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Providing political leadership? Three case studies on Germany's ambiguous role in the Eurozone crisis

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ABSTRACT Throughout the Eurozone crisis, observers called upon Germany to assume leadership. Yet, Germany has not emerged as the hoped-for leader. According to the issue at stake, we observe three different outcomes: firstly, Germany refused to lead; secondly, Germany assumed leadership, but failed to deliver; thirdly, Germany acted as a successful leader. This article examines the reasons for this variance by analysing and comparing one case for each outcome: the first financial assistance to Greece, the failed attempt to establish a 'super-commissioner', and the shaping of the Fiscal Compact. The analysis includes original data, gathered through interviews in Brussels, Frankfurt and Berlin. The variance in Germany's behaviour can be explained by employing a rational institutionalist model of leadership. Germany's emergence as a leader depends on the expected costs and benefits of leading. Its impact, in contrast, depends on its power, the distribution of preferences among the actors involved, and institutional constraints.

KEY WORDS Decision Making; EU Economic Governance; Euro Area Crisis; European Union; Germany; Leadership

INTRODUCTION

Since the outbreak of the Eurozone crisis, journalists, academics and politicians have called upon Germany to provide leadership in order to overcome the crisis (*Financial Times* 2012; Matthijs and Blyth 2011; Steinmeier and Steinbrück 2010). Maybe most impressively Poland's foreign minister made a plea for German leadership:

> I demand of Germany that, for its own sake and for ours, it help the eurozone survive and prosper. […] I fear German power less than I am beginning to fear its inactivity. You have become Europe's indispensable nation. You may not fail to lead: not dominate, but to lead in reform (Sikorski 2011).

From a political science perspective, this demand for leadership raises theoretically motivated questions: *What is political leadership? Why and how does it emerge? And, once emerged, how does political leadership affect outcomes? What determines its success or failure?* In order to answer these questions, I first provide a definition of political leadership which is based on a review of existing leadership research in political science. In a second step, I rely on rational institutionalist assumptions to develop a theoretical model that explains both the emergence and the success of leadership.

The third part is devoted to applying the model to Germany's role in the crisis. As I will show, Germany has not emerged as a leader under all circumstances. Instead, its behaviour has varied according to the issue at stake. By analysing the first financial assistance to Greece (no leadership), the attempt to create a 'super-commissioner' (failed leadership), and finally Germany's role in shaping the Fiscal Compact (successful leadership), I can test the expectations put forward by the model and provide an explanation for Germany's ambiguous role in the crisis. The case studies rely primarily on 23 semi-structured interviews carried out at the European Union's (EU) institutions in Brussels, the European Central Bank (ECB) and the German Ministry of Finance.

From a theoretical perspective, this article contributes to filling a striking gap in the literature, where 'research on political leadership is disparate, under-theorised and under-researched' (Hartley and Benington 2011). This is especially true with regard to the rationalist research paradigm (Brennan and

Brooks 2014: 161). A rational institutionalist model of leadership thus contributes to one of the most urgent challenges on the leadership research agenda, namely 'to integrate the leadership factor into both rational choice analysis and the "new" institutionalism' (Elgie 2001: 8579).

As regards the empirical value added, the article helps to explain Germany's behaviour in the crisis and contributes to understanding if and how leadership can be a way of overcoming the crisis. So far, Germany has been analysed as a potential hegemon in the EU (e.g. Bulmer and Paterson 2013). By using a different conceptual perspective, namely leadership, this article examines empirical aspects which previously have not been at the centre of the analysis.

CONCEPTUALISATION

Most definitions of political leadership are based on one or more of the following three key aspects.

First, leadership is commonly associated with *power*, understood as the 'ability to affect the behaviour of others to get the outcomes one wants' (Nye 2010: 306). Power is based on material, institutional or ideational resources (Table 1 in online appendix). However, leadership is not the same as power. It also consists in the pursuit of a common goal and innovation (Burns 1978: 12, 17f; Malnes 1995: 99-106; Underdal 1994: 178-82).

The second defining criterion is the pursuit of a *common goal* (Burns 1978: 18f, 425-32). This does not mean, however, that leadership is an altruistic sacrifice. The leader must also be better off at the end of the day (Frohlich et al. 1971: 7; Mattli 1999: 13). Moreover, specific preferences about how to reach the common goal might diverge, which implies that despite the presence of a leader there are still relative winners and losers (Kindleberger 1981: 243). Finally, the perception of a common goal is subjective and historically contingent. This implies that something which was perceived of as a common goal at the time leadership emerged can *a posteriori* turn out to be beneficial only to some actors or even to no one at all.

As a third defining feature, leadership is aimed at *innovation* (Burns 1978: 434; Masciulli et al. 2009: 3). This is the criterion which distinguishes leadership from management. Leaders have thus been described as those who change the equilibrium ways of doing things or as 'architects of institutional change' (Schofield 2002).

Hence, I define political leadership as a *process where an actor in a formal or informal position of authority uses her power resources 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.

The strategies a leader uses to achieve a common goal can be divided into two sets (Table 2 in online appendix): by *providing common knowledge*, a leader provides a group with new beliefs about which policy instrument works best in a given situation (Schofield 2002; Masciulli et al. 2009: 7); by *enhancing collective action*, a leader deploys negotiation strategies to help a group overcoming classical cooperation problems such as coordination or free-rider dilemmas (Tallberg 2006: 37-9; Young 1991: 285).[1]

THEORETICAL MODEL

Leadership is conceptualised as a way of overcoming collective action problems in situations where there are no adequate institutions to regulate the collective action. The first possible outcome we can observe in such a situation is the non-appearance of leadership (or leadership vacuum). If a leader emerges, however, she might still not be able to realise the desired institutional or policy change. This leadership failure is the second possible outcome. Finally, a leader might emerge and successfully influence the outcomes, which is the third possible outcome. Hence, the theoretical framework of this

[1] A detailed elaboration on the single strategies can be found in Schoeller 2014: 5-7.

work is divided into *two analytical steps*, which are the *emergence* of leadership and its *impact* on the outcomes.

The emergence of leadership

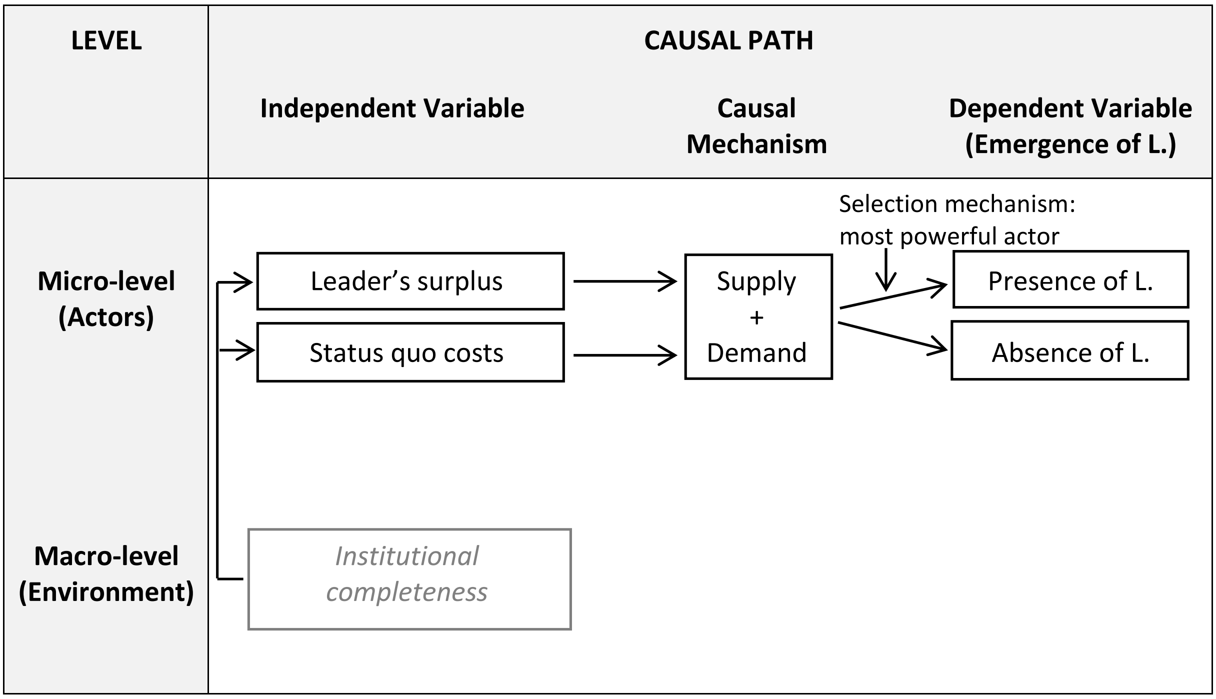

Figure 1: The emergence of political leadership

Reference: own illustration

Apart from formalised selection processes such as democratic elections, a leader emerges if there is a demand and a supply of it. The demand for leadership arises from status quo costs which are caused by suboptimal collective action outcomes (Tallberg 2010). These costs are either already present or imminent in the case of status quo. If the status quo costs are high, the actors involved perceive a high pressure for action. At this point powerful actors weigh the expected costs of leading against its benefits. If an actor comes to the conclusion that leading would make her better off, she offers leadership. This is done by an expression of her preferences with regard to a change of the status quo. The other actors, which thereby become potential followers, perceive this expression of preferences and at least some of them object. The powerful actor can now react by employing strategies to reach an outcome as close as possible to her preferences. In this case, she emerges as a leader. If more than one actor offers leadership, the most powerful emerges as a leader because her absence in a final agreement would cause the highest costs for the others and, having most resources, she maximizes the group's chances for the achievement of the common goal.

This leads to two expectations. Regarding the supply-side, leadership is offered if at least one of the actors involved is willing to take the lead. Willingness depends on the payoffs to the potential leaders (Mattli 1999: 13), which means that there must be a '*leader's surplus*' (Frohlich et al. 1971: 7). Hence, on condition that there is a demand for leadership, the following applies:

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

Regarding the demand-side, a leader serves the followers to overcome collective action problems: a lack of common knowledge or cooperation problems cause *status quo costs* which can be removed by a leader (Beach and Mazzucelli 2007: 8f). Therefore, under the condition that there is an offer of leadership:

If the aggregate status quo costs are high, there is a high demand for leadership, and leadership emerges.

The impact of leadership

Once a leader has emerged, she attempts to achieve the desired institutional or policy change through the use of her power resources. There are two ways the resources can take effect. First, the leader translates them into strategies, for instance by making side-payments to relative losers, setting the agenda or providing expertise (Schoeller 2014: 5-7; Table 2 in online appendix). Second, followers anticipate that the resources might be deployed to their disadvantage if they do not behave as the leader wants them to. This is what Carl Friedrich described as the 'rule of anticipated reactions' (1963: 199-215). However, a leader's success not only depends on her power resources. Also the support of the followers and the requirements of the underlying decision-making rules play a role: the more followers agree with the leader on the proposed innovation and the less the leader is constrained by institutions, the easier it is to influence the outcomes in the desired way.

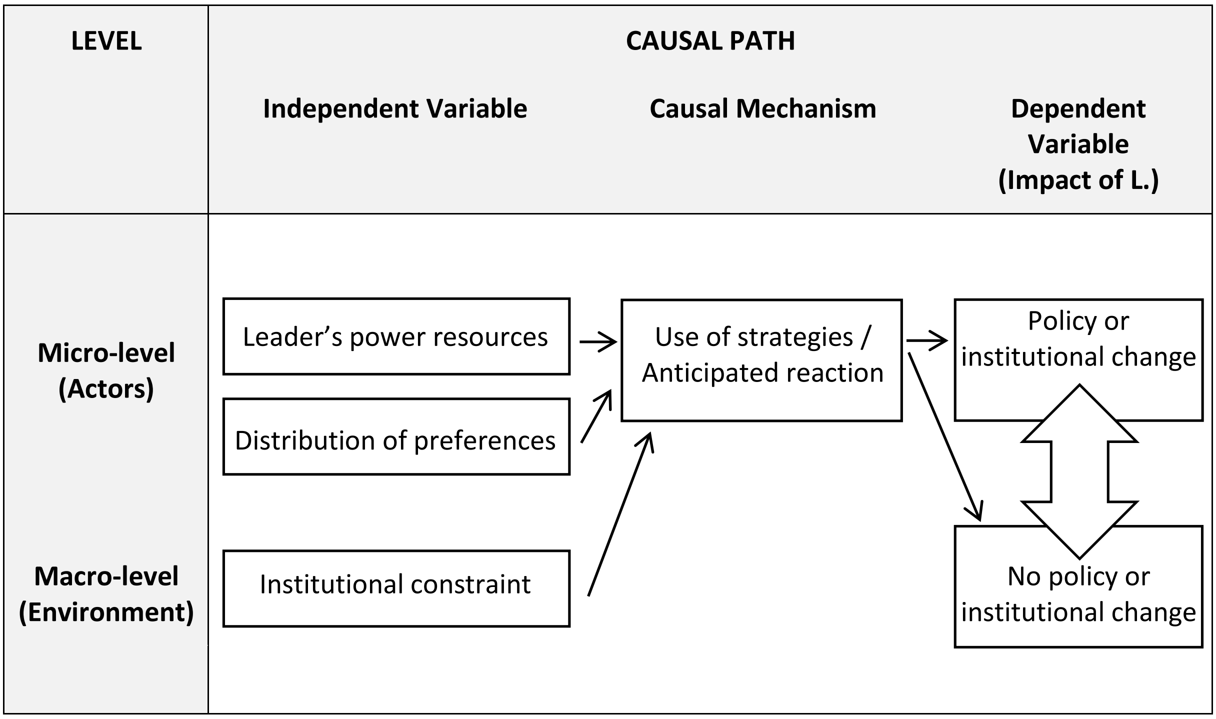

Figure 2: The impact of political leadership

Reference: own illustration

Hence, the first expectation accounting for a leader's impact refers to her *power resources*:

The more power resources are at a leader's disposal (in relation to the power resources of the followers), the stronger is ceteris paribus her impact on the outcomes.

The second expectation regards the *distribution of preferences*. Preferences can converge on the outcome preferred by the leader, they can be distributed throughout the preference space (heterogeneity of preferences), or they can converge on an outcome different from the one preferred by the leader (Figure 4 in online appendix). If preferences over outcomes diverge, at least some actors have to depart from their preferred outcomes to find an agreement. These actors have to bear the respective costs which can be described as the difference between the utility of their preferred outcome and the utility of the outcome they finally get. By using her power resources, a leader can make the winners compensate for these costs ('Kaldor-Hicks improvement'), find solutions that make everyone better off ('Pareto improvement'), or simply make certain actors accept the costs. In any case, the more the preferences diverge from the outcome preferred by the leader, the more power resources are needed and the harder it is to affect the outcomes in the desired way. Hence:

The stronger the convergence of preferences around the outcome preferred by the leader, the stronger is ceteris paribus her impact on the outcomes.

The third expectation concerns the *institutional constraint*, which determines a leader's latitude in decision-making (Tallberg 2010: 246). This ranges from complete discretion by the leader, via decision-making by consent or participation of the followers (under simple majority, qualified majority, or unanimity), through to the interdiction of making certain decisions (Table 3 in online appendix):

The higher the degree of institutional constraint, the weaker is ceteris paribus the leader's impact on the outcomes.

EMPIRICAL ANALYSIS

The following case studies serve to test the theoretical model. From among all the instances of crisis-management since 2009, I selected one case for each of the three possible outcomes described above: the first bailout of Greece (non-appearance of leadership), the attempt to establish an EU 'super-commissioner' (leadership failure), and the shaping of the Fiscal Compact (successful leadership).

A precondition for the emergence of leadership is the incompleteness of institutions dealing with the underlying collective action problem. With regard to the Eurozone crisis, a twofold lack of institutions has been identified. First, there were no institutions regulating the mutualisation of risk (distributional problem). Second, the institutions built to prevent moral hazard, basically the Stability and Growth Pact and the 'No-bailout clause', turned out to be insufficient (free-rider problem) (Buti and Carnot 2012: 901, 905f; De Grauwe 2013; Drudi et al. 2012: 894; Schelkle 2012).

The first financial assistance to Greece

When in late 2009 it became clear that Greece was entering into a sovereign debt crisis, there was a consensus among the Eurozone member states (MS) that bankruptcy or even 'Grexit' was not a viable option because of the dire economic and political consequences this would have had for the entire Eurozone at the time (Interviews 5, 8, 11, 25, 26; Ardagna and Caselli 2014: 297; Schimmelfennig 2015: 181f). The question of leadership, therefore, did not concern the bailout as such, but rather the shape this bailout would take. From a German perspective, there were two ideal-typical options: first, an early and unambiguous commitment to do whatever it took to keep Greece in the Eurozone; second, no commitment at all and delaying any decision as long as possible.

As pointed out by Jones (2010), an early commitment would have calmed the financial markets, so that Greece would have had fewer problems in refinancing its debt. For Germany this would have meant a lower volume of loans if a bailout would take place, a lower risk of contagion within the Eurozone, and less depreciation of Greek and other government bonds in German banks' balance sheets. By making such an early commitment, Germany would have used its power resources in such a way as to guide the other MS towards a common goal, namely a cheaper (or even no) bailout and more stability in the Eurozone. Germany would have assumed leadership.

Yet, Germany did clearly not emerge as a leader, but opted for the second option described: 'In early 2010, Germany was the most reluctant EA country to commit itself to the Greek bailout' (Schimmelfennig 2015: 182; also Interviews 1, 10, 12; Ludlow 2010: 12-7). Despite becoming increasingly isolated, the German chancellor denied any need for financial assistance to Greece until the very last moment. As one senior official of the German Treasury admitted: at the end Germany were the only ones still hesitating (Interview 25). When asked if and under which conditions Germany would be willing to grant financial assistance to Greece, Merkel simply replied that there was no need for help (Janssen 2012).

The first variable accounting for a leader's emergence is her surplus. Table 4 (online appendix) provides an overview of Germany's costs and benefits of leading according to the interviewees. The most frequently mentioned cost of leading is the causation of moral hazard. The German government feared that an early commitment to bail out Greece would be perceived as a signal that painful fiscal discipline is not rewarding because in the end there would always be a lender of last resort in the Eurozone. Thus, the 'No-bailout clause' (Article 125 TFEU) would be de facto neutralised and fiscal free-riding would become rewarding in the Eurozone. Especially for Germany this would become very costly. The only way to avoid such a result was to make sure that an eventual bailout would not be a 'cheap solution' for the respective debtor state.

A second aspect concerned the expected electoral costs. Given that public opinion was perceived as sceptical with regard to financial assistance to Greece, the German government feared that a pro-active role in a bailout would imply a significant loss of votes. Thirdly, taking the lead would have worsened Germany's bargaining position with regard to a Greek consolidation programme: the earlier Germany committed itself to a bailout, the better the Greek negotiation position would be and the more lenient the resulting consolidation programme. Finally, given that there was a lot of uncertainty as regards the magnitude as well as the legal and technical features of the bailout, the consequences of an early commitment could hardly be estimated. Taking the lead would therefore have been a risky undertaking.

In stark contrast to all the costs of leading, only one respondent mentioned a potential benefit, namely that German business would profit from economic prosperity in Greece. The underlying rationale is in line with the argumentation of Jones (2010) that an early commitment by Germany would have calmed the financial markets, resulting in more foreign investment, internal demand and growth, and less depreciation of German banks' balance sheets. Thus, German leadership would have been in the interest of both German banks and the German export industry.

One way of comparing costs against benefits is to use a 'common currency'. In this case, this is given by the material savings of an early commitment (as opposed to the material costs it would bring about).

From a German perspective, an early commitment might have helped to avoid the short-term costs of a bailout, but it would not have resolved the persisting structural problems. Thus, there would have been only weak incentives for fiscal discipline in the Eurozone. The German government feared that this would have led to much bigger bailouts of Greece and other MS at a later point in time (Interviews 10, 27). As long as Germany and other creditor states were willing and able to bear the costs of such bailouts, either bilaterally or in the context of a 'Transfer Union', the feared long-term costs would thus consist in Germany becoming the 'paymaster' of the Eurozone. In sum, the expected benefits of leading, namely a cheaper (or even no) bailout for the time being, are clearly outweighed by the costs of becoming the Eurozone's 'lender of last resort'. The electoral costs and the uncertainty only add to this calculation. Hence, given that there was no leadership surplus for Germany, we expect that Germany would not offer leadership and thus not emerge as a leader.

The second independent variable accounting for a leader's emergence are the status quo costs. Of the 19 interviewees who comprehensively answered the question when the status quo costs (operationalized as 'perceived pressure for action') were highest during the crisis, 13 (68.4%) named the first Greek bailout. Most of the costs were expected in the event that the status quo led to a sovereign default of Greece. They consisted in a new banking and economic crisis, but ultimately also in the end of the common currency (Interviews 1, 5, 8, 11, 25, 26; Ardagna and Caselli 2014: 296f). Hence, the status quo costs were very high which led to a strong demand for leadership.

In sum, the theoretical model appears plausible since it can deliver an explanation as to why Germany did not emerge as a leader. The high costs caused by the status quo created a high demand for leadership. By taking the lead, Germany could have produced a collectively better outcome and possibly avoided a short-term contagion of Portugal and Spain (Ardagna and Caselli 2014: 292; Ludlow 2010: 28). This outcome, however, would have been further away from its individual preferences. Therefore, as expected by the rationalist model of this work, Germany did not take the lead and left the Eurozone worse off.

The Super-commissioner

In autumn 2011, the Dutch government suggested considerably strengthening the competences of the European Commissioner for Economic and Monetary Affairs (at the time Olli Rehn). The proposal was supported by the German government and most notably by its Finance Minister Schäuble (Interview 11; Spiegel and Schäuble 2011). However, although Rehn's position was slightly strengthened, the crucial features of the plan, namely full discretion in the *College* of Commissioners and a veto on national budgets, were not realised.

In October 2012, Schäuble therefore started a new initiative with the same demands. In doing so, he represented the German government and was clearly backed by Chancellor Merkel (*BBC News* 2012; *EurActiv* 2012c). Schäuble mentioned the idea repeatedly in the Eurogroup and promoted it through public speeches and the media (Interviews 2, 7, 8, 13, 25; Lamers and Schäuble 2014; Schäuble 2014). Thus, Germany provided a 'light' version of leadership: it emerged as a leader, but restricted itself to the provision of common knowledge, thereby avoiding the more expensive employment of negotiation strategies. Still, the super-commissioner has not been realised and is thus 'a case of attempted, but ultimately unsuccessful, institutional change' (Karagiannis and Guidi 2014: 177).

The first variable accounting for a leader's *emergence* is her surplus. The most obvious benefit Germany would gain from a super-commissioner would be a further institutionalization of fiscal discipline in the Eurozone (Interviews 1, 25-27). As pointed out by Schimmelfennig (2015), the adjustment costs caused by the goal of preserving the monetary union can be allocated either nationally through fiscal restraint (austerity) or supranationally through the mutualisation of debt (solidarity). Thus, the more an outcome of crisis management shifts the adjustment costs towards the national level, as the super-commissioner would do, the more beneficial this is for creditor states like Germany. Apart from this, the alleged calming effect on the markets, the electoral approval, and the possibility to shift the blame for painful austerity measures to the Commission were mentioned as further benefits for Germany (Interviews 1, 8, 27).

As opposed to these benefits, there were no relevant costs of leading, especially because the German government had neither committed itself to any concessions in exchange for the super-commissioner nor had the idea provoked any significant disapproval from voters. Therefore, we expect Germany to offer leadership and, under the condition that there was also a demand, to emerge as a leader.

The second variable accounting for a leader's emergence refers to the status quo costs. When Schäuble aired his proposal in October 2012, the peak of the crisis had already been overcome due to the effect of the ECB's Outright Monetary Transactions (OMT). However, at the time the actors had little confidence in the lasting effect of these measures and considered themselves to be still in the middle of the crisis. Thus, a demand for leadership action that would go beyond the measures taken by the ECB was still present (Interview 6). In sum, given that the status quo costs at the time were still perceived as high and the benefits to Germany from leading clearly exceeded the costs of it, both expectations of the first analytical step are confirmed.

Further evidence concerning the underlying causal mechanisms shows that the German government indeed presented the super-commissioner as a way of changing the status quo to the advantage of the entire group, thereby invoking the notion of a common goal, and, in accordance with the second expectation, that the other MS perceived this offer of leadership and at least some of them objected to it (*BBC News* 2012; *EurActiv* 2012a; 2012c; Interviews 10, 27).

The first variable accounting for a leader's *impact* are her power resources (Table 1 in online appendix). As regards Germany's material resources, the most important indicator in the context of the crisis is the aggregate GDP because this determines the capacity to contribute to financial stability in the Eurozone. However, a MS's refinancing options (government bond yields), its savings potential (current account balance) and its long-term solvency (gross public debt) are also relevant. Table 5 (online appendix) shows Germany's superiority in terms of economic power resources at a glance. In 2011, it had the largest GDP in the Eurozone, the lowest interest rates for its debt, and the biggest current account surplus in absolute terms.

The second type of power resources are institutional. As regards crisis management, the central institutional arenas are the Eurogroup, the ECOFIN Council and the European Council. At the time of Germany's super-commissioner initiative, Germany's voting weight in the Council corresponded to 8.4% of all votes and to 31.9% of the blocking minority (Krotz and Schild 2013: 26f). However, in the Eurogroup and ECOFIN Council 'there is a strong sense to come to joint, common solutions' (Interview 15). Therefore, based on its superior economic resources, Germany enjoyed a de facto veto in these fora. As a high-level official in Brussels put it: 'Germany practically has a veto on whatever is happening at present. And if they don't like it, they don't take it. So you need to rewrite and rewrite and rewrite, until the Germans are in agreement' (Interview 13; also Interviews 10, 11). The same is true for the European Council where decisions are also formally taken by consensus.

Ideational resources, finally, regard a leader's information, credibility and legitimacy (Parker and Karlsson 2014: 586f; Tallberg 2006: 14f). The German government has roughly the same information and expertise as the other MS, but it relies to a considerable extent on the larger resources of the Commission and the ECB. Germany's credibility, in contrast, is higher than that of the other MS because of two different sources. First, the high credibility Germany enjoys in the capital markets is essential to the stability of the common currency. Second, the strong roles of the German parliament (*Bundestag*) and the Constitutional Court (*Bundesverfassungsgericht*) function as a credible commitment at the European level (Interviews 3, 15, 25).[2] Also as regards legitimacy, Germany was perceived to have the biggest claim to a hearing among the MS because of its economic weight (Interview 2; Spiegel and Schäuble 2011). In sum, on all three types of resources, Germany scores the same or higher than the other MS.

The second explanatory factor accounting for a leader's impact is the group's preference distribution. The main conflict of interests in the case of the super-commissioner reflected the North-South divide

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[2] The important role of these two actors can be considered that of collective domestic veto-players in the sense of Tsebelis (2002).

in the Eurozone: ‘solvent northern countries prefer national adjustment [while] heavily indebted southern countries prefer mutualized adjustment’ (Schimmelfennig 2015: 181). A secondary cleavage separated those states principally in favour of more integration from those unwilling to give up further sovereignty (Interviews 2, 25). As a result, only a few MS – namely Austria, Estonia and the Netherlands – shared the German preference for a super-commissioner, which implied both national adjustment costs for the highly indebted states and further integration through treaty change. Among the European institutions, the Commission was most firmly against the super-commissioner proposal. While the European Parliament’s (EP) approval seemed to depend on the question of whether the super-commissioner would provide it with any institutional advantages, the ECB was Germany’s only ally among the institutions (Interviews 2, 7, 11, 12, 16, 18, 19, 21-25, 27). As illustrated by Figure 3 below, the resulting preference distribution can be described as a weak convergence on another outcome than the one preferred by Germany, namely no super-commissioner.

With regard to the third explanatory factor, institutional constraint, the realisation of a super-commissioner would require an amendment of the EC’s rules of procedure and a change of Article 250 TFEU (Interviews 1, 2, 13, 15, 25, 27). Given that EU treaty changes require unanimity, this corresponds to the highest level of decision-making by participation (Table 3 in online appendix).

In sum, also the second analytical step accounting for a leader’s impact appears to be plausible. Two expectations are directly confirmed. The fact that Germany has not succeeded in establishing a super-commissioner despite its superior power resources can be explained by the unfavourable preference constellation and the high institutional constraint. In order to increase confidence in this explanation, I further traced the presumed causal mechanism: if the unfavourable preference distribution and the high institutional requirements really prevented Germany from reaching its goal, there must be evidence that the German government was either not willing or not able to compensate all of the reluctant followers. The evidence indeed confirms that Germany was not willing to pay the high counter-price for a super-commissioner, which, according to the most concrete proposal, could have consisted in the introduction of Eurobonds (Interviews 10, 25, 27; *EurActiv* 2012b; 2012c).

The Fiscal Compact

In the shaping of the Fiscal Compact, Germany clearly assumed a leading role (Beach 2013; Ludlow 2012; Schoeller 2014). Among other purposes, the Fiscal Compact served to 'anchor market expectations regarding the sustainability of public finances in Europe (and narrow the […] abnormally high government bond spreads)' (Drudi et al. 2012: 894). It thereby contributed to the common goal of preserving the common currency. This does not mean that the final treaty was the outcome preferred by all the actors involved, but that 'the common interest of preserving the Euro and the Eurozone was paramount to the different preferences of highly solvent and highly indebted member states' (Schimmelfennig 2014: 329). Thus, Germany emerged and succeeded as a leader in shaping the Fiscal Compact.

According to the first expectation regarding a leader's *emergence*, leadership is supplied if the benefits exceed the costs of it. As regards benefits to Germany, all but one of the interviewees agreed that the Fiscal Compact was primarily a signal to the financial markets and to the German voters. The markets should be reassured that fiscal discipline would actually be implemented in the highly indebted states and that thus there would not be a sovereign default. Furthermore, the treaty should signal to German voters that their taxpayer money would not be exposed to moral hazard in the Eurozone (Interviews 1, 4, 6, 8, 13, 15, 25, 27). As regard Germany's costs, there was a consensus among the interviewees that there were no relevant costs of leading involved: the debt brake provided for by the treaty had already been implemented in Germany and the ESM had also already been decided upon. Therefore, no significant concessions were needed to realise the Fiscal Compact, which was largely perceived as the legitimate counter price for Germany joining the ESM (Interview 8, 25). Hence, the benefits of leading clearly prevailed. Thus, we expect that Germany would offer leadership and, under the condition that there was also a demand, that it would emerge as a leader.

The second explanatory factor accounting for a leader's emergence are the status quo costs. Of 19 interviewees who answered the question of when the perceived pressure for action was highest during the crisis, 7 (36.8%) referred to autumn and winter 2011, which is the time when Germany put the

Fiscal Compact on the agenda. Another 3 interviewees assessed the pressure for action as very high, although they did not perceive it as the most critical moment in the crisis. Hence, given that the status quo costs were high and Germany's benefits of leading exceeded the costs of it, both expectations regarding Germany's emergence as a leader are confirmed.

With regard to Germany's *impact* on the outcomes, Germany's power resources are naturally the same in the case of the super-commissioner and the Fiscal Compact. The distribution of preferences changes considerably, however, since apart from the UK, none of the actors was really against the Fiscal Compact. To be sure, especially France and Italy were sceptical at the beginning. However, against the background of strong market pressures, 'there was a collective recognition' that such a signal was needed to calm the markets and stabilize the Eurozone (Interview 15; also 1, 5, 7, 8, 25, 27). Although the Commission and the EP would have preferred a solution within EU law, they had no major objections against the contents of the Fiscal Compact as such. The ECB was once again Germany's strongest supporter (Interviews 6-8, 12, 15, 18-21, 23-27). In sum, as opposed to the case of the super-commissioner, the preferences converged on the outcome preferred by Germany (Figure 3).

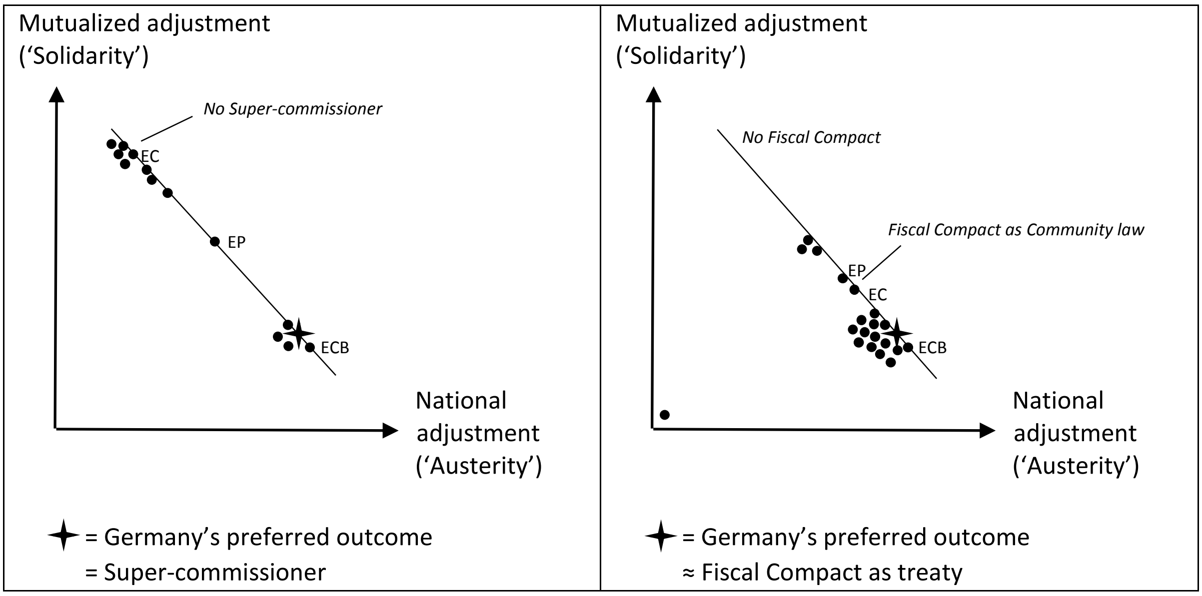

Figure 3: Preference distribution Super-commissioner vs. Fiscal Compact

Reference: own illustration; non-labelled dots represent the preferences of those MS on which information could be gathered

The institutional constraint on Germany was slightly lower than in the case of the super-commissioner, because the actors willing to sign the agreement could do this also outside EU law. Nevertheless, support from almost all of the 17 Eurozone countries was necessary to achieve the desired outcome of sending an effective signal to the markets. Hence, the institutional constraint was still very high (Table 3 in online appendix).

The model provides a plausible explanation for Germany's success in shaping the Fiscal Compact. Two expectations (power resources and preference distribution) are directly confirmed and help to explain why Germany achieved the desired outcome despite the high institutional constraint. Furthermore, by tracing the underlying causal mechanisms, I found ample evidence that Germany indeed managed to overcome the high institutional constraint by means of its economic power resources:

First, Germany translated its resources into strategies. Most notably, this regards arena-shifting. By bringing the issue directly to the level of the heads of state and government, the Commission and the EP were circumvented and the signal effect of the legal provisions was strengthened (Ludlow 2012: 3). Moreover, when it turned out that the UK would veto a Treaty change, Merkel shifted the arena again by pushing for an international treaty outside EU law. Another example concerns the use of agenda-setting and issue-linking: by making assistance from the ESM conditional on the ratification of the Fiscal Compact and including the French demand for formal 'Euro summits', Germany managed to win over more sceptical actors (Interviews 10, 11; Beach 2013: 117-9, 126). Furthermore, the German government acted as a 'provider of common knowledge': in August 2011, Germany and France proposed the incorporation of a 'debt brake' into national constitutions (Bundesregierung 2011).[3] In the following months, Germany used all its diplomatic weight to promote the idea: German

[3] Although the Franco-German cooperation in the crisis management would deserve more attention, I must limit myself to state that throughout the crisis there has been a strong asymmetry between France and Germany in terms of power, activity and preference attainment, so that in the cases in which Germany assumed leadership, France seemed to be rather co-opted than an actual leadership partner (e.g. Bulmer/Paterson 2013: 1394f).

ambassadors approached the respective governments in the MS, bilateral meetings took place at the level of heads of unit and between state secretaries, all possible fora were used to promote the idea of a debt brake, including even the IMF and the G7, and the chancellor herself met her colleagues to promote the Fiscal Compact (Interviews 15, 26; Rinke 2011).

The second way in which Germany's economic power resource took effect is more subtle. The other actors simply anticipated that if they did not have special regard to this German preference, the reaction of Germany could be harmful to them: 'if Germany is not on board, the whole thing collapses' (Interview 15). This mechanism played an important role in the shaping of the Fiscal Compact which was perceived as a 'concession to Germany' in exchange for its contribution to the ESM (Interviews 5; also 10, 25).

CONCLUSIONS

The theoretical model proposed in this article has been corroborated by the case studies. Although there has been a high demand for leadership throughout the crisis, Germany emerged as a leader only when the benefits of leading exceeded its costs (Table 6 in online appendix). Once emerged, Germany influenced the outcomes by means of its superior economic power resources. However, power alone does not suffice to exercise successful leadership. The preferences of the 'followers' and the institutional environment also play a crucial role. If we compare the super-commissioner proposal with the shaping of the Fiscal Compact, we see that in both cases the power resources and the institutional constraint were the same. Thus, we can affirm that it is indeed the distribution of preferences which accounts for Germany's different impact on the outcomes in the two cases (Table 7 in online appendix).

In cases in which Germany did not emerge as a leader, other actors had the chance or were even forced to take the lead. The ECB's launch of the OMT, the Commission's proactive role in shaping the so-called six-pack regulations, but also its unwillingness to take the lead in the issue of Eurobonds, could therefore be further cases to test the theoretical model proposed by this article. Indeed, the article not only aims to explain Germany's unsteady role as regards leadership in the crisis, but also to provide a model to explain other situations in which collective actors refrain from offering, fail in delivering, or succeed in exercising political leadership.

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ONLINE APPENDIX

Tables

Table 1: Power resources

Material	Institutional	Ideational
Economic capabilities Military capabilities	Procedural rights, e.g. Agenda management Veto rights Executive competences etc.	Information (incl. expertise) Credibility Legitimacy

Reference: own illustration, based on Krotz and Schild 2013: 22-4.

Table 2: Leadership strategies

Providing Common Knowledge	Enhancing Collective Action
Problem definition Presentation of new ideas Promotion of new ideas	Agenda-management Arena-shifting Coalition-building Unilateral action Leading by example

Reference: own illustration

Table 3: Degrees of institutional constraint

DEGREE OF INSTITUTIONAL CONSTRAINT	**THEORY**	**EMPIRICAL EXAMPLES (EU)**
	1. DISCRETION	
	Complete	Special legislative procedure based on Articles 45(3)(d) and 106(3) TFEU (= Commission acting alone)
	Consultation	
	2. CONSENT	
	Simple	
	Qualified majority	Consent procedure (e.g. international agreements)
	Unanimity	
	3. PARTICIPATION	
	Simple	
	Qualified majority	
		Ordinary legislative procedure
		Intergovernmental treaty
	Unanimity	Treaty amendment
	4. INTERDICTION	- *Ex post facto* law - Legislation in CFSP - Legislation violating the principles of conferral, proportionality, or subsidiarity etc.

Reference: own illustration

Table 4: Germany's costs and benefits of leading according to interviewees (in bold: strongly involved respondents; in italics: German government officials)

INTERVIEW	BENEFITS	COSTS
		MORAL HAZARD
5		Taking the lead by making an early commitment creates moral hazard in Greece and other MS
7		**Moral hazard, see above**
10		**Risk setting a precedent with regard to other MS (= wrong signal)**
12		Moral hazard, see above
15		**Wrong signal (German reluctance was functional in order to give the right signal to other MS, i.e. 'bailout is not a cheap solution')**
26		*Wrong signal to other MS (bailout must be costly)*
27		***Achieving no (or only weak) consolidation programme in Greece (Greece only reluctantly adopted adjustment measures; they needed to be forced; thus, early commitment would not have been a sustainable solution)***
		ELECTORAL COSTS
1	German business profits from economic prosperity in Greece	Acting against public opinion
8		Acting against public opinion (incl. experts, media, academia)
15		**Lack of legitimacy: German government was afraid that an early or stronger commitment would run counter to the expectations of German voters**
25		***Taking the lead would have implied electoral costs***
26		*Electoral costs, see above*
		BARGAINING POSITION
13		**Low pressure on Greece, leading to a worse bargaining position of Germany**
15		**Wrong signal (German reluctance was functional in order to give the right signal to Greece, i.e. 'structural reform is indispensable)**
26		*An early commitment would have resulted in a 'bad' consolidation programme ('bargaining position needs to be built up along the extremes')*
27		***An early commitment would not have allowed for effective conditionality (financial assistance must always imply incentives for reform)***
		UNCERTAINTY
10		**Uncertainty as regards the outcomes of leading; Uncertainty as regards tools and design of bailout (esp. the role of IMF)**
15		**Uncertainty as regards the outcomes of leading**

Reference: own illustration

Table 5: Germany's Economic Power Resources (2011)

	GDP		GOVERNMENT BOND YIELDS (10 YEARS)	CURRENT ACCOUNT BALANCE		GROSS PUBLIC DEBT
	Million EUR	% of EU-17	%	Million EUR	% of GDP	% of GDP
Germany	**2.699.100**	**27,7**	**2,61**	**164.550**	6,1	77,9
France	2.059.284	21,1	3,32	-21.245	-1,0	85,2
Italy	1.638.857	16,8	5,42	-50.387	-3,1	116,4
Spain	1.075.147	11,0	5,44	-34.040	-3,2	69,2
Netherlands	642.929	6,6	2,99	58.579	**9,1**	61,3
Belgium	379.915	3,9	4,23	-4.067	-1,1	102,0
Austria	308.675	3,2	3,32	5.058	1,6	82,1
Greece	207.752	2,1	15,75	-20.634	-9,9	171,3
Finland	196.869	2,0	3,01	n/a	n/a	48,5
Portugal	176.167	1,8	10,24	-10.616	-6,0	111,1
Ireland	171.042	1,8	9,60	n/a	n/a	111,2
Slovakia	70.160	0,7	4,45	-3.497	-5,0	43,4
Luxembourg	42.410	0,4	2,92	2.461	5,8	19,1
Slovenia	36.868	0,4	4,97	84	0,2	46,5
Cyprus	19.487	0,2	5,79	n/a	n/a	66,0
Estonia	16.404	0,2	n/a	222	1,4	**6,0**
Malta	6.903	0,1	4,49	n/a	n/a	69,7
Euro Area (EU-17)	***9.748.036***	***100,0***	***4,34***	***n/a***	***n/a***	***86,0***

Reference: Eurostat (own illustration)

Table 6: Cross-case comparison – Emergence of leadership

	Emergence (dv)	Leader's Surplus (iv_1)	Status Quo Costs (iv_2)
First Greek bailout	0	0	1
Super-commissioner	1	1	1
Fiscal Compact	1	1	1

Reference: own illustration

Table 7: Cross-case comparison – Impact of leadership

	Impact (dv)	Power Resources (iv_1)	Preference Distribution (iv_2)	Institutional Constraint (iv_3)
Super-commissioner	No	High	Unfavourable	High
Fiscal Compact	Yes	High	Favourable	High

Reference: own illustration

Figures

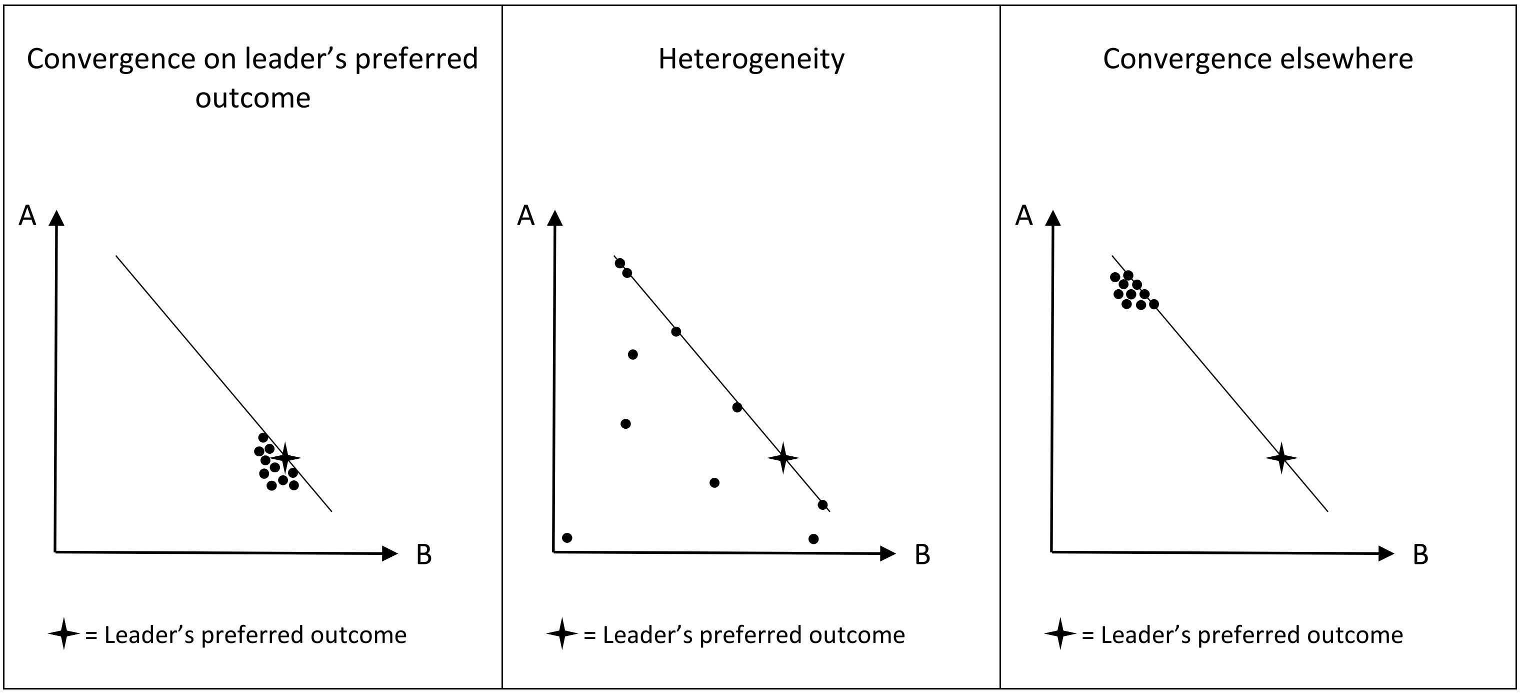

Figure 4: Distribution of preferences – ideal-typical values of variable
Reference: own illustration

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