cases of 'real demand' are those where there is a collectively perceived need for leadership. There are also other cases where a leader must be appointed due to institutional constraints and thus independently from the actual need for it (e.g. recurrent democratic elections). These cases are not addressed by the causal mechanism I propose here.

actors involved and the adaptability of ex-ante institutions determine how intense it needs to be (I_{SN}) in order to make a difference with regard to the outcomes (Figure 2). In order to produce the intended effects (Burns 1978: 22), I_{SP} must be greater than or equal I_{SN} . In this sense I_{SP} and I_{SN} constitute intervening variables whose causal effect on the outcome is an emergent property of the relation between them; unlike demand and supply in the first step, which is an instance of ‘compound causation’, this is a case of ‘relational causation’ (Steinberg 2007: 189f).

According to Burns, there are two sets of influencing factors on leadership: A leader’s motive bases and its actual power (1978: 435). This theory incorporates Burn’s insights, but differentiates and complements them. Motive bases refer to a leader’s willingness and are relevant for the first analytical step (emergence of PL), where they are conceptualized as a leader’s surplus. This implies that in this second step (impact of PL), when a leader has already decided to deliver, its motive bases no longer vary. Actual power, in contrast, refers to a leader’s capacity to employ strategies and varies from leader to leader. The respective *power resources* can derive from the leader herself or from the institutional design of the leadership position (Elgie 1995: 204; Tallberg 2010: 245-7). Given that the employment of strategies is understood as the allocation of power resources in order to reach a common goal, the following applies: the more power resources are available, the more strategies can be employed by a leader, the more likely I_{SP} is greater than I_{SN} , and the more likely it is that a leader affects the outcomes.

H4. The more power resources are at a leader’s disposal, the more likely is ceteris paribus its impact on the outcomes

However, a leader’s influence on the outcomes does not only depend on its capacity, but also on its environment. In an unfavorable environment (= large I_{SN}), even huge power resources might not suffice to reach the desired goal. With regard to the *proximate factors*, this concerns the *heterogeneity of preferences*. The more heterogeneous the actors’ preferences are, the higher are the aggregate costs they have to bear in order to reach an agreement. If all the actors involved have the same preference (= absolute homogeneity), no actor has to relinquish and thereby bear any costs in order to find a common solution, and thus no leader is needed. If, in contrast, preferences diverge, at least some actors have to depart from their preferred outcomes in order to find an agreement. These actors have to bear the respective costs, which can be described as the difference between the payoffs of their preferred outcome and those of the outcome they finally achieve. The higher the heterogeneity of preferences, the more actors have to bear costs or the higher are the costs of those who have to relinquish their preferred outcomes. With regard to collective action problems, these costs can be distributional consequences or costs of non-free-riding. As demonstrated above, a leader can ease distributional consequences and overcome free-rider problems by using the respective strategies. More generally speaking, a leader has two basic options: either she can compensate the losers or she can make the winners compensate the losers, respectively (‘Kaldor-Hicks improvement’); or she can find a solution where all the followers win, for instance by adding a further outcome through the provision of common knowledge (‘Pareto improvement’).

Hence, the more heterogeneous the preferences are, the higher are the group’s aggregate costs in order to find an agreement, and the lower is the leader’s chance of compensating for these costs. Moreover, the more heterogeneous the preferences are, the smaller the zone of agreement is, and the lower the probability of finding a win-win solution for all. In sum, the more heterogeneous the preferences, the more strategies are necessary, the less likely I_{SP} is greater than I_{SN} , and the less likely it is that a leader will affect the outcomes.

H5. The more heterogeneous the preferences of the actors involved are, the less likely is ceteris paribus a leader’s impact on the outcomes

With regard to the *distant factors*, the impact of political leaders is influenced by institutions (Blondel 1987: 148-80; Elgie 1995: 195-203). More precisely, the *adaptability of the institutional setting* which

is supposed to be changed by the leader plays an important role. Adaptability can depend on the underlying decision-making rules or on the substance of the institutions themselves. If an institutional rule can be changed by simple majority voting, a leader needs to 'persuade' fewer followers than if a qualified majority or even unanimity is required (also Tallberg 2010: 246). If the leader can resort to certain institutional provisions which allow her to change the institutional setting also without the consent of the followers (e.g. flexibility clauses), the leader needs to invest fewer strategies, too. Hence, the more adaptable the institutional setting to be changed, the fewer strategies are necessary, the more likely I_{SP} is greater than I_{SN} , and the more likely it is that a leader will affect the outcomes.

H6. The more adaptable the institutional setting to be changed, the more likely is ceteris paribus a leader's impact on the outcomes

By considering not only leader-dependent features, but also situational circumstances (preference constellations and institutional environment) as explanatory factors of a leader's impact, this theory can also account for apparently paradox cases, where weak leaders (little power resources) manage to have a strong impact, while strong leaders have only a weak impact or even no impact at all.

An Empirical Application: Germany's Role in Shaping the Fiscal Compact

In this chapter I apply the outlined theory of PL to the case of the Fiscal Compact. Following Conger (1998), I consider qualitative in-depth analysis as the method of choice for a topic as contextually rich as leadership. Since the theory is designed to be tested comparatively, the analysis of one case only cannot meet all the requirements of strict hypotheses testing and should thus be understood as an empirical plausibility probe and an exemplification of the theory's applicability. Against this backdrop, the shaping of the Fiscal Compact constitutes a very appropriate case. As regards the dependent variable, the Fiscal Compact is an unambiguous case of institutional change and Germany has played a leading role in its shaping (see below). With respect to its features as an analyzable political event, it is relatively short, its beginning and end are easily determinable, and the relevant actors can be clearly identified. Finally, as one of the major steps among the various anti-crisis measures, it has been widely neglected by the relevant literature.

The Fiscal Compact is an intergovernmental treaty which was endorsed at the informal European Council of 30 January 2012 and signed on 2 March 2012 by all EU member states except the UK and the Czech Republic. The treaty entered into force on 1 January 2013 and has been ratified by 24 of the 25 contracting parties so far (Eurozone 2013; Consilium 2014). The signatories commit themselves to a budget which is balanced or in surplus. In order to reach that goal they agree on an automatic correction mechanism established by their national law at a constitutional or equivalent level, which shall be triggered if a signatory breaches the agreed benchmark figures. The principles of this correction mechanism shall be proposed by the European Commission (EC). Moreover, if a signatory's ratio of debt to GDP exceeds 60%, the government must reduce it by 5% annually. Those contracting parties already subject to an excessive deficit procedure must put into place a 'budgetary and economic partnership programme', including structural reforms which are to be endorsed and monitored by the Council and the EC. Generally, signatories must report their borrowing plans to the Council and EC. With regard to monitoring and enforcement, the EC's recommendations in case of breach are compulsory unless a majority against the EC can be mobilized in the Council. If a signatory does not comply with the recommendations, the case can be brought to the European Court of Justice (ECJ) by any other contracting party. Finally, the granting of financial assistance by the European Stability Mechanism (ESM) has been made conditional on the ratification of the Fiscal Compact, which – within five years after its entry into force – is to be incorporated into EU law (TSCG 2012).

Germany's Emergence as a Leader

The dependent variable of this first analytical step is the emergence of PL, which is conceptualized as a binary variable with the values 'presence' and 'absence' of PL. In order to assess PL, I refer to the definition elaborated above. This implies that there must be an actor in a formal or informal *position of authority* who employs *strategies* in order to reach a *common goal*. All these features apply to Germany's role in shaping the Fiscal Compact. First of all, its extraordinary position of authority among the EU member state is clearly based on its economic power resources:

“As the dominant economy and key creditor state Germany could [...] scarcely avoid a hegemon role. Ultimately, the other members of the eurozone rely on Germany. The ESM, for instance, in case of difficulty envisages being able to call on designated funds from Member States. Whether this would be possible in the case of Italy or Spain remains an open question and helps explain why the other Member States are so keen to press a leadership position on Germany” (Paterson 2011: 73).

Many experts agree that, due to its superior economic position, Germany became the 'natural' leader during the crisis (e.g. Pacheco Pardo 2012; Mayhew/Oppermann/Hough 2011). Especially with regard to the Fiscal Compact, observers acknowledge Germany's role as a leader, which is seen as a necessary condition for the adoption of the treaty (e.g. Ludlow 2012a: 34, 39; 2012b: 6; Beach 2013; Toyer/Taylor 2012). Secondly, the Fiscal Compact did not only serve Germany's needs, but was also in line with the common goal of preserving the Euro and overcoming the crisis. This does not mean that it was the action preferred by all signatories, but it nevertheless was meant to serve a superordinate common goal.²⁰ Thirdly, as I demonstrate below when answering the question of *how* Germany managed to bring about institutional change, Germany also employed typical leadership strategies, such as managing the agenda, building coalitions, and providing common knowledge.

The first hypothesis regarding Germany's emergence as a leader refers to the leader's surplus. On condition that there is a demand for leadership (see below), the following applies: *If Germany's expected benefits of leading exceed the perceived costs of doing so, PL is supplied and emerges.* Germany's general benefits of leading in the Euro-crisis are well-known. Germany could reach stability in the Eurozone, from which it benefits considerably. In the same line, German leadership would function as a trust-building measure in relation to the financial markets. Moreover, German leadership could also bring about the preservation of its own banking system, whose exposure to the southern Eurozone economies significantly exceeds that of French or UK banks (Mayhew/Oppermann/Hough 2011: 21). Germany's costs of leading, instead, are located at the domestic level and regard the coalition partners in the government, the voters, and the Constitutional Court, all of which had become increasingly eurosceptic (Fabbrini 2013: 1012; Mayhew/Oppermann/Hough 2011: 10f).

Against this backdrop, the above-formulated hypothesis implies that either Germany's status quo costs must have increased in autumn and winter 2011 when the Fiscal Compact was initiated, and/or its costs of leading must have decreased. In reality, both were true. In September 2011, the German Constitutional Court rendered a pro-European verdict regarding the rescue package for Greece and Germany's participation in the ESM. On the one hand, this was perceived as a positive signal, i.e. that the Court would not hinder a proactive behavior of the German government at the European level, which meant reduced costs of leading. Indeed, only two days after the Court's sentence, Merkel put forward the idea of treaty amendments as a reaction to the crisis firmly as never before (Spiegel 2011). On the other hand, however, the fact that the ESM had become inevitable implied additional political

²⁰ It is precisely one of a leader's tasks to serve as a focal point for the followers by choosing one way to go among several solutions. In more technical terms, this is the case in coordination games with distributive conflict like the 'battle of the sexes'. Although preferences over concrete outcomes might diverge, there is the same superordinate goal for all. By deciding for one possible outcome the leader disregards the preferences of some actors, but helps the group as a whole to reach its common goal.

costs for the German government, especially because public opinion was clearly against any further guarantees for highly indebted member states. A European debt brake, as it had already been implemented in the German constitution, could reduce these costs, especially because German voters were clearly in favor of a stronger control of member state budgets (also Beach 2013: 116).

Apart from this, until September 2011 the German government's room for maneuver at the European level was restricted by almost 18 months of ongoing elections at the *Länder* level. Thus, the government's costs of leading finally decreased when, in autumn 2011, a longer period without any elections started. In addition, the German chancellor was able to strengthen her position in autumn 2011 with regard to the FDP²¹ (an increasingly Eurosceptic coalition partner which had previously raised the government's costs of leading) and thereby to reduce costs of leading: The CDU's party conference in November 2011 showed overwhelming support for Merkel and her renewed pro-European path (Ludlow 2012a: 8). At the same time, there were two further reasons for the rise in Germany's status quo costs: Firstly, after the G20 summit in Cannes, the financial markets also began to place pressure on supposedly solid countries such as France, Austria, Finland, and the Netherlands; secondly, and partly in reaction to this, the German government began to perceive a rising bipartisan demand for a bold pro-European commitment, which was forwarded not only by the opposition parties, but also by public persons such as the former chancellors Kohl and Schröder (Rinke 2011). In sum, we observe a clear increase of status quo costs and, at the same time, a significant decrease in the costs of leading. In other words, Germany's leadership surplus increased considerably in autumn 2011.

The second hypothesis regarding the emergence of PL emphasizes the followers' (here: the other member states') status quo costs: *The higher the aggregate costs caused by a suboptimal collective action outcome or non-adaptation to exogenous change, the higher the demand for PL, and – ceteris paribus – the more likely the emergence of PL.* The crisis can be seen as a suboptimal collective action outcome or as an exogenous change. The costs it causes, especially for the economically weaker member states, are enormous. They can be measured by economic indicators such as economic growth, unemployment rates, long-term interest rates for state bonds, or current account development. However, the so-called 'Euro-winners', which guarantee for the weaker member states' debts and whose banking systems and export sectors are exposed to those economies, also face economic risks and political costs. Nevertheless, I cannot detect any reasons why these costs would have been extraordinarily high in autumn and winter 2011 when the Fiscal Compact was shaped. They in fact remained constant.

The same is true for the third variable, that of institutional efficacy: *The less efficacious the relevant institutions, the more likely the emergence of PL.* Institutions are conceived of as efficacious if they are capable of optimizing collective action or providing relevant common knowledge, which refers primarily to the shaping of stable expectations. There is a broad consensus in the relevant literature that the institutions of the European Economic and Monetary Union (EMU) are highly inefficacious. The main arguments focus on the suboptimal currency area or, as Scharpf calls it, the 'monetarist fallacy' (2012: 21). A uniform monetary policy for strongly diverging economies with different needs and the abolishment of national stabilizers, primarily the possibility of devaluation, are seen as the catalyzers, if not the causers, of the crisis (e.g. De Grauwe 2013). A second group of arguments highlight the complicated and protracted decision-making procedure of the EU, which was unable to keep up with the rapidly evolving crisis. More precisely, the need for intergovernmental negotiations for each step of crisis management rendered an effective reaction impossible (e.g. Hall 2012: 366f; Fabbri 2013: 1017-22). Finally and more concretely, the Stability and Growth Pact (SGP), which had fundamentally the same purpose as the Fiscal Compact and can be seen as its predecessor, turned out to be ineffective, since it was 'watered down' by Germany and France in 2003-2005 (Schild 2013: 29). However, although the EMU's institutions were highly inefficacious

²¹ FDP = Freie Demokratische Partei (Free Democratic Party).

with regard to crisis management and thus caused a high demand for leadership in general, they were not extraordinarily high when the Fiscal Compact was shaped.

The fact that Germany emerged as a leader in shaping the Fiscal Compact at a time when its leadership surplus considerably increased, while both the member states' costs and the institutions' inefficacy were constantly high, corroborates the theory. However, the theory also predicts that if there is more than one candidate at the supply-side, the most powerful candidate emerges as a leader. Thus, two further questions must be answered: Was there another leadership candidate besides Germany? If so, was Germany the most powerful candidate? With regard to the first question, it seems indeed that, in December 2011, the president of the European Council, Herman Van Rompuy, attempted to assume a leading role in shaping the course of action, thereby presenting himself as another leadership candidate. Within his mandate to prepare a report as basis for discussion on treaty amendments, received from the Euro Summit on 26 October 2011 (Consilium 2011), he presented a bold proposal including the already overruled Eurobonds, a banking license for the ESM, and an alternative legal path instead of Treaty amendments (Wittrock 2011; Ludlow 2012a: 8-13).

However, with regard to the second question, the resources of the European Council's president are mainly institutional and strictly limited. Rather than a leader, Van Rompuy is a "political manager, [...] responsible for identifying the bases of consensus, fostering the latter and articulating it in the Conclusions" (Ludlow 2012a: 43). He lacks important competences such as the right for initiative, possibilities of coalition building, or material resources for side-payments etc. Hence, his attempt was not only strongly rejected by the German government, but it was also *de facto* substituted by a Franco-German proposal which was circulated one day after Van Rompuy's report (Wittrock 2011; Ludlow 2012a: 8-13). By once again striking a deal with France, Germany managed to drive the European Council's president out of the market, thereby imposing itself as a leader. This is not only one of the possible strategies predicted by the theory, but it is also a pattern of German leadership in the crisis: already with their important bilateral deal struck at Deauville in October 2010, Germany and France sidelined the Van Rompuy task force which was working on similar issues at the time (Schild 2013: 27; Krotz/Schild 2013: 205f).

Germany's Impact as a Leader

The dependent variable of this second analytical step is the impact of PL, conceptualized as leader-initiated institutional or policy change. Change is assessed by the difference between ex-post and ex-ante situation. The question whether it is leader-initiated can be assessed by tracing back the strategies used by the alleged leader, understood as "means that successfully result in achieving the desired ends" (Masciulli/Knight 2009: 92). Since these strategies constitute at the same time the causal mechanism connecting a leader's power resources to its impact on the outcomes, I analyze them below. The relevant change is given by the Fiscal Compact itself.

The first hypothesis regarding Germany's impact as a leader refers to its power resources: *The more power resources are at Germany's disposal, the more likely is its impact on the outcomes.* Power resources can be measured in different ways, but in order to make them comparable²² the underlying question of interest to the researcher is: how dispensable is the respective actor with regard to a common solution? Can the others do without it? As already mentioned above, Germany's power is mainly based on its economic resources. Holding almost 19% of the ECB's capital (26.5% of the Euro area's share), having an undisputed AAA sovereign bond rating, and accounting for 20.5% of the EU-27's GDP (27.5% of Euro area's GDP) are just some indicators that demonstrate Germany's weight as the most indispensable actor when it comes to issues of macro-economic or fiscal governance in

²² How to compare, for instance, Germany's material resources in the context of shaping the Fiscal Compact to the ECB's institutional resources which are a necessary condition for conducting its Outright Monetary Transactions (OMTs). Which of them had more power resources at its disposal?

Europe (ECB 2013; Eurostat 2012). These economic resources allow for a relatively intense employment of strategies, which makes an impact on the outcomes likely. Also according to a broader understanding of power (resources) which includes, amongst others, “the perception of strength, preference, options, and partners of one actor in the eyes of others” (Janning 2013: 6), Germany is clearly the most powerful among the EU member states (Janning 2013).²³

However, actual impact does not depend only on the leader itself, but also on the heterogeneity of the preferences involved: *The more heterogeneous the member states' preferences, the less likely is Germany's impact on the outcomes.* Strictly speaking, the heterogeneity of preferences can be operationalized as the difference between rankings of possible outcomes. The larger this difference, the higher the heterogeneity. Against the background of strong market pressures and the already adopted ‘Sixpack’ regulations, which largely anticipate the potentially controversial issues of the Fiscal Compact, all member states except the UK preferred a quick treaty amendment as proposed by Germany to no action at all.²⁴ Consequently there were only minor changes from the first of five drafts to the final version of the treaty (Kreilinger 2012; Ludlow 2012a; Beach 2013: 119-23). The concerns of the Czech Republic, Hungary, and Sweden regarded parliamentary approval rather than the content of the treaty. When it finally became clear that the UK would definitely veto a treaty amendment, all the other member states preferred an intergovernmental treaty as proposed by Germany to no treaty at all (Ludlow 2012a: 32). In sum, since all the member states except the UK were principally in favor of a Fiscal Compact and were willing to subordinate their individual preferences to this collective goal, Germany's impact in the form of a treaty change was likely.

The last hypothesis regards the adaptability of the ex-ante institutions: *The more adaptable the institutional setting to be changed, the more likely is Germany's impact on the outcomes.* Adaptability decreases with the requirements of the underlying decision-making rule: an institution is more adaptable under simple majority voting than under qualified majority or unanimity voting (Tallberg 2010: 246). Germany's original goal, a treaty amendment, required unanimity and indeed Germany initially failed due to the UK's veto. Consequently, Germany lowered the requirements for institutional change by proposing an intergovernmental treaty outside the EU's legal framework. However, this ‘plan B’ still required a ‘quasi-qualified’ majority, as an intergovernmental treaty would only make sense if most of the member states signed. Nevertheless, despite this low level of adaptability, Germany managed to bring most of the other states onto its side and thereby to bring about institutional change.

The causal mechanism between the independent variables examined above and the impact of PL is the employment of strategies. Thus, by analyzing Germany's use of strategies I do not only answer the question of how it managed to influence outcomes, but I also demonstrate that the institutional or policy change under examination was leader-initiated. However, given the limited scope of this paper, I restrict myself to highlighting the most important strategic moves that Germany made.

A first subset of strategies regards agenda-managing, understood as placing certain issues on the agenda and linking them in order to bring about side-payments and package-deals, but also as excluding divisive issues or proposals for solutions. Germany made extensive use of this type of strategy, which is characteristic for leaders in multilateral negotiations. First of all, by making the financial assistance of the ESM conditional on the ratification of the Fiscal Compact, Germany added previously unrelated and differently valued issues to the agenda and managed in this way to ensure the signature of peripheral countries which might otherwise have been reluctant regarding the implementation of further budgetary restrictions. In turn, the peripheral countries achieved that the

²³ To my knowledge, Janning's ‘Power Calculator’ is currently the most elaborated power index as regards member state power in the EU. It includes the following indicators which are differently weighted: size of population, contribution to EU budget, military strength, status in international affairs, geographic location, net contribution position, opt-outs (Schengen, EMU), ‘good governance’, capacity for coalition building, and public opinion (Janning 2013: 7-9).

²⁴ For the position of the UK see Ludlow 2012a: 15-20, 29-31, 44.

ESM would enter into force one year earlier than planned. France was compensated before the actual negotiations started: For supporting the idea of strengthening budgetary rules, it obtained the inclusion of 'Euro summits' in the treaty, which met the French wish for discretionary and intergovernmental economic governance in the Euro area (Beach 2013: 117, 126).

A second important subset of strategies used by Germany regards coalition building. Most importantly, this concerns the exclusion of the UK. The German government was never really interested in including the UK's demands. When it became clear that the UK would not make any concessions either, the chancellor and her diplomats tried to convince the other member states of a new treaty without the UK (Beach 2013: 118f). Already one week before the decisive European Council on 8 December 2011, Merkel signaled that she would prefer an agreement among the 17 Euro area members to a treaty change by all 27 EU members if the latter meant making concessions to the UK (Crossland 2011; Hawley 2011). This became most obvious when she interrupted David Cameron who was presenting the UK's demands in the European Council negotiations, saying that she would have preferred a treaty change with all 27 states, but that she wanted a decision the same night. Van Rompuy drew the immediate conclusion that the member states could not go ahead at 27 (Ludlow 2012a).

A special type of coalition-building is its combination with arena-shifting in the form of strategic pre-negotiations: by striking a deal with one or more crucial actors already ahead of the actual negotiations, a leader can facilitate the finding of an agreement and emphasize its own preferences within the pursuit of a superordinate common goal. Especially within the institutional setting of the EU, this strategy has turned out to be crucial: "For those with leadership ambitions it has become necessary to win support or break dissent well ahead of formal sessions" (Janning 2005: 826). This is even more true in the light of an enlarged EU which faces a greater heterogeneity of preferences, stronger 'centrifugal tendencies', and thus an ever more complicated decision-making process (ibid.). Germany has successfully practiced this bargaining strategy by striking a deal with France ahead of each important European Council or Eurozone summit, which has also been interpreted as 'Franco-German leadership' (Schild 2013). Before the decisive European Council in December, the German chancellor also adopted this strategy. Three days before the summit, on 5 December 2011, she met the French president in Paris to shape a common position (Crossland 2011). When Van Rompuy presented his own plans on 6 December (see above), Germany and France were able to reply within only one day by releasing a joint letter, outlining very clearly their own common position (Ludlow 2012a: 13-5).

This Franco-German cooperation has also been interpreted as bilateral leadership (Schild 2013). However, since there is a clear imbalance between Germany and France regarding power, strategy employment, and preference attainment, I do not consider the Franco-German tandem a 'leadership couple', but rather an instance of a German leadership strategy as described above (see also Bulmer/Paterson 2013: 1394f; Paterson 2011: 72f; Ludlow 2011: 34).²⁵ Even Schild himself acknowledges that "[b]ased on its financial resources and the comparative success of its economic model and economic policy of the last decade, Germany will remain the key actor in this play" (2013: 41).

A third set of leadership strategies employed by Germany is the provision of common knowledge, that is, the definition of problems as well as the presentation and promotions of solutions to them. Already in August 2011, Germany and France wrote a joint letter to the president of the European Council, in which they defined excessive public debt and a lack of competitiveness as the principal causes of the crisis. As a solution they proposed, in addition to the measures already taken, to strengthen the governance of the Euro area through the introduction of regular Euro summits and to

²⁵ A further argument against the concept of a Franco-German leadership couple regards the empirical fact that also other constellations of actors (e.g. Frankfurt Group) use the strategy of informal deals before important summits without being considered a leadership group, though.

enhance the surveillance and integration of budgetary and economic policy, amongst others through the incorporation of a 'debt brake' into the members states' national legislations (Bundesregierung 2011). However, when it came to the promotion of these ideas, Germany – and not a Franco-German tandem – turned out to be the actual leader behind the Fiscal Compact through the use of all its diplomatic weight: The German ambassadors in all the member states approached the respective governments, the civil servants in the German Chancellery were continuously on the phone in order to promote treaty amendments, and the chancellor herself had many bi- and trilateral meetings with her colleagues over the phone or directly in the member state capitals (Ludlow 2012a: 7-9; Rinke 2011). In the words of Rinke (2011), the German government apparatus functioned like a secret EU Presidency in this regard.²⁶

Conclusion

Political leadership emerges if there is a supply of it and demand for it. While the supply depends on a leader's expected benefits, the demand is determined by the followers' status quo costs. Both demand and supply are also influenced by the relevant institutions' capacity to manage the respective situational challenges. Political leaders influence outcomes by translating their power resources into strategies. However, their success or failure is not only determined by their resources, but also by the heterogeneity of preferences and the adaptability of the institutions to be changed.

The case of Germany's role in shaping the Fiscal Compact corroborates the theory of PL elaborated in this paper. The analysis shows that Germany started to act as a leader when its leadership surplus increased considerably in autumn 2011. At that time, the status quo costs increased at both the domestic and the European level, while the costs of leading decreased significantly at the domestic level. Moreover, Germany was able to emerge as a leader because there was a constantly strong demand for leadership due to high costs on the part of the followers and very inefficacious institutions.

With regard to the impact of PL, the bottom line is that a leader is only as strong as its enemies are weak, where the 'enemies' are the situational circumstances, namely the heterogeneity of preferences and the adaptability of the institutional setting to be changed. Germany had an enormous impact on the realization of the Fiscal Compact. This was not only because of its economic power resources, but also because the member states' preferences were fairly homogenous. Although this made the achievement of an institutional change relatively easy, the low adaptability of the relevant institutions required a minimum of resources and strategies. Thus, the German government used mainly its economic power to employ certain strategies – such as linking the ratification of the treaty to the eligibility for financial assistance granted by the ESM – in order to reach a sufficient majority of signatories.

The study of PL is not only important because it is a recurrent and essential pattern of politics, whose neglect in the analysis can lead to incomplete explanations. As this paper demonstrates, PL is also a solution to collective action problems. By optimizing collective action through the use of strategies and shaping stable expectations through the provision of common knowledge, leadership can fulfil the same tasks as institutions. This implies that PL can function as a possible substitute for flawed institutions. Indeed, as the case of the Fiscal Compact shows, Germany's emergence as a leader was primarily a compensation for the EU's defective institutional setting. Finally, the case study reveals that PL can be an endogenous source of institutional change: although no one can say what the outcome would look like if the circumstances had been different, the Fiscal Compact as it stands today – be it right or wrong – is hardly conceivable without Germany's leadership.

²⁶ "Längst funktioniert der deutsche Regierungsapparat wie eine heimliche EU-Präsidentschaft" (Rinke 2013).

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