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The Curious Prevalence of Austerity

Economic Ideas in Public Debates on the Eurozone Crisis in Ireland and Finland, 2008-2012

Sanna Salo

Thesis submitted for assessment with a view to
obtaining the degree of Doctor of Political and Social Sciences
of the European University Institute

Florence, 31 March 2017.

European University Institute
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Researcher declaration to accompany the submission of written work
Department of Political and Social Sciences - Doctoral Programme

I, Sanna Salo certify that I am the author of the work The Curious Prevalence of Austerity: Economic Ideas in Public Debates on the Eurozone Crisis in Ireland and Finland, 2008-2012 I have presented for examination for the Ph.D. at the European University Institute. I also certify that this is solely my own original work, other than where I have clearly indicated, in this declaration and in the thesis, that it is the work of others.

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Statement of language correction

This thesis has been corrected for linguistic and stylistic errors. I certify that I have checked and approved all language corrections, and that these have not affected the content of this work.

Signature and date:

Sanna Salo 15.12.2016

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At the very early stages of writing this PhD thesis, I had a meeting with one of my supervisors. At the end of that meeting, he said that somewhere along the process, he hoped we would learn to "speak the same language", which would make communication a lot easier. This PhD has been a journey to learning to speak, and think, like a political scientist. I am not necessarily there yet, but I sure am closer than I was when it all started.

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Abbreviations

AIB	Allied Irish Banks
CB	Central Bank (of Ireland)
CBFSAI	Central Bank and Financial Services Authority of Ireland
CSA	Core Sentence Analysis
DSG	Domestic Standing Group
DoF	Department of Finance
EC	European Commission
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council
EFSF	European Financial Stability Facility
EPP	European People's Party
ESM	European Stability Mechanism
EU	European Union
EMU	European Monetary Union
Etla	Elinkeinoelämän Tutkimuslaitos (Research Institute for the Finnish Economy)
FDI	Foreign Direct Investment
FF	Fíanna Fail
FG	Fine Gael
FPÖ	Freiheitliche Partei Österreichs
FSB	Financial Stability Board
FTT	Financial Transaction Tax
GIIPS	Greece, Italy, Ireland, Portugal, Spain
GLF	Greek Loan Facility
HS	Helsingin Sanomat
IBEC	Irish Business and Employer Association
ICTU	Irish Congress of Trade Unions
IFSRA	Irish Financial Services Regulatory Authority
IDA	Ireland's Investment Promoting Agency
IMF	International Monetary Fund
INBS	Irish Nationwide Building Society
IT	Irish Times
Lab	Labour
Kok	Kokoomus (National Coalition [Conservative] Party, FIN)
Kesk	Keskusta (Centre Party, FIN)
MIT	Massachusetts Institute of Technology
MP	Member of Parliament
MEP	Member of European Parliament
MS	Member State
NAMA	National Asset Management Agency
NRP	National Recovery Plan
NTMA	National Treasury Management Agency
OECD	Organization for Economic Cooperation and Development
PD	Progressive Democrats (IRL)
RKP	Ruotsalainen Kansanpuolue (Swedish People's Party, FIN)
SDP	Sosialidemokraatit (Social Democratic Party, FIN)
SF	Sinn Féin
SGP	Stability and Growth Pact
SP	Social Partnership

SPD	Sozialdemokratische Partei Deutschlands
TD	Teachta Dála
ULA	United Left Alliance
Vihr	Vihreät (Green Party, FIN)

Abstract

This thesis explores why, and in what political process, austerity became the uniformly accepted policy response of Eurozone governments in the economic crisis of 2008–2012. It traces the path to austerity in two distinct Eurozone Member States, Ireland and Finland. Ireland, in this crisis, became a debtor country that had to do heavy domestic adjustment; Finland, by contrast, ended up in the group of Eurozone creditor countries, imposing structural adjustment programmes on the debtor countries.

The analysis of the thesis emphasizes political agency behind ideas and shows the political process where perceptions about the economic crisis were formed. It argues that two types of politicization of the crisis were necessary for the outcome of interest, the prevalence of austerity, to happen. The Irish case demonstrates a two-stage process of politicization and internalization of the crisis, where the significant policy decisions were reached in a transnational, fairly technocratic policy process but were debated and internalized in domestic, redistributive and politicized process. The transnational stage was characterized by economic and practical reasoning, whereas the domestic stage represented a conflict about distributive justice. For Finland, the 2008–9 financial crisis was not domestically politicized at all. This only changed in 2010–12, when the crisis became re-interpreted as a sovereign debt crisis of the GIIPS countries. Yet the politicization in Finland did not come about as a typical domestic redistributive debate, but as a new type of supranational conflict over distributive justice. Such conflict was not primarily framed in terms of just burden-sharing, but in terms of national and European interest. It was simultaneously a debate on borders and boundaries – polity and identity – as it was about distributive justice. Alongside rhetoric, the official line of Finnish EU policy became tougher and Finland became perceived as an increasingly difficult and selfish member of the EU community.

Chapter 1

Introduction

"What is the moral vision the creditor nations propose?
Frugality is not a policy. And if finance is to serve Europe rather than
ruin it, a notion of the common good needs to be restored."
– Mark Mazover, Financial Times, 31 January 2015

1.1 The Curious Prevalence of Austerity

The Eurozone crisis is different from its 20th-century predecessors in one key sense: despite stark variation in the situations of their respective economies, European governments responded to the crisis with one dominant policy, austerity.[1] Not only did government responses show little respect for variation in economic circumstances, the crisis also failed to lead to ideational innovation, as earlier crises have done. Why?

This study addresses the politics of economic policymaking in the Eurozone crisis in years 2008-2012. It is an inquiry into *two distinct political processes* that brought about the unprecedented convergence in the way EU Member States adjusted to this crisis. To this end, the study analyses and compares policy debates on the crisis in two different Economic and Monetary Union (EMU) Member States, Ireland and Finland. As is well known, these two small open economies ended up in very different places in the crisis. Ireland's economy plunged and the country had ultimately to take a bailout loan from the *troika* of foreign creditors, the EU, European Central Bank (ECB) and the International Monetary Fund (IMF). By contrast, Finland became one of the EU's creditor countries, and was in the front line to demand tough conditionality from countries like Ireland in exchange for rescue loans. Indeed, the main political outcome of the Eurozone crisis was a deep division of its Member States into debtors and creditors, those receiving aid and those giving it. The starting point for the case selection of this study is that a specific kind of politics was required in both types of countries, for the outcome of interest, *austerity,* as a general response to the crisis, to happen.

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[1] The Financial Times newspaper defines austerity measure as: "Official actions taken by the government, during a period of adverse economic conditions, to reduce its budget deficit using a combination of spending cuts or tax

The theoretical approach of the thesis is original. It argues that the politics of adjustment in the two cases are best traced by analysing public argumentation in the press. This is because public debates lay the core *ideas* of actors out in the open. Ideas are not immediately visible in institutions, nor does an examination of actor preferences directly inform us about the ideas they hold. Yet, the thesis argues, economic ideas particularly in crises are key to the way actors respond. Asking actors about ideas in an interview is not straightforward: actors may choose to say something other than what they actually think. Yet analysing a large amount of text, where actors over and over again make arguments about the economic reality necessarily reveals something about how actors perceived the situation, their choices and their actions. This is the key rationale for analysing the politics of the crisis in public debates, and not in some other manner.

Economic ideas are thus at the core of the theoretical approach of this thesis. The analytical chapters of the thesis analyse in detail policy ideas as they were presented in press debates on the crisis in Ireland and Finland between 2008 and 2012. Yet ideas do not make policy by themselves, but require advocates – *issue entrepreneurs* – who deliberately push forward some ideas and reject or ignore others in the public sphere. The analysis of the thesis emphasizes political agency behind ideas and attempts to make connections between specific ideas and actors in the press debates. Finally, the theoretical approach of the thesis emphasizes frames; namely, how precisely actors spoke in public about the crisis. Policy outcomes look different depending on how actors deal with a policy issue. First, it matters whether an issue is politicized or not. If a policy issue proceeds in a technocratic process, the outcome is likely to look different than if the issue becomes subject of public interest and debate (Hall 1993; Culpepper 2011). Secondly, *how* the issue is politicized matters. Here framing acquires importance. After an issue has become the subject of public interest, there are various ways in which issue entrepreneurs might choose to speak about it. Clearly, whether actors choose to perceive an economic crisis as a regulatory failure that led to excessive private risk-taking, or public sector failure, which led to excessive public spending, will have consequences for what they choose to do about it. Showing the political process where perceptions about the economic crisis were formed in Ireland and Finland is the core analytical task of the thesis.

This introductory chapter will proceed as follows. It will first offer a brief chronology of the crisis and present the main ways that it has been analysed in scholarly debate. After pointing out gaps in existing explanations, the chapter will then outline the research design of this study and argue why such a design contributes to filling those gaps. The last section provides the plan of the thesis.

1.2 A Short History of the Eurozone Financial and Economic Crisis

The economic crisis that started in the US housing market and landed in Europe in autumn 2008[2] resulted in a sudden loss of confidence in the financial markets and subsequently to a substantial tightening of credit flows in the Eurozone economies. In the first, financial-cum-banking part of the crisis, the Eurozone economies, such as Ireland and Spain, whose economic growth was most dependent on a continuous flow of credit, were severely affected. The second part of the crisis, the Eurozone sovereign debt crisis, started in Greece in spring 2010, as markets lost confidence in the ability of the Greek state to service its – by then substantial – sovereign debt. The market sentiment soon spread to affect also other peripheral Eurozone countries, bundled together as a group known as GIIPS – Greece, Ireland, Italy, Portugal and Spain – which then started to experience increasing difficulties to finance themselves in the private markets. Ultimately three of these countries, first Greece in May 2010, then Ireland in November 2010 and lastly Portugal in April 2011, had to accept an emergency loan from what became known as the *troika* of foreign lenders, composed of the IMF, the ECB and the EU Commission. The *troika,* in cooperation with domestic policymakers in the GIIPS countries, designed the conditions of the emergency loans and monitored compliance.

In the Eurozone, the need to provide cross-border financial assistance resulted in hasty institution building. In addition to bilateral loans, the rescue loans were administered through a new institutional structure the European Financial Stability Facility (EFSF), later known as the European Stability Mechanism (ESM). Policymakers and the public in creditor countries were against both providing such rescue loans to the GIIPS, however, and to a varying extent, they also had little appetite for EU-level institutional competencies. This meant two things. First, the loans provided in the context of these facilities were highly conditional. In exchange for loans the receiving countries had to accept a macroeconomic adjustment program, which in practice prescribed tax increases, expenditure cuts and structural reforms of pension systems and labour markets, for example. Hence, the initial reluctance of the Eurozone creditor countries to help their debtor peers resulted in a punitive political climate, where austerity was perceived as a just corrective action for excessive public sector growth in the pre-crisis years. Secondly, when the EU, after the initial shock had passed, started to revise its existing institutions, the reform constituted mostly in clarifying and strengthening balanced budget rules, mechanisms for surveying domestic fiscal end economic policymaking, and correcting Member States in breach of the EU-level rules. Hence, the crisis resulted in a more centralized, German-flavoured system of economic governance in the Eurozone.

It is not clear how this outcome logically follows from the financial crisis that began in autumn 2008. As mentioned, at stake in this crisis were regulatory failures that enabled excessive risk-taking in

[2] The onset of the crisis is subject to some debate, but many influential authors (e.g. Eichengreen et al. 2013, Krugman 2012) situate the start of the crisis in the autumn of 2008.

the US and Western European financial systems: banks, but even more importantly non-bank financial institutions, which were hardly regulated at all. How does closer surveillance of public spending in the Eurozone help to prevent such crises in the future? It does not. Rather, something happened along the way that drastically changed policymakers' perceptions of the crisis. In 2008-9, policymakers initially did respond precisely to the kind of financial market failure the crisis was. As Helleiner (2012) observes, the Financial Stability Forum of the Group of Seven countries (G7) promptly came up with an ambitious agenda for financial reform, which leaders of advanced economies actively endorsed. This reform agenda resulted in some significant outcomes, such as the Basel III agreement on, *inter alia*, stricter capital and liquidity requirements for financial institutions or the Dodd-Frank reform in the US. Yet, Helleiner (ibid) argues that during the crisis, the reform agenda was diluted by the inability of governments to agree to a uniform set of reform measures that would suit their respective economies. The EU in particular has been slow to move forward with financial reform. So far, its major reform imitative, the Banking Union, exists more on paper than in practice.

Stark differences in the structures of and situations in the Eurozone economies did not prove an obstacle for the homogenizing macroeconomic policy response of austerity, however. In Spain and Ireland, the crisis represented a clear case of a banking sector crisis. In fact, Greece was the only Eurozone country where the crisis was a question of public sector deficits. But also in Greece, loans from the EFSF and ESM were used, to a large extent, to shore up large European banks that had lent money to the Greek state. In Ireland, on the other hand, the connection between the liabilities of banks and the ensuing fiscal crisis of the State is especially clear. The Irish government responded to the crisis in September 2008, with a blanket guarantee for all Irish financial institutions – and, later, also those of some foreign institutions operating in Ireland – and as result, "literally overnight" (Mair 2011), managed to double its government debt-to-GDP ratio from circa 40 to 80 per cent. The European Commission has calculated that in the EU as a whole, 1.6 trillion euros, or 13 per cent of the EU's GDP, were used for measures to protect the banks – including recapitalizations, asset relief and guarantees – between 2008 and 2010. Naturally, the scope of such rescues pushed fiscal deficits through the roof both in debtor countries with sick banking sectors, but also in the creditor countries, which participated in these operations through the EFSF and ESM.

These Eurozone-specific developments were coupled with a global recession, which in economies such as Finland meant a drastic slowdown in international trade and an ensuing period of no or slow growth. This was fertile ground for the emergence of a new form of cross-border distributional conflict in Europe, and this is precisely what happened in the crisis. In conditions of economic stagnation, publics also in the creditor countries were faced with austerity. In this context, the private origins of the crisis were easy to forget. Politicians in the creditor countries politicized the crisis, instead, as a crisis of public spending. According to the narrative that emerged, public greed and laziness in the debtor countries had caused them to live beyond their means, a gap that public spending in the creditor countries would now have to fill. Ergo, less money for domestic redistribution. The framing of the crisis soon acquired an extremely nationalist tone. In the new transnational conflict, the frame of reference for distributive justice was territorial. For policymaking elites, governments and EU-institutional actors, it was European. They therefore made policy with what they perceived as the "European interest" in mind. For domestic parties and civil-society groups, the frame of reference was national. Political forces, especially of the far right, mobilized in the crisis with arguments that clearly framed the right for redistribution in such territorial terms. Hence, what emerged resembles a cultural conflict, with strong us vs. them divisions, but it is in fact an economic distributive conflict fought in terms of territoriality. This, at least, is the story this thesis is going to tell.

1.3 Existing Explanations and Gaps in the Literature

The Eurozone crisis defied some of the most significant theoretical approaches to explaining economic policy outcomes in crises. An obvious departure from earlier explanations is the lack of heterogeneity in government responses (Pontusson & Raess 2012) which we would expect to reflect the diversity of ways countries experienced the external shock (Katzenstein 1985; Hall & Soskice 2001; Iversen & Soskice 2012). Depending of the structure of a particular economy, we would then expect domestic coalitions to rearrange and put forward responses that reflect the composition of these coalitions (Gourevitch 1986). Furthermore, existing economic institutions should come under scrutiny and be replaced by new ones put forward by the reshuffled domestic coalitions. From an ideational perspective, existing policy paradigms should shatter and fall and be replaced with new ones (Blyth 2002; Hall 1993). Yet we have observed little national variation in responses and a remarkable resilience of pre-crisis economic ideas – namely, neo-liberalism (Baker & Underhill 2015; Thatcher & Schmidt 2013) – and institutions (Verdun 2015; Laffan & Schlosser 2015). Although the EU came up with institutional changes, these were largely aimed at fortifying existing structures rather than creating new ones.

What, moreover, makes the EU's prevalent response puzzling is the fact that austerity is not exactly known to cure recessions. To take two examples, Greece had by 2013 reportedly implemented fiscal tightening in the form of tax increases and spending cuts by some €50 billion, equivalent to 20 per cent of its GDP. Austerity was expected, with further measures, to reach €65 billion by 2015.

Ireland, the second country to take a bailout in November 2010 had by 2014 implemented austerity measures worth some €30.9 billion, or 17.3 per cent of its GDP (in 2010). (Hardiman & Regan 2013, 10.)

The outcome of this response in these countries was deep recession. In Greece, GDP fell by five per cent in 2010 and by seven per cent in 2011 and unemployment skyrocketed from less than 9 per cent in 2009 to over 26 per cent in 2012 (Monastiriotis 2013, 6-7). In Ireland, GDP fell by 11.8 per cent between 2008 and 2011 and unemployment rose from 6.4 per cent in 2008 to almost 15 per cent in 2012 (Hardiman & Regan 2013, 11). The EU's policy response has not really worked for the creditor states either. Between 2012 and 2015, Finland, a core member in the supposedly wealthy creditor coalition, implemented €6 billion of expenditure cuts and tax increases, and a further €4-5.5 billion of adjustment is envisaged for the coming four years. Finland did not have to save its banks and its sovereign debt is still moderate, at just under 63 per cent of GDP. The Finnish state can access funds in international markets at record low prices[3] and it is not immediately pushed to austerity by its Eurozone partners, either[4]. Yet, austerity is the policy of choice for Eurozone debtors and creditors alike.

Why?

By now, a plethora of academics and other observers have addressed this question. First, the adverse economic policy choices of Eurozone governments have been explained by institutional legacies (Laffan & Schlosser 2015; Verdun 2015). Verdun (2015) employs a historical institutionalist explanation to the crisis responses, and argues they stemmed from the pre-existing institutional framework in place in the EU when the crisis hit. Unable to invent completely new structures as quickly as needed, EU leaders copied and built upon existing ones. Although from a strictly institutional point of view this argument has some weight, I would argue that the peculiar characteristic of the EU's crisis management stemmed rather from the *lack of* adequate institutional capacity. That is, had there been a mechanism for a quick, coordinated, supranational response, the woes of the Eurozone's debtor states might have been lessened. In short, adequate institutional capacity would have prevented reluctant Member States, such as Germany or Finland, from delaying responses and making the rescue measures weapons in domestic politics.

[3] The interest rate on 10-year government bonds was at 0.49 in Q1 of 2015.
[4] In February 2015 the European Commission announced that unlike 16 other Member States, Finland does not at the moment merit the Excessive Imbalances Procedure, which pushes countries to immediate fiscal consolidation and structural reforms.

Others have approached the question from a partisan point of view. Armingeon (2012) and Pontusson and Raess (2012) are among scholars who have attempted to answer the question: did austerity depend on the colour of government in the country implementing it? The answer is no. In explaning why the policy palette of governments in this crisis was, indeed, so much narrower than in 1974–1982 economic crises, Pontusson and Raess (ibid, 28) come to the conclusion that "(s)imply put, policy choices have an important partisan component, but the partisan composition of governments does not provide any simple, straightforward explanation of why the menu of policy options has changed." Based on a comparative analysis of "the 27 democracies of the EU plus other mature democracies of the OECD world (Australasia, Canada, Japan, Norway, Japan, USA)," Armingeon (2012, 3) observes that "(o)nly in countries with low interest rates does partisan composition makes an – albeit minor – difference for budgetary policy." That is, in countries that implemented most austerity, the debtor countries, partisan composition made no difference. Wren-Lewis (2016) has made the intriguing argument that rising right-wing populism across Europe accounts for the success of austerity. He argues that "austerity was the result of right-wing opportunism, exploiting instinctive popular concern about rising government debt in order to reduce the size of the state." From the perspective of this study, Wren-Lewis' argument has some truth. In the Finnish case, as said, domestic political opportunism fuelled the debate and gave it a tone that led to a tougher rhetoric and practice in Finnish EU policy. Yet the right-wing Finns Party was not alone in the vanguard and the domestic politicisation of the crisis was led by the Social Democratic Party. Moreover, it appears that the conditional loan given to Greece in May 2010 fuelled political opportunism, rather than the other way round. In other words: had tough and nationalist rhetoric not picked up speed with a Social Democratic lead in Finland in 2010, the first strictly conditional Greek loan agreement may not have served as blueprint for all following agreements, but there might have been scope for easing conditionality for the cases that followed. Moreover, in cases such as Ireland, austerity was not simply something imposed from the outside. Ireland started with austerity in fall 2008, two years before it ended up in the *troika* program. Right-wing populism in the creditor countries cannot explain this outcome. Rather, as this thesis argues, the political process that lead to austerity must be observed in the two types of countries, debtors and creditors, separately. Economic ideas and interpretation were key in both, but not in the same way.

Blyth (2013), Helgadóttir (2015), Matthijs (2016), Ryner (2015) and Streeck (2014) have all explored the complex dynamics between ideas and power as background factors for the crisis responses. Ryner and Streeck invoke a somewhat structuralist explanation, arguing that particular class dynamics in financialized capitalism contributed to an "ordoliberal iron cage" (Ryner 2015), where national governments are structurally bound to a deferent position vis-à-vis transnational capital. While maybe true as such, these authors do not fully elaborate on the political process whereby such class power is transformed into policy outcomes. Blyth, Helgadóttir and Matthijs all focus on neo-liberal economic ideas and their use in the Eurozone in a fruitful way. Blyth's comprehensive account of the ideational origins and contemporary uses of austerity as an idea and as policy is certainly one of the key academic contributions produced by the crisis. Yet in providing a general argument about austerity's causes, Blyth does not delve in depth to the politics of austerity in any particular country case. This, in contrast, is what this thesis will do. Matthijs, like many in academia and public commentary, focuses on specifically *German* economic ideas in the crisis. The metaphor of a national economy as a household economy, where saving is a virtue, certainly served as basis for the Eurozone's crisis responses and undeniably echoes German economic thinking. Yet Germany alone does not constitute the EU or the EMU, and cannot, for all its economic, institutional and political power, simply dictate policy to its peers. Rather, German-induced ideas must be adopted in a domestic process that involves public argument and justification. Anything else would only be possible in a dictatorship, which the EU has not (yet, fully) turned into. Finally, Helgadóttir's perspective, which focuses on professional transnational networks as carriers of economic ideas is intriguing, for two reasons. First, it emphasizes that ideas need carriers. By themselves, ideas do not turn into policy and as said there is no supranational authority that can force ideas down domestic policymakers' throats. Secondly, it seems plausible that in a context of high levels of regional integration, ideas would spread with policy networks that cross borders.

This study argues that networks, which served as issue carriers in the crisis, can be detected by examining public argumentation in the press. Such approach allows for the identification of the key issues and frames in a given policy debate, and their carriers. It may even allow the analyst to establish connections between issue carriers, so as to make a claim about coalitions that pushed issues forward. There are other authors who have mapped public opinion (Bechtel et al. 2014) or public press debates (Kriesi & Grande, 2012) on the Eurocrisis. Bechtel et al. (2014) find that rather than economic self-interest, German public opinion on the crisis was driven by the respondents "'social dispositions, such as their degree of altruism or cosmopolitanism" (ibid, 854). Kriesi and Grande (2012) by contrast find that the debate in the press has been framed mainly in economic terms, which they account for by the relative absence of parties, vis-à-vis executives from the debates. The results of this study put a question mark on both these conclusions. It would appear to be the case, rather, that as Kriesi and Grande (2012) assume, politicization of the crisis was carried by parties, but the logic they employed – unlike what Bechtel et al. (2014) find – was a new type of combination of polity, justice and economic frames, suited for the kind of supranational redistributive conflict the crisis represented. Nor, in fact, must these types of frames exclude each other. As Fourcade et al. (2013, iii) note: "Karl Marx observed long ago that all economic struggles invite moral struggles, or masquerade as such. The reverse may be true as well: deep moral-political conflicts may be waged through the manipulation of economic resources".

The next section of this introductory chapter presents the research design of this dissertation, before moving onto the next chapter, where the theoretical framework of the study will be laid out in full.

1.4 Research Design

1.4.1 Case Selection: Ireland and Finland – An Extreme Debtor and a Typical Creditor

The study focuses on two Eurozone countries, Finland and Ireland. These countries represent two sides of the main political cleavage that has emerged in the Eurozone because of the economic crisis; namely, the division of Eurozone Member States into creditors and debtors. Ireland and Finland are, with respect to economy, in many ways similar countries. Both are "small open economies in world markets" (Katzenstein 1985) that have sought similar ways of adjustment to external shocks. Both adopted a tripartite model of wage bargaining, based on negotiations between the state and national-level unions and employer organizations, in the decades leading to the crisis. Both abandoned this regime in the late 2000s. Both are highly dependent on trade and therefore vulnerable to shocks in the surrounding economic environment. Both were exposed to an extreme shock when the financial crisis hit the world economy in 2008. What was the outcome?

In terms of policy ideas their response differed in the first stage of the crisis but was convergent in the second. Ireland did not stimulate its economy in 2008–2010 when most others in the Eurozone did, but engaged in austerity already then (Barnes & Wren 2012). Finland stimulated substantially in 2009–2010 but then turned towards austerity, as did most Eurozone states.

In this sense, Ireland is an extreme case of small variation in policy ideas. There, ideational debate was in some sense minimal, centred on austerity throughout the crisis years. A powerful explanatory argument for this outcome is, of course, that the Irish government had no choice, as its budget deficit spiralled already in 2008. It could not stimulate because it did not have the means to do so. Moreover, after 2010, austerity was dictated upon it by the *troika* of foreign lenders (the ECB, the EU and the IMF). In fact, in the early crisis years Ireland did have some choice. Iceland, which suffered from the crisis much like Ireland did and is, like Ireland, a peripheral small open economy, responded in a very different manner. First, it imposed strict capital controls to prevent large outflows of capital. Secondly, it depreciated its currency. Third, in a marked difference from many Eurozone states, such as Ireland, Iceland did not bail out its banks. In fact it could not have, given that the amount of banks' assets amounted to almost ten times the size of its national economy. Rather, the banks defaulted on some €85 billion in debt – roughly the size of the rescue package to the Irish government from the *troika*. Fourth, the government actively sought to alleviate the pain of adjustment for homeowners and vulnerable social groups by mortgage debt relief and retargeting of welfare state spending. As a result, not only has Iceland's economic recovery outperformed that of the Eurozone countries, but the social consequences of the recession have also been less harsh.

Ireland and Finland make an interesting comparison, because they differ in one crucial respect. As a result of the crisis, Ireland became a debtor and Finland a creditor. Armingeon (2012) argues this is what defines the small variation in policy responses, especially in the second stage of the crisis, when austerity became the "only game in town". The creditors have some say in how exactly they want to target their austerity measures and which tools they want to use, whereas for debtors the space for domestic choices is minimal.

While Ireland can be categorized as an extreme case (Gerring 2007, 101) that exhibits extreme lack of variation in the debated policy ideas, Finland would best qualify as a typical case in the universe of creditor states (ibid, 91). It represents the typical variation of policy ideas in most creditor states in the Eurozone, as it employed a moderate version of liberal Keynesianism in 2008-2010 and then, in the wake of a general Eurozone trend, started to sketch exit strategies from stimulus and returned to the normal policymaking mode of fiscal retrenchment. This study argues that in both cases, the same independent variable, policy entrepreneurship in the public sphere, was the main reason for the small extent of variation in the policy responses. However, the study will also engage in within-case process tracing to see what the coalition in each case looked like and how domestic political and economic institutions affected the way the coalition worked.

How did the crisis of 2008-2012 look like in both countries? In Ireland, the economy plunged. Due to the sudden shortage of credit, the banking and construction sectors, which had become vital for the Irish economy, collapsed. Consequently, the Irish economy entered a deep recession in 2008. Between 2008 and 2011, real GDP declined by 11.8 per cent, while real GNP declined by 14.5 per cent (Hardiman & Regan 2013, 10). Unemployment climbed from approximately 4.5 percent in 2007 to 14.4 percent in 2011 (The Economic and Social Research Institute Statistics). A key political decision that was to determine policy responses for years to come was the late September 2008 decision by the Irish government to guarantee the liabilities of all its troubled banks (Mair 2011). Irish government debt thus skyrocketed, from 7.3 per cent of GDP in 2008 to 31 per cent in 2010. It did not prove to be a cheap ride for the taxpayer, though. As later became apparent, the banks were not only illiquid but also insolvent. By 2013, the total cost of government purchases of nonperforming loans, recapitalizations, and nationalizations had amounted to €64 billion, or 40% of GDP. Simultaneously, the fiscal base of the government rapidly deteriorated as the crisis wore on. According to Hardiman and Regan (2013), Irish government revenues fell by almost €18bn, or 20 per cent of GNP, in 2008–2009, because the revenue base had become too dependent on activity in the construction and private services sector. At the same time, government expenditure rose from 37 to 47 per cent of GDP due to increased spending on social protection. In this context of sharp reduction of GDP and tax revenues – between 2008 and 2011, real GDP declined by 11.8 per cent, while real GNP declined by 14.5 per cent – Ireland managed to improve its general government primary balance by some seven percentage points between 2009 and 2012 (Hardiman & Regan 2012) by implementing austerity. In total between 2008 and 2015 the Irish economy experienced total cuts of about 20 per cent of GDP.

Despite the domestic austerity efforts, the Greek debacle in 2010 had the effect of eroding market trust also in Ireland to the extent that it ultimately had to take a bailout from the *troika* in November 2011. For Ireland this meant continuation on the path of austerity measures and structural reforms, as already laid out in the National Recovery plan and enacted on in a succession of austerity budgets from 2009 onwards. By 2013, Ireland had consolidated its public finances by some €30 billion or 17 per cent of 2013 GDP. In a more general sense, the period from 2010 saw the emergence of creditor-debtor politics in the Eurozone. The creditor coalition was forced to assist the debtor countries with emergency loans, via the newly-established loan facilities of the EFSF and ESM, in cooperation with the ECB and IMF. The assistance came with harsh conditions. Austerity, comprising structural reforms, tax increases and spending cuts aimed at consolidating public finances in the receiving countries, was the price they had to pay.

Despite the rollercoaster ride, it seems the Celtic Tiger is bouncing back. Ireland left the *troika* program in December 2013, ahead of schedule. Its economic growth, at nearly 7 per cent in 2015, is the strongest in the Eurozone.[5] Its sovereign debt, while still high at 109 per cent of GDP in 2015, is considerably lower than the peak of 123 per cent of GDP reached in 2013. The unemployment rate has fallen to 8.8 per cent, which is close to pre-crisis levels. The political parties Fine Gael (FG) and Labour suffered their own electoral punishment in general elections in February 2016. Fine Gael remained the largest parliamentary party with 25.5 per cent of the vote, but the Fianna Fail (FF) party also performed well, winning 24.4 per cent. The FG and FF remain reluctant to form a coalition and so Ireland currently struggles to form a stable majority government.

Finland entered the crisis in much better shape, with a healthy banking system and more varied base for economic activity and revenue. Yet as a small open economy heavily dependent on exports, Finland felt the crisis heavily. Its share of industrial exports dropped more than in any other OECD country (Rouvinen & Ylä-Anttila 2010) and as a result GDP fell 8.5 per cent in 2009–6.. The Finnish government – together with most EU countries – initially responded to the crisis by stimulating the economy. It introduced two stimulus packages in 2009 and 2010, amounting to approximately 1.7 and 1.6 per cent of GDP, respectively. Finland entered the crisis with central government debt at only 28

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[5] http://ec.europa.eu/economy_finance/eu/countries/ireland_en.htm

[6] http://www.suomenpankki.fi/fi/tilastot/maksutase/Documents/Mtvuosi1009_fi.pdf

per cent of GDP in 2008, but saw it climb fast, to 42 per cent by 2010, with the government budget balance turning into deficit of -2 per cent of GDP in 2009.[7] Hence, in 2010 the then centre-right Finnish government changed course and started to exit from stimulus and turn towards fiscal consolidation. In 2011, as the new six-party "rainbow coalition" government came to power, a key economic policy goal in Finland became fighting the structural deficit that was identified in the public finances, by implementing structural reforms and fiscal consolidation of €2.5 billion between 2011 and 2015, to be divided evenly between spending cuts and tax increases.

During the crisis, it gradually became clear that (perhaps except for Germany) the economies of the creditor states were not as sound as it initially seemed. Following the two most acute stages of the crises – the financial crisis of 2008–2010 and the sovereign debt crisis of 2010 – the Eurozone finds itself in what may be called the third phase, characterized by economic stagnation, low growth and low or negative inflation, associated with non-existent private demand growth. To some extent the low level of demand growth is what critics of austerity always predicted. In recession, austerity is assumed to cause a vicious deflationary spiral. Yet it is not just the GIIPS countries that suffer from poor economic performance. On the contrary, at this stage some debtors seem to be outperforming some creditors. In 2014, the Irish economy grew by 4.3 per cent, whereas the Finnish economy contracted by 0.2 per cent.[8]

At this stage, with the issue of lagging demand, levels of private debt have gained in importance. The household debt to gross domestic income ratio in the Netherlands is the second highest of the OECD, at 277 per cent in 2010. The same figure for Finland is 110 per cent and it is 132 per cent for Luxembourg.[9] These are higher figures than those for Greece (91 per cent) or Italy (86 per cent). When the issue is negative inflation and poor demand, highly leveraged households are clearly in the least favourable position to sustain any demand-led recovery, thereby making the position of the creditor states increasingly fragile. This also means that at the level of economic fundamentals, the positioning of countries into creditors and debtors may not be set in stone. Indeed, while still moderate, the level of public debt in the creditor countries has also, with the exception of Germany, been creeping up during the crisis.

In political terms, the crisis had profound impact also in Finland. All parties that had formed part of the 2007–2011 centre-right coalition government – the Centre Party (Keskusta), the centre-right, neo-liberal Kokoomus and the Greens – suffered major losses in the 2011 election. By contrast, the far-right, Eurosceptic Finns Party (previously, the True Finns) achieved a landslide victory. In an attempt to contain the influence of the Finns Party, the old mainstream parties ended up forming a grand

[7] http://www.stat.fi/til/jali/tau_en.html
[8] http://www.oecd.org/economy/ireland-economic-forecast-summary.htm
[9] OECD Factbook 2013: Economic, Environmental and Social Statistics - © OECD 2012

coalition of six ideologically distinct parties: Kokoomus, the Social Democrats (SDP), the Greens, Left Alliance, the Swedish Party and the Christian Democrats. Yet in Finnish EU policy, this election proved a transformative event in which Finland, hitherto known as a "model pupil" in the EU classroom, acquired an increasingly difficult and obtrusive reputation and became one of the toughest proponents of strict conditionality in exchange for loans to the GIIPS.

1.4.2 Data and Methods

Interviews with Elites and Experts

For this study, I conducted eleven interviews in Ireland and seven in Finland.[10] The purpose of these interviews was first and foremost exploratory. Especially with regard to Ireland, a country I knew little of at the start of this project, the interviews helped me to understand the case, context, sequence of events and key actors. In addition, the information yielded from the interviews proved also analytically useful, as the empirical chapters below demonstrate. Yet interviewing especially in Ireland, proved challenging. In 2013, Ireland was still firmly in the EU-IMF bailout program, and the crisis was a sensitive topic for many policymakers. Hence, it was difficult to arrange interviews. To get the full analytical leverage from the interview material would have required a more comprehensive strategy, and therefore, the information obtained from the interviews plays an important but auxiliary role in this study. It is mainly used to set the scene for the analysis of newspaper debates in the analytical chapters.

Newspaper Data: *Helsingin Sanomat* and the *Irish Times*

The main data of this study consists of 6042 core sentences, coded from newspaper articles from main national newspapers in Finland and Ireland. As Dolezal, Hütter and Wüest (2012, 41) point out, quality newspapers report on political matters more extensively than other media, such as television. In addition, the justification for selecting newspapers is economical: inclusion of other sources such as blogs, while interesting, might simply prove unfeasible. In Finland, the daily broadsheet *Helsingin Sanomat* has an exceptionally strong position in the national media field. Its circulation was 365 994 in 2011, leaving the biggest competitors, Aamulehti and Turun Sanomat far behind.[11] The *Irish Times*, Ireland's "newspaper of record" (Mercille 2015) has a circulation of ca. 390 000. In short, the two newspapers are in a similar position in the media fields of their respective countries. Mercille (ibid.)

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[10] See Appendix A.

[11] In 2011, the circulation of Aamulehti was 130 081 and of Turun Sanomat 103 314. Source: http://www.levikintarkastus.fi/levikintarkastus/tilastot/Levikkitilasto2011.pdf

notes that the *Irish Times* has an "agenda setting" role in the Irish public sphere, shaping what other news and media organizations publish. *Helsingin Sanomat* arguably plays a similar role in determining the nature of public debate in Finland.

Moreover, the two papers have a very similar readership figure, thus making them a good comparison. Notably, neither the *Irish Times* nor *Helsingin Sanomat* is an explicitly left- or right-leaning paper. In the two small countries, the media field simply is not big or diversified enough such that there would exist two, or more, papers of record, with different ideological leanings. As Mercille (ibid) notes for the case of Ireland, this has the consequence of narrowing down the range of views presented in quality press. In his view, the *Irish Times* has a strongly conservative bias, meaning that it intentionally refrains from publishing alternative viewpoints. While this may be true for *Helsingin Sanomat* as well, the intention of this study is not to engage in a critique of media organisation in the two countries. Rather, it is to treat the newspaper as a platform on which societal debate takes place, and to take the form of and biases in this debate as a given. This is how the debate looked like for audiences in Ireland and Finland, and the task of this thesis is to describe the debate and to draw implications from the debate for why and how was austerity determined as the prevalent crisis response in the two cases.

Sampling and Key Events

Comparative content analysis of newspapers is a work-demanding task that requires an adequate sampling strategy. The idea in this study is to follow the example of of Dolezal, Hutter and Wüest (2012, 42-47) and start by selecting key events, around which the debate is likely to be exceptionally intensive. This has been done somewhat differently in the two case countries, though, because of the different intensity of the crisis and therefore the debate in them. The question leading the selection of the events has been: what were the critical junctures at which decisions were taken and/or debates held that determined the policy preference of the two countries (i.e. austerity)?

Table 1.1 presents the selected key events and the distribution of sentences across them for the two countries.

Table 1.1: Core Sentences by Key Event and Country

	IRELAND	FINLAND
Irish Bank Guarantee (IRL & FIN) (23.9-7.10.2008)	647	434
Irish Austerity Budget I (IRL & FIN) (8-21.10.2008)	398	319
Greek Rescue Package (FIN) (25.4-9.5.2010)	.	427
Irish Bailout (IRL & FIN) (14-28.11.2010)	658	415
Irish General Election (IRL) (20.1 -21.2.2011)	2489	.
Finnish General Election (FIN) (10-24.4.2011)	0	255
N	4192	1850

As is evident from the table, the proportion of Irish data is much bigger than the Finnish data. The main explanation for this is the prevalence of data for the Irish general elections 2011. This event was coded as part of the POLCON research project, and therefore the sampling period was two times longer (a month) than that for the other events (two weeks) and 20 core sentences were coded per article, whereas for the other events 10 sentences per article were coded. In general, the data available in the *Irish Times* was more abundant than that in *Helsingin Sanomat*. In short, there were many more articles written on the subject and these were longer than the Finnish ones. In addition to taking only 10 sentences per article to limit the Irish data, the keyword strings (described in Appendix A) were more detailed in the Irish than in the Finnish searches.

For the Irish case, the challenge in identifying events was the abundance of possible candidates.[12] In order to be efficient, not all possibly interesting junctures could be included. Notably, no event for the year 2009 was included, although much of the debate on the banking crisis is likely to have unfolded during that time. The strategy was guided by the notion that at the core of thesis is the crisis of public finances, not of the banks. In hindsight, the two are more intimately connected than I understood at the time of making this choice. Nevertheless, the first of the Irish key events, the debate on the government's bank guarantee, hopefully provides interesting insight into the specifically banking policy-element of the overall crisis debates. Indeed, the decision by Irish authorities in September 2008 to issue a blanket bank guarantee to cover all liabilities of Irish, and subsequently also two foreign financial institutions, was clearly a crucial – perhaps even *the* crucial juncture – in the crisis. Additionally, the eight austerity budgets that the Irish governments have presented between 2008 and

12 See Appendix A for details for searches with key events.

2014, taking €28 or the equivalent 17 per cent of today's GDP out of the economy, clearly qualify as critical junctures. As this study focuses on years 2008-2012 and can only include a limited amount of data, the first austerity budget of the Fianna Fáil-Greens coalition introduced in October 2008 has been selected. This budget for year 2009 budget, introduced by the Minister for Finance Brian Lenihan (Fianna Fáil) on 14 December 2008, in what he labelled "one of the most difficult and uncertain times in living memory" was the first austerity budget of crisis and hence influential in setting the tone of the Irish debate and the actual policy measures.

The third event, the Irish bailout, was clearly a moment of truth for Ireland. After weeks of denial, the Irish government finally had to admit on 21 November 2010 that it was going to take what the Governor of the Irish Central Bank, Patrick Honohan, labelled a very "substantial loan" from the *troika*. The loan was for €85 billion euro and came with strict conditionality, effectively locking in the economic policy stance of Ireland for years to come. Finally, the period around the Irish general election on 25 February 2011 is coded. The early elections followed a crisis of the incumbent Fianna Fail-Greens governing coalition, in which 10 cabinet ministers resigned within a few days. The crisis, revealing the internal chaos of the main coalition party, Fianna Fail, undermined its credibility and especially that of the party leader and prime minister Brian Cowen. The minor coalition partner, the Greens, left the government at the end of January 2011, after which new elections were called. The result of the election was historical. Fianna Fail, which had been the biggest party in parliament since 1927, lost more than half of its votes and dropped to the position of the third-biggest party, with 20 parliamentary seats. The former main opposition party, Fine Gael, on the other hand, took a record victory, gained 76 seats and became the biggest party and main partner in governing coalition with Labour party.

For Finland, the strategy for defining key events was slightly different than for Ireland. In the Finnish case, it is less clear what qualify as key moments, as between 2008 and 2012 the crisis was not in the same sense a Finnish domestic crisis as it was for Ireland. Finland experienced the crisis more as an external event, as something to be managed at the EU level rather than at home. This also shows in the number of sentences: there was clearly less debate in the press on the crisis than was the case for Ireland.

The strategy for definition of the Finnish key events was twofold. First, the idea has been to include as many of the same events as in Ireland for reasons of comparability. In the analytical chapters, what count as the first two Irish events – the bank guarantee and the austerity budget – are bundled together for Finland, such that they represent the Financial Crisis stage of the overall crisis. Similarly, two other events, the Greek rescue package and the Irish bailout have been analysed together as the Eurozone crisis stage of the overall crisis.

To ensure the selection of key events based on the Irish data did not do unjustice to the Finnish debate, the second choice in the Finnish data collection was to go manually through the whole debate between 2008 and 2014, using the electronic archive of *Helsingin Sanomat*, to see at which moments the debate intensified. With such procedure, four key events were identified, with a fifth potential one that could have been included if feasible for the workload. In the timeframe of the Irish events, 2008–2011, four periods of intensive debate were identified:[13]

September-October 2008: 411 hits between 1 September and 31 October 2008
May 2010; 111 hits between 1 May and 31 May 2010,
November 2010: 71 hits between 1 November and 31 November 2010
April-May 2011: 108 hits between 1 April 2011 and 31 May 2011. [14]

These periods of intense debate clearly coincide with the Irish events, therefore offering proof of the way in which the crisis was to an extent a European-wide phenomenon and how – perhaps especially in countries in which the domestic crisis was less intense – the important events in other countries were much debated. This also justifies coding roughly the same events for Finland as for Ireland, with the exception of the national general elections.

Hence for Finland the first event is the Financial Crisis, which was rapidly increasing in public salience in Finland in September and October 2008. The second event is divided between the first Greek bailout package in April–May 2010 and the Irish bailout debate in November of that year. The Greek debacle was undoubtedly a key moment in the Finnish crisis discourse and crisis management (Anttila 2013; Herkman and Harjuniemi 2013; Jokela 2013). It brought the redistributive aspect of the crisis to the Finnish agenda for the first time, as it became clear that Finland would be expected to participate in assisting Greece. In the ensuing debate in parliament, the SDP dissociated itself from the centre-right government's EU agenda and commitment to back up the Greek rescue package and subsequently voted against the package. They thereby broke with the long-standing consensus in Finnish EU policy towards further integration, which it must be said the Social Democrats themselves had played a leading role in forging under Prime Minister Paavo Lipponen in the 1990s. The tough tone in Finnish EU policy debate only intensified towards the Irish bailout deal.

[13] Search from 1.1.2007 to 22.4.2014, keywords "Finanssikriisi OR pankkikriisi OR talouskriisi OR velkakriisi OR eurokriisi"
[14] The figures do not correspond with those in Table 1 as the final search string were different and not all articles returned by search had relevant core sentences.

The third Finnish event is the period around the parliamentary election held on 17 April 2011. As said, the trend in the Finnish elections was similar to that of the Irish ones: all incumbent parties of the former government, a centre-right coalition composed of the Centre Party, National Coalition Party (Kokoomus), Greens and the Swedish People's Party lost seats. The former main coalition party, the Centre Party, lost 16 seats. The only winner of the elections were the Finns Party, who took 39 seats in the new parliament, compared to only 4 seats in the former one. The two-month period after the election was an interesting period in Finnish politics and though not coded here, a brief account sheds light on how interconnected domestic and EU politics were at the time. After the election, mainstream parties struggled to contain the populist landslide of the Finns Party, and to this end were committed to forming a grand coalition government without the Finns Party. That they finally managed to do so, after the Social Democrats in 2010 had voted against the government's EU strategy (of participating in the Greek rescue package), required months of negotiations. Jyrki Katainen, the leader of Kokoomus, the centre-right conservative party that had won the elections, finally managed to form a six-party coalition government, without the Finns Party. Incidentally, Jutta Urpilainen, the chairwoman of the Social Democrats that lead the parliamentary protest in 2010, was appointed as Minister for Finance in the coalition. The domestic protest was thus contained and the party tied into the government consensus, but not without a price: as a concession to the Social Democrats, the Finnish government thereafter used a considerable amount of political firepower and pure cash to negotiate a deal with Greece on so-called "collateral", as exchange for Finnish participation in the financial assistance packages. Hence the hard, austerity-minded line of Finnish EU policy was born out, at least in part, of domestic electoral concerns, brought about by the populist challenge of the Finns Party.[15]

Finally, as in the Irish case, other events also could have been added for Finland. As discussed above, the years after 2012 mark the third stage of the crisis, characterized with"secular stagnation" across the Eurozone. Notably, this concerns creditor countries, too. Therefore, it might have been interesting to add a Finnish event from post-2013 period, when the existence of a structural economic crisis began to be clear. The debate on hard domestic distributive decisions started, at the latest, in April 2014, when the government decided on a "growth package" of €600 million, as a counterforce for savings of some €1.5 billion in the 2015 budget. Finland may not have yet faced its most difficult decisions on austerity.

[15] Interviews with advisors to then Minister for Finance, Jutta Urpilainen and Prime Minister, Jyrki Katainen, in June 2014.

Methods: Core Sentence & Frame Analysis

The main method of analysis of this study is Core Sentence Analysis (CSA), with which the main units of analysis, the sentences in the newspaper articles, have been analysed. Secondly, the more qualitative part of the newspaper content analysis consists in the analysis of frames that the speakers use. This methodology relies heavily on the one used by Kriesi et al. (2012) in their analysis of globalization debates.

In CSA, actors and their issue positions are first identified by sentence per sentence analysis of the media articles. Namely, every sentence is reduced to its "core sentence", which includes only the actor, the issue and the direction of the relationship between the two. The amount of core sentences does not equal the number of grammatical sentences in an article, however, since one sentence could also include various core sentences or none. In the following example from the *Irish Times* there are six "core sentences" in one grammatical sentence:

> While international economists are divided over just how deep any downturn will be this year, most agree that weak business confidence and budget austerity is eating into the purchasing power of European households, driving up unemployment and leaving Asian and US demand holding the key to growth. (The Irish Times, 27 March 2012, Euro Zone Debt Crisis "Not Over")

Here the actor "international economists" has, first, an ambiguous relation to the issue of a downturn; second, a positive relation to business confidence, budget austerity and the purchasing power of European households; and third, a negative relation to unemployment and Asian and US demand holding the key to growth. The relations between actors and issues are coded in a scale from -1 to +1, with the scale-points -0.5, 0 and + 0.5 representing vague or ambiguous positions.

CSA is an inductive approach that, without an a priori categorization of issues and actors, allows the analyst to capture the full complexity of the debate. Following this approach, I have coded issues at three levels of generality, only two of which are used in the analysis. At the most general level, I have divided the issues into five categories with subcategories for each of them. Table 1.2 presents these main issues for the whole data set.[16] Country- and event-specific tables are provided in the country chapters below, and more detailed information about the coding procedure in the methodological Appendix B.

[16] Omitting missing values.

Table 1.2: Issues, Ireland and Finland

Main Issue	%	Subsidiary Issue	%
EU Policy	26.3	Eurozone Bailouts	18
		Coordination & Institution-building	8.3
Fiscal & Labour Market Policy	25.5	Taxation & Expenditure	20
		Labour Market & Employment	5.5
Banking Policy	19.7	Banking Rescue Measures	11,9
		Regulation & Reform	7.8
Structural Reforms	14.6	Public Sector Reform	4.9
		Business & Economic Reform	4.7
Procedural Issues	13.9	Coalition & Electoral Politics	7.5
		Crisis Resolution	4
		Democracy & Social Justice	2.5
Total	100		100

When it comes to framing, following the example of Helbing, Hoeglinger & Wuest (2012, 211), the focus of the study is on one aspect of framing: the justifications that actors give with their statements. The framing approach departs from the assumption that policy issues are backed up in the debate by principled beliefs, normative ideas about the just and unjust or right and wrong. Hence the idea to first trace the issue, the "what" of the statement with CSA and the principled belief, and then the "why" with the analysis of frames. Frames can be pre-categorized in various ways. I have also followed a largely inductive approach here. However, my final decisions on categorization have surely been influence by the background knowledge that most authors, who have analysed press debate,s have usually observed at least economic, justice, and territorial frames, as well as some type of pragmatic or procedural frames.

Table 1.3: Frames, Finland and Ireland

	%		%
Economic Frames	36.4	Economic Growth and Employment	14.8
		Market Confidence	8.4
		Competition, Competitiveness	5.4
		Financial Stability	4.4
		Budget Balance	3.4
Justice Frames	31	Social Justice & Democracy	16.4
		Public Confidence and Interest	11.7
		Morality	3
Procedural Frames	19.1	Law, Rules and External Constraints	12.9
		Efficiency, Cost-Effectiveness	4.1
Polity Frames	11.3	National Interest & Sovereignty	8
		Eurozone Stability & European Interest	3.2
	100		100

Finally, the third core variable of interest in the analysis is the actors. I have coded the actor variable at four levels of generality, ranging from nationality (national/non-national) to the individual level. I here present information of the two most aggregate levels, while again more detailed tables are found in the empirical Chapters 3 and 4.

Table 1.4: Nationality of Speakers

National	69.1
Non-national	30.9
Total	100

Table 1.5: Speakers, Ireland and Finland

Speaker Group	%
Parties, Ireland	28.7
Government & Executive, Ireland	17.8
Government & Executive, other countries	16.3
EU Institutions	5.9
Parties, Finland	4.6
Government & Executive, Finland	4.5
Central Banks	3.4
Parties, Other countries & Europarties	3
Business & Employers	2.8
Academia & Experts	2.7
Trade Unions	2.6
Banks	2.2
Interest Groups	2.2
International Organizations	2.2
Total	100

1.5 Plan of the Thesis

The following chapter will introduce the theoretical framework of this dissertation more in detail It will first present a theoretical model for the influence of economic ideas on policy choice in times of crises, followed by a discussion on the role of political communication and issue entrepreneurs as the mechanism via which ideas turn into policies. The second part of Chapter 2 will turn to the context of this study, the EU and the Eurozone. It will first map the key economic ideas that are likely to figure in the debate, and the observe these ideas more specifically in the case of the recent crisis. Finally, the chapter draws hypotheses for the following empirical chapters from the literature on politicization and public debates in the European context. The theory chapter is followed by the two empirical chapters of this thesis. Chapter 3 focuses on Ireland. Arguing that the crisis had roots in Ireland's pre-crisis political economy, the first part of the chapter maps out Ireland's political economic growth model in the pre-crisis years. The section after that uses the interview evidence to show, how an ideational consensus in Ireland contributed to the crisis, by preventing institutional checks and balances from working and societal whistle-blowers from doing their job. Finally, the rest of the chapter analyses in detail the press debate in the Irish crisis. Chapter 4 is dedicated to Finland. It opens by mapping the politics and economics of the crisis in Finland. This part uses evidence from the Finnish interviews, setting the scene for the following press analysis. Finally, Chapter 5 concludes the thesis. It further compares the two case countries and makes conclusions about the politics of austerity in the Eurozone, based on the results of these two case studies. The chapter finishes with some recommendations for future research.

Chapter 2

2.1 Economic Ideas and Policy Choice in Crises

History has points of critical choice, moments of flux when several things might happen but only one actually does (...) Economic crises create such points of choice. (Gourevitch 1986)

Politicians are known for being opportunistic and embracing prevailing ideas. What is important is the contents of the well that leaders drink from. (Stein 2010)

In their seminal work on political competition in Western democracies, Lipset and Rokkan (1967) argued that societies feature relatively stable cleavage lines that are nevertheless subject to shifts during critical junctures. The task of political science is to figure out whether a given juncture changes the prevalent cleavages and if so, how. Peter Gourevitch (1986) argued that economic crises are points at which politics typically undergo such significant change, and predicted the direction of change with power relations of socio-economic coalitions. To this, scholars like Peter Hall (1993) or Mark Blyth (2002, 2013) have added the notion that *ideas* are crucial for analysing policy change at such critical junctures. In conditions of great uncertainty, policymakers will re-evaluate their interests in light of the ideas that are available. Thus, understanding the "wells that leaders drink from" (Stein 2010) becomes important.

The theoretical framework of this thesis makes use of the four elements identified as critical by the abovementioned scholars. It scrutinizes policy change at a critical juncture, the economic crisis. In doing so, the thesis conceptualizes econonomic ideas as tools with which actor coalitions interpret events, and in light of this information, their own interests. The thesis seeks to make two contributions to the already existing literature on critical junctures, ideas, and policy change. First, the thesis amends the conventional punctuated equilibrium-type of model of ideational paradigm change with a model of how ideas, in themselves, change. That is, while ideas can be – and are – used as *tools* by political entrepreneurs, they are also the *object* of change. This stems from the simple observation that if ideas are critical for interpretation, especially at critical junctures such as economic crises, then influencing the direction of policy change at such junctures also involves influencing the ideas actors use to make sense of events. The thesis will empirically scrutinize such a process by observing ideas in public debates.

Secondly, the thesis seeks to make a contribution to answering the big ideational puzzle of the recent crisis: why did no big paradigm change, which previous theory (e.g. Hall 1993) would have lead us to expect, occur? The second main theoretical contribution of this thesis is to set up a narrative about *how and why* governments responded to this crisis keeping within the existing, neo – or ordo – liberal paradigm. Understanding incremental ideational change, as the sections below will allow us to do, helps answering the how-question. In this crisis, actors adjusted their policy beliefs *within* the neoliberal paradigm. They did so by creatively reshuffling components of liberal ideas, such that thhese could be combined with some elements of other ideas, such as Keynesian stimulus, or protectionism. None of these latter ideas became prevalent ones, however. The why-question, by contrast, is related to the political, institutional and ideational structure of the EU and the Eurozone, particularly. The thesis argues that this structure bound actors both at the level of institutional rules, and ideational cues, to the ordoliberal economic framework. It therefore discouraged any ideational competition that might have lead to a paradigm change, such as was witnessed in the 1970-80s, as a result of the oil crisis, for example (Hall 1993). While we still cannot speak of a fully successful macroeconomic harmonization in the EMU, its common macroeconomic governance framework surely took a quantum leap in the recent crisis.

To these theoretical ends, the section below first introduces a complementary model of ideational change – a schematic model – which, it argues, can better account for event in the latest crisis than could a punctuated equilibrium-type of model. After that, the second part of the chapter turns into the specific ideas that were eployed in the Eurozone crisis. The chapter explores expectations from earlier theory on which we might expect to be the prevalent conflict lines in Europeanized policy debates. After introducing the main post-war economic policy paradigms, Keynesianism and (neo-) liberalism, the chapter provides a short history of European monetary cooperation. The purpose of this is to illustrate the constraints that were at place when the crisis hit, and which, the chapter argues, pre-biased actors towards a very German economic idea, ordoliberalism, which also was enshrined in the institutional setup of the EMU.

The third and final part of the chapter then connects the theoretical discussion with the methodological approach of the thesis, by bringing in aspects of the theory of political communication. By emphasizing communicative action in the public sphere, the thesis does not, however, wish to suggest that public deliberation as such would be the decisive causal factor behind policy outcomes. Rather, political communication is empirically observed in the thesis as a means of detecting overt actor positions to the contentious issues debated in the crisis. That is, the public sphere is regarded as a *forum* for political contention, where, by observing multiple instances in which an actor takes a stance on a certain issue, something meaningful about their interests in and ideas on the issue can be deduced. As the preceding discussion in the chapter hopes to clarify, however, actors will deliberate issues from constrained positions, where they are bound by a multitude of factors, including the structure of the political economy they find themselves in, their own fundamental preferences in that context, the institutional rules in place and the ideas enshrined in those institutions. Hence, the empirical chapters of this thesis seek to illuminate ways actors navigate these multiple pressures, and use political agency in the public sphere to influence outcomes while bound by a plethora of constraints. It is the interaction between constraints and agency, that forms the object of empirical interest of the thesis.

2.1.1 Economic Ideas and Policy Change

Debate on the role of ideas in political-economic explanation intensified from the 1990s onwards, as a response to the perceived rigidity of institutionalist or interest-based theories. These approaches suggested that policy choice is made by rational actors with structurally pre-defined economic interests, in a context of institutions that constrain that choice. As such, the interest-based and institutional approaches left little room for agency and change: why, given these assumptions, would anything else than continuity ever occur (Campbell 2002)? In which way could actors reconsider their preferences or choose to change the institutional settings in which they operate?

Two types of answers emerged. One was to exogenize change. In "punctuated equilibrium" models (e.g. True, Baumgartner & Jones 2007), a radical exogenous event – typically a war or an economic crisis – pushes the system off equilibrium and challenges the prevalent understanding actors have of their preferences and the surrounding institutions. In this manner, Gourevitch (1986), for example, examined how critical junctures caused socio-economic coalitions to dissolve and reform, changing the preferences of these coalitions simultaneously. Another answer was to incorporate ideas into the equation. Ideas help to analytically disentangle interests from the perceptions actors have of them, and allow room for intentional agency within the institutional constraints. By introducing a notion of critical distance between actors, their interests and the institutions within which they operate, ideas help to explain how, some of the time, actors may choose to change that environment (Hall 1993, 1997; Blyth 2002, 2013; Culpepper 2008; Schmidt 2010).

What, then, are economic ideas, and how do actors use them? The sections below introduce two ideal-typical models of economic ideas, a hierarchical and a schematic model. These should be seen as complementing, rather than starkly contrasting, each other. The schematic model simply clarifies how ideas may change incrementally, in the absence of a paradigmatic change. The punctuated equilibrium model clearly cannot account for ideational change in the recent crisis, as no sudden rupture with the past was observed. Hence, the argument goes, actors in this crisis adapted to the prevailing neo-liberal paradigm by recombining existing ideational elements in a way that enabled this paradigm to internalize the crisis, without being fundamentally challenged by it.

2.1.1.1 Punctuated Equilibria and Paradigmatic Change

The ideas-oriented scholarly literature typically conceptualizes ideas at different levels of generality. At the uppermost level, Goldstein and Keohane (1993, 8) have argued that *world views* "define the universe of possibilities for action", while Hall (1993, 279) has introduced the concept of *policy paradigm*, observing that "policymakers customarily work within a framework of ideas and standards that specifies not only the goals of policy, but also the very nature of the problems they are meant to be addressing." Campbell (2002, 22) prefers the concept of *cognitive paradigms*: "taken-for-granted descriptions and theoretical analyses that specify cause and effect relationships, that reside in the background of policy debates and that limit the range of alternatives policy makers are likely to perceive as useful." Sabatier and Weible (2007) define *core beliefs* as basic normative assumptions about fundamental values, that are difficult to change. In sum, these concepts all refer to a framework of ideas at the highest level of generality, which fundamentally influences the way actors perceive themselves and the world around them. At a lower level, the literature refers to *policy ideas* or *programmatic ideas*, which offer more practical advice on how to address problems within an existing set of world views or a policy paradigm (Campbell 2002; Goldstein & Keohane 1993; Béland & Cox 2011; McNamara 1998; Sabatier and Weible 2007).

This conceptualization of ideas is associated with the punctuated-equilibrium model of policy change, which holds that political systems are most of the time characterized by stability, only to be punctuated by crises at regular intervals (e.g. Sabatier & Jenkins-Smith 1999). At such moments of rupture, existing institutional orders, actor coalitions, and even actor preferences, are suddenly up for grabs. Here, a space for ideas opens up. The role of ideas is related to the fundamental uncertainty that characterizes situations of crisis. While the social world in general is characterized by uncertainty, this uncertainty can be conceptualized as risk: uncertainty over outcomes of probabilistic calculations. Yet, uncertainty in crises is different. Frequently, it is conceptualized as Knightian uncertainty, under which rational calculation of risk becomes impossible. Quite simply, at such moments actors lose sight of the grounds on which to calculate risk, and have to therefore rely on proxies. In crises, a gap opens up between an actor and her interests, as well as the institutional environment she finds herself in. This critical distance is the realm of ideas. Perceiving multiple possibilities for action, and few criteria for evaluating them, the role for interpretation in the situation increases. Ideas help to reduce uncertainty by helping actors to interpret the situation and evaluate courses for action. This is the first causal pathway to ideational influence. Secondly, actors not only evaluate their environment with the help of ideas but also use them to re-evaluate their own interests. This is the second causal pathway. The third causal pathway concerns collective action. It is not sufficient that the situation be interpreted by actors individually. §More often than not, collective action is required to get out of a crisis. Ideas may facilitate collective action by offering actors common ground for coordination. First by allowing actors to interpret their surroundings and thereafter to calculate their preferences with regard to multiple possibilities for action, ideas form focal points around which actors may coalesce. Following this, ideas may facilitate coalition building, and the respective coalitions may engage in a political battle that may or may not produce a new ideational and institutional post-crisis solution. (Blyth 2002; Garrett & Weingast 1992; Goldstein & Keohane 1993; McNamara 1998; Culpepper 2008.)

Peter Hall (1993) has introduced a punctuated-equilibrium type of model for policy change, in which first- and second-order change refers to a gradual adjustment of existing policy instruments or the settings of those instruments within an existing policy paradigm, while third-order change refers to change in the overarching paradigm. For example, first- and second-order change in central banking policy might refer to gradual adjustment of the bank's inflation target, while a third-order change would mean shifting the bank's overall *raison d´etre* from inflation-targeting to, say, general maintenance of macroeconomic stability. Thus, in third-order change, what constitutes a primary political concern changes. Accordingly, while first- and second-order changes take place within the technocratic realm, a third-order change requires a different process. There, the grounds for evaluating a successful solution change: technical criteria no longer suffice to determine the preferability of one paradigm over another, but the choice will have to be made on a political basis. This is likely involve a change in authority, between the Treasury and the Central Bank for example. Moreover, as the process becomes politicized, the broader public will get involved. The battle in the public sphere will spill over to electoral competition, provoking competing coalitions to defend the old or propose a new paradigm. Needless to say, first- and second-order changes are much more frequent than is a paradigm change, which is habitually seen to require a catalyst, such as an economic crisis, to happen.

The punctuated-equilibrium model of policy change seems to capture well the sequence of events in the economic crises of the 20th century. The Great Depression of the 1930s precipitated the shift from laissez-faire capitalism to Keynesianism and the 1970s crisis from Keynesianism to monetarism (Blyth 2002; McNamara 1998). Yet the most recent crisis breaks the pattern: this time around, no such paradigm change has occurred. Most political scientists agree that instead of an ideational revolution, this crisis is characterized by the resilience of the pre-crisis paradigm, often characterized as neo-liberal (Pontusson & Raess 2012; Baker & Underhill 2015; Crouch 2011; Laffan & Schlosser 2015). As Laffan and Schlosser (2015) observe: "Third-order change – change at the level of overarching ideas – has not occurred. Paradigm breakers such as the mutualization of debt have not occurred. Rather there has been a reinforcement of the pre-existing ideas about sound public finances." How can we theoretically account for this? Streeck & Thelen (2005) pointed out over a decade ago that theory should fare better in accounting for incremental, yet significant change. In other words, the punctuated equilibrium theory, as depicted above, does not sufficiently account for how incremental change, happening in between crises, can sometimes lead to transformative results. Hence, Morin and Carta (2015) and Carstensen (2011) have argued that to better understand subtle but significant ideational change, theory needs to move beyond the punctuated equilibrium-model.

2.1.1.2 Muddling Through and Incremental Change

As pointed out above, introducing the schematic model of ideational change is not intended to fundamentally challenge Hall's punctuated equilibrium-type of account fo paradigm change. Simply, the different stages of change – referred to as first-, second- and third-order change by Hall – are characterized with different ways of ideational change. The muddling through phase, which arguably has characterized much of the recent crisis, is better illustrated with the schematic model, whereas the transformative phase is characterized with overturning of paradigms.[17]

In terms of theory, the demand for the schematic model stems from a simple observation. If actors are, most of the time, unaware of the existence of the ideational and institutional constraints within which they operate, then how can they suddenly, at critical junctures, become aware of these constraints, so as to change them? In other words, if paradigms are, as Baumgartner (2014, 476) suggests, "such powerful ideas that they become unspoken", then how do actors develop the critical capacity to challenge them? Thus, ideational political science is in danger of falling to the same trap of static bias as the institutionalist and interest based literature it was supposed to criticize. Carstensen (2011, 149) argues that in "Hall's theory (...) actors do not possess a critical sense of the ideas they hold (...) actors cannot challenge the ideas of the paradigm without challenging its overall structure, which is impossible considering that the paradigm is 'unamenable to scrutiny as a whole'." The schematic model implies that actors always retain the capacity to engage in a critical evaluation of their surrounding ideational paradigm, and are able to purposefully act to change it. Importantly, however, they also are able to act in order to *preserve* the *status quo*. That is, we may suspect that actors, such as German

[17] In the recent crisis, in fact, both types may be present, if one extends the observation period enough. Indeed, it would appear that in the recent two or so years, the macroeconomic paradigm seems slowly to be changing to favor more government action and stimulus, instead of pure austerity. Yet this period of time is outside the scope of this thesis.

policymakers, in the recent crisis favored the ideational – and institutional – *status quo*, and hence cast both the problem and the responses in terms of the ordoliberal paradigm, so as to exclude alternative intepretations.

The schematic model amends the hierarchical model by better specifying what, exactly, happens to ideas when they change, and by reconceptualizing the relationship between actors and ideas. In this model, ideas are conceptualized horizontally, as nodes in a network, rather than vertically, at different levels of generality. This network – a discourse – is built on the relationships between ideas. Importantly, ideas are not coherent and stable wholes, but fluid entities. Thus, elements in the ideational network are interchangeable. Internally, ideas are composed of elements, the ordering of which may change. If so, the "meaning" of the idea also changes. Also, if some of these elements are replaced with elements brought in from elsewhere in the discursive network, the meaning changes. Again, Hall himself (2005) has introduced a similar idea, when he argued that interests consist of an objective and a subjective part: the interest "as such" and the perception the actor has of it. Moreover, the subjective part, meaning that actors' perceptions of their interests consist of multiple possible intepretations. When something causes a shift in the prevalent interpretation, the interest as a whole, and thus behavior, changes.

The fluid character of ideas also means that actors, unlike in the hierarchical model, need not be wedded to particular ideas, or paradigms. Rather, they may act as *bricoleurs* who gather ideational bits and pieces on a practical basis, muddling through a difficult situation. Indeed, the fluid boundaries of ideas mean that their constituent components may form part of several ideological discourses at the same time, and can therefore be used by actors with multiple ideological orientations. What, therefore, explains the rise and fall of ideas in this model is not so much their coherence as their multi-interpretability: the best ideas are those that lend themselves to various uses by a broad range of actors. By implication, the process of ideational change looks different in this model as well. Rather than featuring a battle between two clear-cut camps, ideational change is better described as "constant struggles in an ideational jungle" (Morin & Carta 2015, 118). Hence, according to Morin and Carta (2015, 118):

> Picturing the current economic debates as a hegemonic vox market against a counter-hegemonic vox populi, essentially opposing bankers' neo-liberal discourse to the indignados' Keynesian arguments, would be far too simplistic (...) if ideational battles take place, they are not duels opposing two antagonists.

Thatcher and Schmidt (2013) have observed that precisely because of its capability to adjust, the pre-crisis neo-liberal paradigm has proved resilient in this crisis. Similarly, Hall (1989, 367) has observed that the success of Keynesianism depended on its multifaceted character:

> Indeed, the very ambiguity of Keynesian ideas enhanced their power in the political sphere. By reading slightly different emphases into those ideas, an otherwise disparate set of groups could unite under the same banner. This tells us a great deal about the kind of role that ideas play in politics. When an evocative set of ideas is introduced into the political arena, they do not simply rest on top of the other factors already there. Rather, they can alter the composition of other elements in the political sphere, like a catalyst or binding agent that allows existing ingredients to combine in new ways.

As becomes clear from this discussion, the division into schematic and hierarchical models is ideal-typical, and authors such as Hall might be put into both camps. Yet, introducing the schematic model (Morin & Carta 2014, 124) allows us to understand events in the recent crisis in a manner the conventional model of ideational change would not. Even though no broad paradigm change has occurred, existing ideas may still have undergone subtle change that may in the longer term lead to their transformation; similarly, rearrangement of ideational components, as depicted above, may re-organise actor coalitions.

This mechanism may be further illustrated by an example. Say that a pre-crisis institutional environment was broadly Keynesian, but then a crisis occurred that challenged Keynesian policies. If actors, however, when faced with this situation, are only able to draw policy advice from existing – i.e. Keynesian – ideas, then how can they possibly change the Keynesian institutions? Assume, though, that Keynesianism as a policy paradigm was composed of components, some of which might be linked to other paradigms. For example, a component of Keynesianism is the belief that in economic crises, political actors, usually governments, should intervene to counter the downward cycle. Now, however, the crisis would have discredited government stimulus as a policy tool. Actors might then choose to re-arrange components in the ideational environment such that the belief in economic intervention remained, but the belief in government as the intervening actor was abandoned. Instead, the intervention-component was now connected to a new actor, the independent central bank, which normally is a component in the neo-liberal policy paradigm. With such ideational bricolage, actors may subtly change policy even as the ideational tools at their disposal remain the same. Moreover, given such change in the broad ideational environment, actors may then rearrange their subjective preference orderings such that now promoting monetary stimulus by central banks becomes preferable to government stimulus. A new ideational hybrid has been born, which then helps actors to re-calculate their own preferences. As Hall (1993, 279) describes it, economic policy paradigms are like prisms through which policymakers see the world as well as their own role in it. If this prism took such a turn as depicted above, then politicians might perceive it to be in the objective interest not to intervene in the economy, but let the central bank do the job. Notably, though, this change would not necessarily lead to a clear-cut paradigm change, given that in the new policy orientation, components of both Keynesianism (stimulus by a public actor) and neo-liberalism (the independent central bank) could be distinguished.

In this manner, incorporating insights from the schematic model into the theory of ideational influence may help to account for the criticism ideas-oriented literature has encountered in terms of change and flexibility. If we accept that ideas are not stable and coherent wholes, but consist of fluid components, then we can accept that to induce change, it is enough for some of the components of an idea to change. If simultaneously the change in the idea-as-cluster induces change in the internal ordering of an actor's subjective preferences, then change-oriented policy action becomes conceivable.

To sum up, this section has argued that crises initiate policy change by pushing systems off their equilibria, causing actors to interpret the situation and reconsider their interests with the help of available ideas. The reconsideration of interests can be conceptualized as a process in which the subjective part of the interest changes, as the prevailing intepretation of the interest changes. Ideas are influential, because they provide cues for the re-organization of the subjective part of the interest. In short: ideas fill the critical distance which, in moments of crises, opens up between an actor and her interests and surroundings.

But what determines which ideas, exactly, fill that space? As was discussed above, in order to avoid the static bias of institutionalist and interest-based political science, something else than path-dependency conditioned by existing institutional environment or structurally pre-determined interests, will have to be incorporated into the theory. The following quote from Peter Hall (1997, 175) is instructive:

> One of the long-standing strengths of political economy lies in its insistence that even our most basic conceptions of the economy are ultimately artificial constructs, devised to model something that cannot be perceived by the naked eye. Accordingly, many political economists ask: Where do these conceptions come from and how do they become influential? They often question what others see as "constraints" facing governments or the "iron laws" of economics and tend to emphasize the primacy of politics in situations that might otherwise seem to be socioeconomically determined.

The contribution political economists make to examination of political-economic outcomes is to emphasize their political, and thus contingent, root causes. In accordance with this basic starting point, this thesis conceptualizes austerity, as the hegemonic policy idea in the recent crisis, as a contingent and politically constructed response, which could have also looked different. Some actors benefited more than others from this response, and the existing institutional environment did tweak policymakers' considerations to one direction rather than another. None of this predetermined the response, however. Rather, the political process that led to it is the object of empirical scrutiny of this thesis.

To this end, the thesis emphasizes the role of political communication for policy outcomes. Hall asks: where do the conceptions that guide policymaking come from, and how do they become influential? This chapter has observed that there are several pathways through which ideas may exert causal influence. First, ideas enable actors to navigate through uncertain times, by offering cure with which to interpret the situation and evaluate courses for action. Secondly, actors may at such times also re-evaluate their own interests with the help of ideas. Third, ideas offer focal points around which coalitions, required for collective action, can form. As such, ideas are building blocks for societal legitimating narratives, with which policy may be justified vis-à-vis the publics. Societal ideas are arguably best reflected in the public sphere, where it is the task of political or issue entrepreneurs to try and affect the prevalent interpretations of a given issue. This is the starting point of the political communication approach, which has informed the methodological approach of this thesis.

The following section will briefly consider the theoretical underpinnings of this approach, before moving on to examining the actual connections between issues and actors in the crisis debates.

2.1.3 Political Communication & Policy Choice in Crises

The theory of political communication brings into the theoretical framework of this thesis the agency of political actors, who purposefully act in the public sphere so as to influence the relevance of competing considerations both in the minds of policymakers and the general public. As observed above, incorporating ideas into political-economic explanation allows for space between an actor, her interests, and subsequently her political choices. Ideas thus come to play when a critical space opens up between subjective understandings and objective circumstances, as often happens in crises. The key insight of political communication theory is that this critical distance is *susceptible to manipulation*. Such manipulation is conceptualized here as issue entrepreneurship: attempts to affect the salience of and attributes related to an issue in the public debate.

The starting point of the study of political communication is the agenda-setting hypothesis, which "suggests that the media play a major role in shaping the issue priorities of citizens, simply by choosing to give priority in the news to some stories than others" (Semetko 2007, 131). In other words, the media can raise the saliency, the relative importance of an issue in the public agenda, of some political issues at the expense of others. This matters, because both the public and policymakers take cues from the media: "Of the countless political issues that compete for their attention at any point in time, these actors will concentrate their cognitive capacity primarily on issues which are amongst their uppermost concern, i.e. which they consider the most salient" (ibid). The concept of salience thus highlights how the increased visibility of one issue, rather than another, in the public sphere is a key factor determining policy choice. Issue entrepreneurs may affect the debate in two main ways: priming and framing.

By *priming*, Semetko (ibid) refers to the "media's role in shaping the standards by which citizens evaluate political leaders and candidates." Yet, the concept of priming may be extended beyond evaluation of political leaders and candidates, to evaluation of the debated issues themselves. As was observed in the discussion above, (economic) ideas are multifaceted: at any given time, several competing interpretations and thus grounds for evaluating a given issue may exist. Hence, priming may also refer to a process in which political entrepreneurs try and affect which interpretation of a given issue prevails. Finally, *framing* refers to "selecting "some aspects of the perceived reality" to enhance their salience "in such a way as to promote a particular problem definition, causal interpretation, moral evaluation, and/or treatment recommendation" (Entman 1993, 53; cf. Semetko 2007, 133). This definition renders salience a function of framing: by framing issues in a certain manner, their salience may be increased. Yet, framing can also be understood as an attempt to play with the various competing attributes of an issue: by raising the perceived importance of one consideration and lowering that of another, not so much the salience, but the overall meaning of the issue at hand may change.

Not all issues at all points of time are similarly susceptible to manipulation, however. When will an issue become subject to manipulation? First, uncertainty increases the scope for issue entrepreneurship. Uncertainty can result from two things: either as Semetko (2007, 132) observes, issues that are "unobtrusive", i.e. issues on which the public has little indirect experience, are more susceptible to work of issue entrepreneurs. Using the issue of European integration as example, Hooghe and Marks (2009) have argued that:

> If individuals have neither the knowledge nor the time to figure out their economic interests in relation to European integration, perhaps they rely on cues. These cues could be ideological, deriving from an individual's position on left/right distributional conflict, or

> they could come from the media, intermediary institutions such as trade unions or churches, or from political parties.

Hence, the less information individuals have on the issue at hand, the more scope for ideational influence by issue entrepreneurs. Secondly, uncertainty increases in crises, when even familiar issues can seem distant and unobtrusive, as actors lose sight of their own preferences vis-à-vis these issues. In such situations, too, the scope for issue entrepreneurship increases. Issues linked to European integration, therefore, and especially issues linked to European politics in times of crises, should make a prime testing ground for the influence of issue entrepreneurs.

Secondly, whether or not the issue is *politicized* matters. Issue entrepreneurs have little incentives to try and affect public perceptions if the issue is not debated within the wider public to begin with. As Pepper Culpepper (2011) has demonstrated, policy outcomes will be affected by whether an issue is handled in the realm of "quiet politics" of insider policymakers, technocrats or business actors or in the realm of "loud" politics of broader public participation. Publicity affects the range of considerations in policymakers' heads, and will lead them to incorporate electoral dynamics into their calculations. Hence, it may prove in the interests of some actors *not* to make an issue highly visible. This is intimately interlinked to the discussion of ideas and paradigm change, above. From the point of view of actors' interests, it is no coincidence that paradigm change in the Eurozone crisis failed to occur. Some, apparently powerful, actors preferred the *status quo*, and thus resisted paradigm change. This left less powerful issue entrepreneurs little choice, except to adjust to, instead of overturning, the neoliberal paradigm. In other words, proponents of the Eurozone *status quo* hoped to hinder the politicization of the crisis in domestic public spheres. This was hardly possible, although, as will be discussed below with regard to the Irish case, politicization especially in the debtor countries proved only partial, in the sense of public debate having few real chances of influencing chosen policies.

In sum, from the point of departure of political communication, the outcome under observation in this study can be conceptualized as the high salience of public debt, and deficits – as the problem – and austerity – as the solution – in the public agenda. The prevalence of austerity thus represents a successful attempt by political entrepreneurs in an ideational trade-off. In conditions of high uncertainty, from a universe of equally relevant considerations, policymakers in this crisis chose to emphasize issues such as public debt and deficits, leading to the conclusion that cutting public spending would be the right measure to take. The politics that lead to these choices, instead of others, is the object of empirical scrutiny of this thesis.

The key reason for introducing the schematic model of ideational change above is to highlight the curious *absence of* paradigm change. To understand that ideational change in this crisis may be best conceptualized as incremental still leaves us in the dark about why, exactly, has more radical change been absent? The argument put forward here is that the Eurozone's ideational and institutional setup, and those actors who favor the *status quo*, pushes actors towards the ordoliberal economic ideas, and within that framework, austerity. In the context of European (Monetary) Union it has become exceedingly difficult for actors to deviate from this ideational fold. Indeed, the whole history of European monetary cooperation could be cast in terms of an attempt to bring about far-reaching harmonization of national economic policies, and not only that: harmonization towards a particular economic idea, ordoliberalism.

The next part of this chapter will explore the ideational and institutional foundations on which the Eurozone crisis debates built. To this end, it will first explore expectations from earlier theory, then observe more in detail Keynesianism and economic liberalism, two ideas we might expect to be most prevalent in economic policy debates.

2.2 Policy Ideas in the Eurozone Crisis

2.2.1 European or National Debates?

What might we expect to be the main conflict lines in public debates on the Eurozone crisis? The first thing to be established is whether these are national or "European" debates. As is well-established in the literature, European political contention features somewhat different conflict lines than do national political debates (Marks & Steenbergen 2002; Hooghe & Marks 2009; Kriesi et al. 2015). The Eurozone crisis debates represent a hybrid case that include both a domestic and an international dimension, a hybridity that also characterised the crisis itself and the politics of crisis management. First, there were clearly national debates over redistributive issues, in particular in countries with a severe fiscal crisis such as Ireland. In this case, the issues debated were very much conventional budgetary issues over what to cut and which taxes to raise, for example. Thus, on the one hand, what we know about cleavages in domestic politics should apply. On the other hand, however, the crisis at all times had a clearly inter- and supranational dimension. Well aware of the obligations and constraints posed by membership in the EMU, as well as the transnational character of the crisis, Irish policymakers certainly had to consider the consequences of their policy decisions from this perspective as well. Thus, the range of choices in budgetary issues was constrained by EMU spending rules, and banking crisis resolution options had to be considered in light of their consequences for other actors. For example, at the time of legislating the bank guarantee in fall 2008 the Irish government confronted severe criticism from its European peers, in particular from the UK, as well as from the Commission, the guardian of the EU's competition and state aid rules. In this sense, also domestic debates, in this crisis, had a clear integration dimension. In Finland, the setting was somewhat different: Finland had no fiscal crisis of its own in the time period under examination here, and its budget was not under immediate external surveillance. Hence, notwithstanding the limits posed by EMU rules, budgetary debates in Finland would still be expected to follow domestic distributive political dynamics. Yet, this is not what the sample of Finnish crisis debates consists of here: rather, issues with a clear international dimension, such as the financial assistance packages of fellow Eurozone countries, are scrutinized. Therefore, also in Finland, it is safe to say that much – if not necessarily all – of the debates had a clear integration dimension. Hence, when analysing the debates, the starting point must be that both assumptions from theories of domestic political cleavages and those from theories of European integration, should be taken into consideration. The following sections will examine these theoretical premises.

2.2.2 Conflict Dimensions in European Public Debates

Marks and Steenbergen (2002, 880) have posed the key question: "To what extent is contestation over European integration related to the cleavages that structure domestic conflict in Western Europe and, in particular, to the ubiquitous Left/Right dimension?" The answer from early theories of European integration was that it is not at all related, neither in terms of actors nor in terms of conflict lines. Rather, in the "international relations" (Marks and Steenbergen 2002, 883) approaches to European integration, the most important actors were either national governments (Hoffmann 1966; Moravcsik 1998) or supranational elite coalitions of interest groups and euro-bureaucrats (neo-functionalism, Haas 1958). National governments contended integration issues based on the national interest, derived from either geopolitical concerns (realism) or domestic interest group pressures (liberal intergovernmentalism). Supranational elite coalitions responded to functional pressures for more integration on efficiency grounds (neo-functionalism). In either case, the political space in the EU was unidimensional: the only relevant axis for contestation was pro or against more integration.

Yet, as integration gathered pace in the 1980s and 1990s, this elite-centred view of EU policymaking became less tenable. Thus, scholars of comparative politics sought to integrate domestic party politics into the study of integration. Now, the argument became that domestic party competition will affect government positions on integration, because integration issues have become increasingly politicized among domestic electorates (Hix & Lord 1997; Marks & Steenbergen 2002; Kriesi et al. 2008; Hooghe & Marks 2009). Yet, the question became how, if at all, the two dimensions of contestation, the integration-independence axis and the left–right axis, structuring domestic party competition, were connected in the EU political space? Because EU issues touch both dimensions, actors in European public debates would somehow have to position themselves in the two axes. No consensus has been reached on the matter. There are those who argue that the two dimensions exist separately. National party systems are mainly organized on the left–right dimension, but on the issue of national sovereignty, parties are divided. The politics of integration therefore cross-cut domestic party lines, producing coalitions in questions of European politics that differ from those in domestic socio-economic questions (Hix & Lord 1997). Others argue that the dimensions can both be subsumed under the left–right axis: the left will push for integration that regulates markets, while the right will oppose this and defend integration that creates markets (Tsebelis & Garrett 2000). Extending this line of thought, Hooghe and Marks (1999) have argued that partisan positions on integration depend on what kind of integration is debated. If neo-liberal integration, meaning limited supranational competences for EU institutions, regulatory competition between Member States, and an extensive, deregulated internal market, then the right will be in favour. If market-regulating integration, meaning supranational regulatory competences, focus on social issues and employment protection, then the left will be in favour. In terms of party families, this would translate into a coalition comprised of Christian democrats and social democrats advocating regulated capitalism at the European level, backed by labor and most social movements. Opposed would be a coalition of conservatives and economic liberals, backed by business and finance, advancing European deregulated market (Hooghe & Marks 2009).

In a further extension of their argument, Hooghe & Marks (2009) have argued that the politicisation of integration has also resulted in a new axis of contention, centred on the question of identity. On this question traditional parties and party families are divided, once more blurring the cleavage lines established in earlier theories. They posit that on identity issues, a new division has emerged between GAL (Green-Alternative-Left) and TAN (Traditional-Authoritative-Nationalistic) parties, in which the former is pro and the latter against integration, for reasons related to multiculturalism versus national identity. The TAN coalition, like conservative parties internally, are divided into nationalists and neo-liberals: the former oppose further integration for fear of loss of national sovereignty, whereas the latter are pro market integration. The GAL parties, such as the Greens, oppose such market liberalization but are otherwise pro-multiculturalism and internationalism. In sum, the new predominance of identity concerns in recent political contention over European integration may, in some cases, shift positions of political parties by exposing and strengthening intra-party fractures. If, for example, the centre–right was previously theorized to be broadly pro-integration for economic reasons, now the nationalist faction within the centre–right has gathered strength, possibly shifting the tone of debate and the overall centre–right position towards the anti-integration pole.

The many lines of conflict in European political contention, reflecting the multi-level nature of the EU and EU policy issues, make hypothesizing actor positions in the crisis-related debates a daunting task. What kind of issue is austerity, the object of empirical scrutiny here? Is it a domestic redistributive issue, or an integration–independence issue? The answer is that it is both, and as such it brings into the European political agenda a new dimension, namely a conflict over supranational redistribution, or EU-level fiscal and economic policy, on which theories have so far had little to say. In other words, even the partisan model of EU policymaking has so far theorized domestic party positions on integration, not on the substance of EU-level economic policy issues. Meanwhile, partisan theory, with its recent modifications (e.g. Ansell 2012, Häusermann et al. 2013), has continued to yield predictions for party positions on redistributive economic policy, which is assumed to take place at the *national* level. What about theory on supranational redistributive issues? There is little existing work to this end, and hence the task of this thesis is exploratory in this regard. The Eurocrisis, and the contentious issue of austerity, has represented an entirely new situation in European politics, where very suddenly, it became clear that responding to the crisis required supranational redistributive policies at a scale to which nobody was prepared. During the crisis, national governments therefore had to both respond to their domestic crises, as well as formulate a national position on the supranational aspect of the crisis, the transfer of further powers in fiscal and economic policy to the EU-level.

Table 2.1 shows current theoretical developments with regard to policy issues and policymaking levels in European political debates. Domestic redistributive conflicts are situated in the upper left corner of the matrix: they involve the traditional left-right axis of party competition. Domestic conflicts on integration, in the lower left corner, typically concern authority transfer and are therefore expectec to revolve aroun the cultural GAL-TAN axis. Yet this crisis appears to have promoted domestic debate on integration as a redistributive issue, which is why the partisan left-right axis may be relevant there as well. The upper right-hand corner represents the way the crisis has thus far been politicized at the supranational EU-level: as a conflict between states, divided into creditors and debtors. Finally, the lower right-hand corner represents the typical EU-level contention on issues of authority transfer between EU institutions and national governments. Austerity, as an issue, can give rise to any type of these conflicts: it remains to be seen, in the analytical chapters, what form the contention takes in each country & at each stage of the crisis.

Table 2.1: Types of Conflicts in Eurocrisis Debates

	Domestic/Partisan	**Supranational/Intergovernmental**
Redistribution	Left–Right	Creditors-Debtors
Integration	GAL–TAN	EU-institutions-national gov’ts

This thesis will be able to fill this gap by yielding insights on the positions of national governments and parties on the austerity issue, at the various stages of the crisis. In accordance with the political communication perspective, discussed above, the meta-hypothesis here is that these predictions hinge on how the issue was presented: in other words, issue entrepreneurship in the form of agenda-setting, priming and framing, is hypothesized to have influenced the structure of the debate as follows:

H1: When austerity was debated as a domestic redistributive issue (e.g. Irish budgetary debates) then the left–right axis dominates;

H2: When austerity was debated as an issue of policymaking level (e.g. debates on harmonization of deposit guarantees) then considerations of national interest dominate;

H3: When austerity was debated as an issue of authority transfer in redistributive issues (e.g. Finnish debates on the Eurozone financial assistance package) then the GAL–TAN axis dominates, and;

H4: The dominant axis of debate depended on the framing of the austerity issue by political entrepreneurs.

Based on this discussion, the remainder of the chapter will explore both policy ideas and issue entrepreneurs that are likely to feature in the Eurozone crisis debates in the two countries. The last section, finally, concludes.

2.2.3 Policy Ideas: Neo-liberalism & Keynesianism

What do we know about economic ideas in European public debates? Very little. So far, scholars have understood the EU as a regulatory more than a redistributive polity, and thus redistributive issues have been assumed to be debated and decided on almost exclusively at the national level. Yet, in the aftermath of the crisis, things clearly are changing. Within EMU governance reform, significant competences in the realm of economic and fiscal policy – traditionally at the heart of state sovereignty – are being handed over to the EU institutions, notably the Commission. Having been politicized in Member States during the crisis, this new EU-level fiscal and economic policymaking is likely to draw more attention from the part of domestic publics and, therefore, parties, than have EU policy issues in the past. Therefore, the "international relations" model of high intergovernmental diplomacy is unlikely to exclusively structure this policymaking dimension. Rather, partisan dynamics are also likely to figure in these policy debates.

To be sure, it would be erroneous to assume that the common EMU fiscal and economic policy would be made in conditions similar to domestic budgetary policy. In fact, the EU has managed to create a highly technocratic, in many ways politically insulated policymaking machinery, composed of the Commission, but also independent agencies, such as the ESM or the ECB. Within this bureaucratic system, actors will attempt to make policy without political interruption or unnecessary democratic debate. As is well known, the Commission is not accountable to a democratically elected body, in the same way as national governments, who command similar bureaucracies at the domestic level, are. Hence, the level of politicisation of EU-level fiscal and economic policymaking is likely to remain, with the current institutional setup, less prominent than budgetary policy in domestic policy process. Yet, major issues such as the crisis resolution policies will become object of public scrutiny. Additionally, their undeniably distributive character – such as in the case of the financial assistance packages of the

GIIPS – will spur debate along partisan lines. Therefore, in order to examine public debates on the crisis, the conflict lines that have conventionally structured domestic socio-economic political debates seem like a good place to start. Here, we find two ideas – neo-liberalism and Keynesianism – which have in the post-war period alternated as economic policy paradigms across advanced economies. They parallel the socio-economic left–right cleavage, such that the left, accompanied by the labour movement, has traditionally favoured Keynesian policy and the right, accompanied by the owners of capital and employers, has favoured economic liberalism.

How might we recognize neo-liberalism or Keynesianism in political debates, when we see it? The chapter will first introduce neo-liberalism, proceeding from two prominent strands of classical economic liberalism towards its neo-variant, before moving on to Keynesianism. After that, the chapter will explore how these two policy paradigms come together in the story of European Monetary Cooperation, and how they therefore set the institutional and ideational stage for policy responses in the recent crisis still today. Finally, the chapter will explore the current variants of Keynesian and neo-liberal policy ideas in the debates on the Eurozone crisis.

Neo-liberalism

Schmidt and Thatcher (2013, 2) define neo-liberalism as "involving a commitment to certain core principles focused on market competition and a limited state." Indeed, at the core of competition between alternative economic policy paradigms is a particular answer to the question of how the balance between states and markets should be struck in the organisation of a political economy. Neo-liberalism, as heir to classical economic liberalism, advocates a free market and a state whose role is limited to "creating and preserving the institutional framework that secures property rights, guarantees competition, and promotes free trade" (ibid, 6). At the heart of economic liberalism is thus distrust towards the state, particularly as an economic actor. To arrive at the common good, therefore, state intervention should be kept to a bare minimum.

Yet, different schools of thought within economic liberalism have slightly different emphases on the role of the state in the economy. According to Blyth (2013), to understand neo-liberalism, two earlier strands are particularly relevant: the Austrian School and ordoliberalism. Of these two, the former was more sceptical towards the state, to the point of rejecting "the state as having any positive or necessary role in the economy" (Blyth 2013, 143). Originating in late nineteenth-century Europe, the Austrian School had to face a post-war interventionist *zeitgeist,* and thus fell into disrepute on this side of the Atlantic. It gained, however, more ground in the US, where it persisted under the leadership of Joseph Schumpeter and was echoed in Reagan-era economic reforms. It has again made itself relevant in the current crisis. The Austrians would have predicted the type of credit-fuelled crisis and banking collapse that occurred in 2008. As a cure for this, they would advocate "creative destruction"; namely, letting banks fail to force the economy to adjust to real-economic fundamentals by pushing costs down, even if that means curtailing consumption at the expense of short-term economic recovery. In short – austerity. Government intervention would be hazardous, as it would only feed the artificial spending frenzy that created the crisis in the first place. As Blyth (2012, 147) summarizes this perspective:

> The last thing we should do is to bail out either banks or consumers (…) Indeed, the very worst thing that can happen is for the government to get involved. By flooding the market with liquidity, keeping the rate of interest low when credit is scarce, or attempting to stimulate the economy to smooth out the cycle, government intervention simply prolongs the recession.

The other theoretical strand, ordoliberalism, is a specifically German variant of economic liberalism. Ordoliberalism is particularly important here, because it forms the ideational and institutional backbone of the Eurozone, as will be discussed in more detail below. Ordoliberalism deviates from the economic liberal canon in positing that *both* the public and private sectors require regulation to ensure optimal outcomes. Ordoliberalism thus acknowledges the interconnectedness of the economy and the political–legal system of the state in bringing about economically efficient outcomes. Despite this, the functions the state should assume in ordoliberalism are limited. The state should not attempt to steer the economic process, but limit its role to putting in place an institutional framework – the *ordo* – within which the markets can operate. The main task of ordoliberal political-economic institutions is to guarantee price stability (i.e. avoid inflation) and ensure free and fair competition.

At the ordoliberal institutional core therefore is the independent central bank, free from political control to set the standards of monetary policy as well as the competition authority, preventing the formation of cartels and other private misuse of economic power. Despite its moderate undertone, ordoliberalism thus shares with other strands of economic liberalism a scepticism towards democracy. Here, the idea is that the institutions of the economy should be insulated from political control to avoid the inflationary consequences of responses of politicians to the welfare-increasing demands of their democratic constituents. Having been born in post-war Germany, the policy premises of ordoliberalism echo the needs – and traumas – of the German economy at the time. Heavily export-oriented, price stability is a primary concern for the Germans, a policy priority the trauma of hyperinflation in the second World War further exacerbated. Ordoliberalism was thus designed to suit the needs of a particular national economy and yet, as will be discussed below, it subsequently became the blueprint for institution-building of the whole Eurozone – a development that did not go entirely without friction (Blyth 2013; Gamble 2013).

If ordoliberalism and the Austrian school are the two main theoretical strands behind neo-liberalism, then two later schools, the Virginia "public choice" school and the Chicago school of monetarist economics, were essential for the development of neo-liberalism to the kind of practical policy orientation it today is (Blyth 2013). These schools of thought can said to have put the last nail into the coffin of the state and of democracy in liberal economic thinking. Emerging during the post-war Keynesian era, the Virginia and Chicago economists contradicted the Keynesian idea of the state as a countercyclical shock absorber, and rendered it instead a relatively useless inflationary pump.

To this end, the contribution of the Virginia school was to model public sector actors by using assumptions from microeconomic theory, as rational and utility-maximising. Rational and utility-maximising politicians aim at maximising votes and therefore, will try to manipulate the economy so as to boost it before elections to satisfy potential voters. This will create a "political business cycle" which, according to the Virginia School, creates inflationary expectations and thus prevents adjustment to the "natural" cycles of the economy. Given this tendency of elected policymakers, economic policy is best insulated from their reach. Adding to this, the Chicago school brought in an emphasis on mathematically-modelled financial economy, as opposed to the productive real economy. Unlike the volatile and inflation-prone real economy, the financial economy could be steered near to perfection with the mathematical models, if only let in peace from political aspirations. Hence, both these strands of thought strongly suggested the common (economic) good be best achieved with maximum insulation of political actors from economic policymaking, by way of constitutional limits to public spending, such as debt ceilings or balanced budget rules, allocation of monetary policy to independent central banks, as well as the establishment of independent authorities to survey the spending of public resources. (Kaldor 1985; Blyth 2013; Gamble 2013).

In sum, these four strands together – the Austrian School, ordoliberalism, the Chicago and Virginia schools – can be regarded as the constituent elements of what we today know as "neo-liberalism". In contrast, the state-market relationship looks very different in the other main policy paradigm scrutinized here: Keynesianism.

Keynesianism

Keynesianism, named after the British economist John Maynard Keynes, first originated as an intellectual attempt to understand the devastating experience of the 1930s Great Depression. Together with an American colleague, Harry Dexter White, Keynes "spent much of World War II hammering out a plan or reconstructing the world economy once the war finally came to an end" (McNamara 1998, 75). Keynesianism was, therefore, not only a policy paradigm for domestic affairs. It was also blueprint for the organisation of international economic relations.

The implications of Keynes's theory were distinct for domestic policymaking and for international organisation. At the domestic level, the first and most groundbreaking insight was the simple observation that governments can, and should, attempt to counter bad economic times with macro-management of the national economy. In contrast, the spirit of pre-war *laissez-faire* regime had been to let governments and populations ride the economic highs and lows as they best could. With the advent of political democracy, though, the pressures for governments to deliver prosperity to the population increased, and so did their need to manage the economy to produce this result.

The profound philosophical viewpoint behind Keynes's theory is that markets – not states – are inherently unstable. Markets will always produce sharp up- and downturns, if left to their own devices: to protect people, the duty of governments is to intervene. A prominent symptom of market instability at the time was unemployment, which skyrocketed in the Great Recession. Keynes conceptualized this as a problem of demand and not supply, as economic liberals would have it. Therefore, governments should intervene on the demand side, to boost activity with deficit spending, so as to get the wheels of the economy rolling again. Contra Say's law, the cornerstone of economic liberal theory, Keynes acknowledged that employers *may* hold back investment to an extent detrimental to the economy as a whole. Were this to be the case, the government should come in and invest in the private sector's stead. In contrast to economic liberalism, Keynes viewed government budgets not from the viewpoint of bookkeeping (i.e. to be balanced always), but as a tool with which the government could counter the economic tide. Hence it was all right to go into deficit, in recessions, given that this be properly invested and corrected with surpluses produced in good economic times.

The newly acknowledged political primacy of catering to domestic population's economic needs meant that at the international level, the system should be designed so that domestic political imperatives came first. In other words, rather than the domestic level adjusting to the constant volatility of the international economy, the international economic order should enable and facilitate governments' fulfilling their domestic goals. The result of this thinking was the Bretton Woods, an international economic regime of fixed exchange rates and limited capital flows. Within these parameters, rather than worrying about external views on exchange rate stability or balances of payments problems, governments could concentrate on domestic political problems. (McNamara 1998; Skidelsky 2009.)

The system worked formidably for the first few decades. Yet, by the end 1960s-mid 1970s, problems started to arise. These problems, and in particular the response to them by European governments, have a role to play in the story of austerity in this crisis. The sections below will therefore explore the story of Keynesianism, neo-liberalism, and European monetary cooperation.

Keynesianism, Neo-liberalism and European Monetary Cooperation

European monetary cooperation began as the international preconditions for Keynesianism, enshrined in the Bretton Woods system, collapsed. The fundamental goal of cooperation was, on the one hand to decrease currency volatility in the new, post-Bretton Woods world. On the other, it was to gradually harmonize national economic policies, so that, in the event of an exogenous shock, European states could respond in a unified manner – quite the contrary to the experience of the oil crisis.

The demise of Bretton Woods had begun in the 1960s, as cross-border capital movements were gradually liberalized across the advanced economies. Bretton Woods was premised on the idea of restricted capital movements, to allow maximum space for national governments to fulfil their domestic imperatives. In accordance with the so-called Fleming-Mundell model – which Rodrik (2011) cast in terms of the "trilemma of globalization" – governments can only simultaneously choose two out of three of the following options: 1) free capital flows; 2) a fixed exchange rate or; 3) monetary policy autonomy. In Bretton Woods, capital flows were limited but exchange rates were fixed and therefore, governments were able to maintain policy autonomy to advance domestic Keynesian goals. The removal of capital controls eroded this compromise and once again subjected national governments to international market volatilities. The last straw for international Keynesianism came in 1971, when president Nixon of the United States decided to let the dollar float. This began the era of floating exchange rates, ending the post-war years of macroeconomic stability, and forcing states to seek alternative ways of adjustment. Hence, major changes in the international economy altered the environment and feasible policy options available for European governments, spurring them towards increased cooperation. (McNamara 1998; Eichengreen 2008).

Two parallel tendencies characterized the process of emerging European monetary cooperation. First, there was a tendency towards harmonization of national macroeconomic and monetary policies. In sharp contrast to international Keynesianism, the principle that the international order should honour domestic economic imperatives was abandoned in European monetary cooperation. In practice, the further harmonization proceeded, the fewer tools for economic macro-management remained under national governments' control. In the EMU, finally, most these tools have moved to the supranational level (Scharpf 2012). Secondly, European monetary cooperation has been characterized by convergence to a particular kind of macroeconomic model, which McNamara (1998) has called the European "neo-liberal policy consensus", and DeGrauwe (2013, 159) the "Brussels-Frankfurt consensus". Almost all European governments, save Germany, had more or less adopted Keynesian policies in the post-war era. Yet now, with the inception of European monetary cooperation, Keynesian beliefs were gradually abandoned.

Traditional power politics and policy learning played a major roles in the process. The beginning of European monetary cooperation coincided with the 1970s oil crises, which hurt Germany far less than they did most other European states. Struggling with both high inflation and high unemployment – both of which Germany seemed to have avoided – European governments concluded that Germany's superior performance resulted from its distinctive, ordoliberal political-economic model. Originally, European states – France in particular – wanted a symmetrical system of monetary relations, such that no currency would dominate others the way the US dollar had in Bretton Woods. Yet, the attempts at establishing a symmetrical system failed, and as Eichengreen (2008, 137) observes:

> [T]he deutsche mark emerged as Europe's reference currency and its anti-inflationary anchor. The Bundesbank set the tone for monetary policy continentwide. Yet there existed no mechanism through which other countries could influence the policies of the German central bank and no option other than exit through which they could control their own monetary destinies. This "accountability deficit" was the ultimate obstacle to the success of the Snake.

In the emerging, asymmetrical version of currency cooperation, with German mark as anchor, European states thus had to trade macroeconomic autonomy for currency stability. Germany's superior performance in the oil crises gave it the credibility to claim leadership in the convergence process. In light of the failed currency pegs, Germany was initially reluctant to deepening cooperation towards a full currency union. Yet the project was unfeasible without the big economic power that Germany was, and therefore other European states, especially France, were willing to make concessions to Germany in the negotiation process. Germany thus had the bargaining power it needed to impose its model of economic governance as the baseline for EMU institutions: the ECB built on the basis of German Bundesbank and the rule-based approach to economic governance, with its anti-inflationary substance. The "convergence criteria" that sought to reduce inflation, deficits and debts in potential EMU

Member States were designed to ensure that potential members' economies and structures of economic governance were fit for the German-modelled EMU. The Stability and Growth Pact was in turn designed to lock in reforms that countries had passed to meet the convergence criteria. In this manner, ordoliberalism, a nationally designed policy paradigm, was stretched beyond one nation to become *the* policy paradigm of the whole Eurozone. In sum, the European project of currency cooperation can be regarded as the culmination of two tendencies: towards supranational harmonization and control of national policies, and towards a unitary model of macroeconomic management, characterized by the particularly German variant of economic liberalism, ordoliberalism. In this way, European monetary cooperation has set the ideational and institutional parameters of the Eurozone to favour supranational economic liberalism and to disfavour national Keynesianism.

Given the two tendencies – supranationalization and neo-liberalization of national economic policies – in the EMU, it is likely that policy debates on the Eurozone crisis are likely to feature these two axes of contention as well. One is for or against economic liberalism in its ordoliberal variety, and one is for or against further integration of fiscal and macroeconomic policies. A position aiming at full convergence of policies in the ordoliberal direction and maximum competences for enforcing such policy at the EU-level, could be labelled *neo-liberal federalist*. A position favouring maximum supranational competences, but with a less liberal and more market-regulating economic policy stance, could be labelled *Keynesian federalist*. A position that opposed federalism and favours retaining (or returning) competences in economic and fiscal policy at the nation state level, and yet is fairly economically liberal, could be labelled *ordoliberal nationalist*. Finally, a position seeking nationally based, non-liberal economic policy could be labelled *nationalist Keynesian*. Table 2.2 depicts these ideational dimensions.

Table 2.2: Economic Ideas in the Eurozone Crisis

	Keynesian	**Liberal**
National	National Keynesian	National Ordoliberal
Supranational	Keynesian Federalist	Ordoliberal Federalist

In the hypotheses presented above, it was argued that the way the crisis was framed crucially affected the dominant lines of contention. With the help of Table 2.2, this argument can be further specified. If the crisis was presented as a problem of level of authority –as lack of integration, or bad adjustment at the national level to EMU constraints – then actors are likely to have taken positions mainly on the federalism – nationalism axis. If, on the other hand, the main issue of contention was allocation of blame between the private and public sectors., then actor positions are likely to move on the Keynesian – economic liberal axis. Many issues are likely to touch both topics, as has been discussed above.

What now remains to be accounted for, in the section below, is how these ideas and their combination figured in the debates on the Eurocrisis and by which actors they were put forward.

Keynesianism and Neo-liberalism in the Crisis of 2008–2012

In order to observe the policy environment in which governments responded to the Eurozone crisis, a distinction between two levels of policymaking in the EU polity should be made. At the EU-level, common rules and treaties regulate Member States' economic and fiscal policymaking, acting as *de jure* constraints on domestic policy. At the Member State-level, the *de facto* policy settings, subject not only to legal rules, but also to electoral constraints, further determine policy. The distinction between supranational constraints and domestic realities highlights the fact that even if at the EU level, the Stability and Growth Pact advised fiscal prudence, Member States did not necessarily act accordingly. The domestic context, characterized by advanced welfare states and electoral pressures, incentivizes governments to spending rather than fiscal restraint. In other words, the supranational constraint in the Eurozone could be characterized as ordoliberal, and the national context Keynesian. As Hall (1989, 391) observed:

> Over the last two decades, then, Keynesian doctrines have fallen into disrepute. Rival ideas associated with monetarism have made considerable headway in the economic world, and a variety of governments have found new reasons to celebrate the private market economy. However, it is a mute testimony to the resilience of Keynesian ideas that many of the most radical economic experiments still have a faint Keynesian tone about them. No government has yet been able to shed the responsibility for macroeconomic management that the Keynesian era bequeathed to it, and none has fully renounced the macroeconomic tools that Keynes devised.

In advanced welfare states, such as the Eurozone Member States, Keynesianism is deeply embedded in domestic institutions. Perhaps the best example of this are the so-called automatic stabilizers, inherent in government budgets in large welfare states. In short, automatic stabilizers ensure that even without any discretionary decisions to spend in the event of a crisis, the budget will provide a stimulus to the economy in the form of decreasing tax receipts and increasing spending in unemployment and other social benefits. Also, the Keynesian way to respond is ideationally coded into policymakers' minds.

Cameron (2012, 116) has made the curious observation that it was particularly centre–right governments in the northern corner of the EU that enacted significant stimulus packages in this crisis. The immediate reason these countries – for example Finland, Norway and Sweden – stimulated more than did other countries was that they had the fiscal space to do so. The curious observation is, however, that centre–right governments did so despite their partisan aversion to government spending. As Cameron (ibid) argues, "The parties in these countries agree on the basic political-economic institutions and the contours of economic policy." In a similar vein, a civil servant in the Finnish Ministry of Finance observed: "We knew what to do [when the crisis hit in 2008], we just did not know how much."[18] No government has shed the responsibility for macroeconomic management – especially in crises – and none have fully renounced the macroeconomic tools that Keynes devised.

Yet the legitimacy of Keynesian stimulus was enhanced by a particular interpretation in the early stages of the crisis. The crisis was interpreted as cyclical and therefore temporary only pertaining exclusively to the financial markets. The prime minister of the Czech Republic – at the time holder of the EU presidency – Mirek Topolanek argued (cf. Cameron 2012, 100):

> The US secretary talks about permanent action and we, at our spring council, were quite alarmed at that (…) The U.S is repeating mistakes from the 1930s, such as wide-ranging stimuluses, protectionist tendencies and appeals, the Buy American campaign, and so on. All these steps, their combination and permanency, are the road to hell.

In principle, thus, the consensus view among EU policymakers was averse to Keynesian stimulus. Yet, as long as the crisis was interpreted as a passing affair, stimulus could be seen as legitimate. Secondly, this interpretation was strengthened by the perception that the crisis was one specifically of the financial system: if economic fundamentals at the country level were sound, a little extra spending would do no harm. There was not yet sight of the fundamental structural economic problems, that would characterize the next stage of the crisis.

The actual extent and composition of Keynesian policy responses in the Eurozone reflect the two conflicting tendencies identified above: the intuition of policymakers to act to counter the economic cycle, and the pre-crisis ordoliberal settings of the Eurozone institutions. Euro-Keynesianism was in two ways an updated version of traditional Keynesianism. First, in order to respond effectively to a shock that took place in a number of economies simultaneously and to avoid the effects spilling

[18] Interview with an offical at the Finnish Department for Finance, May 2014.

over to trade partners, the Eurozone stimulus was, to an extent, coordinated. In November 2008, the Commission proposed a €200 billion – roughly 1.5 per cent of EU GDP – fiscal stimulus for 2009–2010, and the plan was approved by the European Council in December the same year. Yet, the EU's proposed stimulus was modest by international standards: the US government simultaneously introduced a stimulus of $787 billion, or five per cent of US GDP, for the years 2009–2010. The EU therefore faced pressure from the from the Obama administration, the IMF and the OECD to double the amount of its stimulus in a new recovery plan. There was little political will to do so.

In addition, as EU institutions had little fiscal capacity of their own, 85 per cent of the agreed stimulus was to come from Member States' budgets, at the discretion of the respective governments. This led to mixed results. Governments that had cumulated surpluses prior to the crisis, such as Finland, Sweden and Denmark, stimulated considerably and had the fiscal capacity to do so without accumulating excessive deficits. Governments that had had deficits prior to the crisis, such as Greece, Portugal and Italy, also stimulated but in the process increased their already big deficits. Because the EU lacked the institutions to effect an adequately sized supranationally-coordinated response, and lacked the political will to immediately create such supranational capacity, the pre-crisis fiscal situation of Member States became a factor in determining their recovery paths. Those favouring national Keynesianism over supranational Keynesianism thus won the first political battle in the crisis. According to Cameron (2012), this was the beginning of the EU's north–south division, which was only going to get deeper later in the crisis.

Secondly, the composition of national-level stimuli had changed in comparison to earlier crises of the twentieth century. Pontusson & Raess (2012, 14) have observed that in earlier crises, governments across advanced economies exercised "social Keynesianism": increases in unemployment compensation and targeted interventions to low-income social groups. Yet now, Keynesianism had turned "liberal", and stimuli was sought rather with tax cuts than spending increases, with less "social" redistributive consequences. This can be traced to changes in the national institutional settings, since the 1970s. Arguably, welfare states have considerably expanded across advanced economies since the 1970s crises, which Pontusson & Raess (2012) use as comparison. Hence, the caution of governments in this crisis to raise benefits and the willingness to lower taxes instead, partially reflects the *already substantial* level of benefits and welfare transfers, as well as the high level of taxation. In other words, as discussed above, Keynesian responses were already, in a quasi-automatic manner, embedded in national institutions. Even without altering benefit levels, these welfare state institutions work as a default stimulus in crises.

Another "liberal" type of Keynesianism can be observed at the supranational EU level. The Commission acted in a Keynesian manner, when it in 2014 – much later in the crisis – put in place a €315 investment package to boost the still-lagging Eurozone economy. However, the Commission did not raise this money from tax revenue – there is no such income source at the supranational EU level – but sought to act as a broker between the private financial markets and Member State economies, raising finance from the markets and channelling it to projects in the Member States. The Commission thus sought to mediate market risk by putting its creditworthiness and authority, backed by the ECB, in play. At the same time, however, it did not fully assume the market risk as a traditional Keynesian state would by going into deficit on behalf of its citizens and investing this money to boost the national economy. Keynesianism did not exactly disappear in the later stages of the crisis either. This may be because of the ideational settings of policymakers' minds. The default response is to act when the economy weakens, even if this may take *new forms*. These new forms can be called ideational hybrids, such as discussed above with the example of central bank monetary stimulus.

Let us concentrate on the conventional story for a moment, however. By 2010, it started to become clear to Eurozone policymakers that the crisis was no temporary slump, but a structural one, characterized by a deteriorating fiscal position of most Member States. The average annual change in aggregate government fiscal balance – indicating the size of stimulus to the economy – in Europe (EU27) was 1.5 per cent in 2008 and 4.5 per cent in 2009 In 2010, it was -0.9 per cent, as the worst of the crisis was seemingly over, and countries started to exit from stimulus (Cameron 2012). In short, austerity had raised its head.

At this point, the crisis was given a new label: sovereign debt crisis. In reality, as is now known , there was no common denominator behind the problems in the various Member States. Some – like Greece – had a real public sector problem while others – such as Spain – had almost exclusively a private banking sector problem. Others still – like Finland – had no acute debt problem at all. In some countries with a private sector problem – like Ireland – the responses by governments, bailing out the banking system, helped turn the private sector crisis into a fiscal crisis of the state. In general, across all the different types of cases, the high average level of sovereign debt across the Eurozone – which no one had perceived as a problem just a few years ago – emerged as an economic policy priority to be immediately attacked with all means possible. Some (e.g. Blyth 2013, 231) have described the Eurozone's debt problem as resulting directly from the crisis responses: "Bailing led to debt. Debt led to crisis. Crisis led to austerity". In this manner, the Irish fiscal crisis is commonly attributed to the Irish government's bank guarantee decision. It is also true, however, that the need to use states' fiscal capacity to stem the financial market crisis revealed underlying fragilities in the Eurozone's pre-crisis political-economic model, which were related to unbalanced capital flows from the core to the periphery of the currency zone. In short, the periphery states had, in the context of artificially low interest rates in the EMU, been able to draw in such amounts of foreign capital that enabled unsustainable, credit-fuelled growth models and domestic lending practices.

These became to a sudden halt with the international credit crunch in 2008. Hence, it would perhaps be more adequate to say that the "EMU led to debt, which led to crisis, and crisis led to austerity". Yet, not all Eurozone countries were similarly exposed to the financial part of the crisis, nor were their economic fundamentals built on shifting sands. The curious fact about the crisis is that even countries that did not really face an immediate need to be austere, started to be just that from 2010 onwards, as part of the general Eurozone trend. That the turn in the prevalent interpretation of the crisis happened fairly quickly, across Europe, and in many cases without a clear change in the economic fundamentals, points to this really being a question of interpretation, rather than anything else. With this interpretation, responses also changed. From 2010 onwards, public discourse across countries and at the supranational EU level started to emphasize exiting from stimulus and turning towards tightening fiscal policy. In Finland, for example the Ministry for Finance announced in its September 2010 budget forecast that restoration of public finances would require structural reforms as well as fiscal policy tightening.

What was the ideational background of this response, exactly? Austerity is, perhaps, not best described as an *idea* in its own right. First, it would hardly be a very successful one. Who would champion an idea that hurts almost everybody's interests? Hence, austerity is rather a conglomerate of other ideas, much more nicely packaged, which however lead to the same conclusion: the best policy in crises is to cut the state. What made life difficult for neo-liberal ideas in times of crisis used to be the firm Keynesian belief that at such moments, governments should intervene to stem the economic downturn. Not anymore: in this crisis, the idea of "expansionary fiscal contractions" turned this Keynesian idea on its head. The expansionary fiscal contractions (EFC) idea suggests that rather than dampening growth, cutting public spending in recessions is, in fact, good for growth. In other words: the complete opposite of Keynesian beliefs. If austerity was the policy of choice of governments in this crisis, and TINA ("there is no alternative") its popular justification, then the EFC was the intellectual background for all this. The EFC has been around in policymaking circles and academia for decades, but it really flourished only in this crisis. Blyth (2013) traces its origins to Italian academia: specifically, to the Bocconi University in Milan, and to a series of papers by economists, notably Alesina and Perotti (1995) and Alesina and Ardagna (1998).

The EFC suggests that fiscal contractions are expansionary due to the logic of rational expectations. Building on the Virginia tradition of modelling economic actors – public sector actors included – with assumptions derived from neoclassical economics, the EFC model assumes that economic agents, ordinary citizens included, are well-informed and rational, such that when the government credibly commits to long-term reductions in spending, economic actors will expect taxation to decrease and their income thus to increase, leading them to consume and invest more. This, then, leads to growth. To back up this argument, the Bocconi Boys (Blyth 2013) have put forward a mass of case studies, leading them to conclude that: "Three ingredients seem to be important for a successful, long-lasting expansionary fiscal adjustment. It must combine spending cuts in transfers, welfare programs and the government wage bill, some form of (…) wage moderation, and a devaluation immediately before fiscal tightening" (Alesina & Ardagna 1998, cf. Blyth 2013, 171). The Bocconi Boys made themselves policy-relevant in this crisis by producing a new, updated version of their earlier paper, providing policy recommendations suited particularly to the kind of debt crisis the Eurozone was undergoing. The tone was, of course, starkly anti-Keynesian, recommending spending cuts and no tax increases.

In addition, though, the EFC idea was complemented with the intriguing argument that not only would austerity be economically, but also *politically* rational: "the rhetoric about the immense social cost of fiscal adjustment is blown out of proportion and is often used strategically by certain groups, not necessarily the most disadvantaged, to protect themselves" (Alesina 2010, cf. Blyth 2013, 175). These arguments were listened to with keen ears. Alesina got the chance to present the EFC argument at the ECOFIN meeting of European finance ministers in Madrid 2010, and Alesina's EFC argument made its way quite directly to the official communique of the ECOFIN and to the speech of the then ECB chairman, Jean-Claude Trichet, hence becoming part of the official EMU rhetoric.

Dellepiane-Avellaneda (2015, 406-407) observes that European policymakers were not completely persuaded by the EFC idea, though. Rather, policymakers understood that cutting would lead to deepening recession in the short term and, with all likelihood, would not be immensely popular within vast segments of the electorate. That they did resort to austerity, nevertheless, suggests the power the interpretation of the problem had over the responses and the contagion effect in the Eurozone. When the interpretation of the problem turned into emphasizing sovereign debt, a small number of cases where this was a real, acute problem – the Eurozone periphery states – was enough to start a kind of herd movement, where the framing of the problem changed across the Eurozone. Fearing that market reactions on Greece and the other periphery states would contaminate also the reputations of better-off Eurozone sovereigns, governments' minds centred on convincing the markets that their state was nowhere near default. And, according to the powerful EFC idea, austerity was the best bet they had to get the economy moving again.

Regarding the policy dimensions presented in Table 2.2, austerity, as based on the EFC idea, would represent the upper right-hand corner, "ordoliberal nationalism". National governments have the main responsibility for adjustment, and this adjustment should centre around balancing the budget. But apart from this, in what other ways did neo-liberal ideas figure in the crisis? At the EU-level, the most significant response to the neo-liberal direction has been the EMU economic governance reform:

1) strengthening the Stability and Growth Pact (SGP) by the adoption of the so-called Six Pack of five regulations and one directive; 2) the Fiscal Compact, enshrining the principle of balanced budgets into national law has been adopted and; 3) the Two-Pack of two regulations, clarifying procedures for supranational assessment of Member States' budgetary plans and Member States under financial difficulty has been agreed upon. In short, the reform results in tighter and more specific rules concerning the national budgetary process and spending decisions, and increased competences for the Commission to survey the domestic processes and sanction excessive deficits. From one angle, the reform could be seen as cementing the Eurozone "ordo" at the supranational level, with two consequences. The first of these is the institutionalization of the EFC idea at the supranational level, with the implication that balancing the budget is always, the best economic policy option. The second is an emerging two-level economic governance framework, where the broad contours of policy are increasingly decided upon within the supranational *ordo*, with its implementation and legitimation left to the domestic level. In short, domestic economic policymaking is increasingly subject to constraints from the supranational level, and the rule-based model at the supranational level ensures that the nature of constraints is constant, advising fiscal prudence almost regardless of the national context or economic cycle. As a response, then, the EMU economic governance reform could be placed in the lower-right hand corner of Table 2.2: ordoliberal federalist.

In addition to these Keynesian and economic liberal ideas, several responses in the crisis could be seen as ideational hybrids; attempts to adapt existing ideas to the existing context. These responses are particularly revealing about the current drivers of economic policymaking. The first ideational hybrid is found behind the widespread policy of financial bailouts. The policy was massively popular. Pontusson & Raess (2012) offer evidence that in 2008 countries as diverse as the US and Sweden, provided anything in between 17 and 58 per cent of GDP as support to their banking sectors, as recapitalizations and guarantees. Governments also helped the banks almost unconditionally, as Pontusson and Raess (2012, 27) have noted:

> One thing seems clear: in none of our five countries did governments articulate structural reform of the financial sector as a policy goal during the bailout of financial institutions in 2007–2008. To the extent that policy makers recognized the need for structural reforms, they were willing to postpone any legislation in this realm for the sake of rapidly implementing short-term measures they considered essential to restoring the provision of credit to households and companies.

A case in point is, of course, Ireland, whose infamous banking guarantee was among the most extensive – and the most expensive - ones in the crisis. A quote from the then Finance minister, Brian Lenihan, speaking at the Dáil in October 2008, illustrates well the rationale behind this response:

> As I have stressed repeatedly over recent weeks, the financial sector is undoubtedly a key element of our national economic infrastructure. Finance is the lifeblood of business, economic and household activity on a day-to-day basis. It was for this reason the Government took prompt and decisive action in providing the guarantee at the end of last month.

A conventional way of accounting for the reasons behind the massive scale of interventions in the banking sector is pointing to the connections between finance industry representatives and political elites, whether in terms of increased reliance on financial markets for campaigning finance (Pontusson & Raess 2012) or personal, clientelistic contacts between bankers and politicians. Yet, Lenihan's utterance points to a much deeper reliance of the Irish national economy on the relationship between the state and financial markets. In Ireland – as in many other economies of the "liberal" variety in particular – the pre-crisis growth model was extensively dependent on the "expansion of domestic demand, enabled by the expansion of private credit" (Barnes & Wren 2012, 293). The credit crunch did not only threaten politicians' campaign funds: *it threatened entire national economies*. This is why policymakers perceived an immediate interest in rescuing the financial system from collapse.

Pontusson & Raess (2012) contrast financial bailouts in this crisis to government industrial policy in earlier crises: as governments went to the aid of steel and other industries in the 1970s, so they now came to rescue when the financial industry was at stake. Hence, they propose an ideational hybrid: finance, as a sector that is particularly important in liberal economies, and industrial policy = neo-liberal industrial policy. Yet, the financial sector is crucially different from traditional economic economic sectors. Here, Ansell's (2012, 330) distinction between asset dominance and employment dominance is useful. In an employment-dominated economy, sectors are valued based on how many people they employ and how much output they produce, and how efficiently. Yet the importance of finance is not best captured with this analogy. Its value for national economies does not come from employment or output in a direct sense – although there are places, such as the City of London, in which the financial industry is also a major employer. Rather, finance contributes to GDP growth indirectly by producing credit, and thus demand for products from other sectors. Countries such as Spain or Ireland plundged so deep in this crisis because the sudden shortage of credit made domestic demand collapse. To sustain demand, therefore, has required sustaining the availability of credit. Hence, rescuing banking sectors with the help of state aid would perhaps be best conceptualized as a form of quasi-Keynesianism. Rather than rescuing the industry as a valuable component of the national income per se, what was being rescued was the ability of this industry to create demand. The comparison to Keynesianism is far from perfect, to be sure: the target of state spending was completely different from traditional Keynesianism, such that instead of going into deficits to compensate people of small incomes or the unemployed, money was poured into banks. But the rationale was essentially the same: to sustain demand with public money in order to prevent the economy from collapsing entirely. Here, we thus observe a perfect "liberal Keynesian" ideational hybrid.

Another, and related, example of Keynesianism-cum-liberalism in this crisis is the massive monetary stimulus by the ECB. First with standard, and then with increasingly non-standard measures, the ECB has provided the Eurozone's banks with almost unlimited liquidity and purchased the EMU states' sovereign bonds in secondary markets. This has kept not only the banks, but also the Eurozone's bond markets and thus Member State economies afloat in a situation where a state could no longer sell its bonds in private markets. As was observed earlier, in economic liberal thinking – an example of which the ECB's mandate supposedly is - the appropriate state policy was *not* to set the conditions of investment or to manipulate the level of prices via monetary stimulus, as the Keynesians argued. Yet monetary stimulus is exactly what the ECB has done, and the quantitative importance of this type of stimulus undoubtedly trumps the stimuli provided by governments many times over. As Pontusson and Raess (2012, 21, emphasis added) observe: "Quantitative easing became the main tool to stimulate aggregate demand as real interest rates turned negative and fiscal consolidation became the priority in 2010." As discussed above, in neo-liberal thought, the central bank, due to its independence, is a more legitimate actor to intervene in the economy than is the government. Hence, while central bank activism, as such, is a neo-liberal trait, the purpose of this activism in this crisis has made the ECB essentially a Keynesian actor: it has acted *to* stimulate demand, as Pontusson and Raess argue, and thus counter the economic recession, which is a perfectly Keynesian idea of what political actors should do in crises. That the government is no longer deemed a legitimate actor in the Keynesian sense, but has been substituted with central banks, is the particularly neo-liberal twist in this crisis.

Regarding the four policy dimensions depicted in Table 2.2, it is also useful to consider what was missing. Which policy idea did not figure at all in the crisis responses? Considering this discussion, one policy dimension – Keynesian federalist – is absent. In other words, the social-democratic ambition, regulated capitalism at the EU level, does not seem to have gained momentum in the crisis. This is puzzling: there would seem to be every reason to believe that border-crossing market regulation would be enhanced as a result of the crisis. Yet, as Streeck (2014, 38) observes

> While memory of the abyss was still fresh, demands and blueprints for 'reform' to protect the world from a replay abounded. International conferences and summit meetings of all kinds followed hot on each other's heels, but half a decade later hardly anything has come from them. In the meantime, the financial industry, where the disaster originated, has staged a full recovery: profits, dividends, salaries and bonuses are back where they were, while re-regulation became mired in international negotiations and domestic lobbying.

In other words, while much talked about in the early stages of the crisis, market-regulating policy responses were largely absent, especially at the supranational level. Rather, to the extent that new supranational governance competences have been created, they were created to govern and survey the national implementation of economic liberalism.

2.2.4 Issue Entrepreneurs in the Eurozone Crisis

The sections above have discussed the ideas that we could expect to observe in the Eurozone crisis debates, as well as how these ideas - in their contemporary forms- have figured in the crisis. The task of this section is to connect the ideational dimensions outlined above – national Keynesianism, national ordoliberalism, Keynesian federalism, and ordoliberal federalism – to actors; that is to say, the issue entrepreneurs in this crisis. The subsequent country chapters will go in detail to the actor-issue linkages in the national debates: here, the purpose is rather to set the stage and describe the general context in which individual national debates took place. The section begins by looking at by what theory would lead us to believe on which actors would favour each of the aforementioned issue dimensions and will then explore how these predictions seem to fit in the story of the Eurozone crisis in general.

The challenge in theorizing issue positions in the Eurozone crisis debates is the two-level character of policymaking in the crisis, which means that actor constellations as well as issues are more complex than they would be in either purely national or in a purely international setting. In other words, the Eurozone crisis represents an analytical challenge, where neither theories intended to capture domestic policymaking – traditional partisan theory or interest group coalitional theory – nor international relations models are likely to adequately capture the situation. Yet, as discussed above, the two-level nature of the EU polity is no new phenomenon, and hence EU scholars have attempted to combine international relations and partisan/coalitional theories in order to better capture policymaking dynamics in the EU. Yet, these attempts have tended to focus on theorizing actor positions *either* on issues of authority transfer, *or* domestic actor positions on redistributive issues. What they do not do is theorize actor positions on supranational redistributive issues, which is what many of the crisis debates concerned. This, then, is a challenge for this thesis.

What would conventional theories tell us about actor positions regarding austerity? Traditional partisan and coalitional theories seem like a good place to start. Partisan theory, associated with Hibbs (1977) and Boix (2000), and amended by Korpi (1983) and Korpi and Palme (2003) with the power resource approach, yields a simple prediction. Left-of-centre parties, accompanied by labour organizations, will oppose any attempts to draw back the state, and thus will oppose austerity. Right-of-centre parties, accompanied by the owners of capital, will take the opposite position. Yet, the crisis debates were not only about austerity nor about redistribution. They also involved questions of authority transfer and identity, often intermingled with redistributive concerns. In these questions, these traditional coalitions are predicted to split. According to Hooghe and Marks (2009), a right-of-centre coalition will split to neo-liberals and nationalists and a left-of centre to multiculturalists and those opposing integration, if that also means neo-liberalization. In questions of authority transfer, then, the GAL–TAN, rather than the left–right axis would be relevant. Interest groups, on the other hand, are also predicted to split in questions of authority transfer. Swenson (1999) and Rogowski (2001) have predicted that labour and employers' organizations will position themselves in questions of economic integration depending on sector (traded/sheltered) or their asset specificity (mobile/fixed).

In sum, in directly redistributive questions, we would expect the left–right axis fairly accurately predicts actor positions, but in questions of authority transfer, the GAL–TAN axis for parties and sectoral alliances for interest groups would be relevant.

As most issues in the crisis debates are likely to involve both redistributive and authority transfer aspects, the positioning of actors is likely to be affected by issue entrepreneurship. In accordance with the framing hypothesis presented above, how the issue was presented will affect the main axis of contention. Political actors can therefore use issue emphases and frames to their advantage. They can *choose* to present the issue as one concerning borders and identity, rather than redistribution for example, if they perceive competition along the GAL–TAN axis to be more favourable to them than that in the left–right axis. Thus, actor positions depend on the line of contention that dominates the debate, but the choice of this line of contention is political and depends on issue entrepreneurship.

Yet, domestic political parties and interest groups are not the only relevant actors in the crisis debates: indeed, they are not likely to be the most relevant for the outcomes. Armingeon (2012,9) has observed that in the crisis, partisan preferences seemed to have very little explanatory power for whether or not a country ended up implementing austerity:

> partisan composition of government has no remarkable explanatory power. The first conclusion from this analysis is that, in general, politics does not matter for consolidation. In the great recession that started in 2007, governments were forced to consolidate and they attempted that the more, the greater the extent of their fiscal problems.

Rather, as Grande and Kriesi (2015) have found, political executives – national governments – were dominant actors in the crisis. This observation has two implications. First, national coordination of policymaking is likely to have decreased in importance in the crisis. In other words, while parliaments debated crisis resolution policies and interest groups lobbied policymakers, domestic pressure is not likely to have had substantive effect on intergovernmental policymaking at the EU level. Secondly, the importance of bureaucrats and experts is likely to have been overridden by political concerns in the politicized environment that characterized the crisis. At first, these two claims would seem contradictory: if the policymaking context was politicized, then how is it that domestic demands did not affect policy?

Governments are pivotal actors in the crisis in two ways. First, they are political executives who carry out policy decisions. Secondly, they act at the intersection of the two levels of policymaking in the EU: the supranational executive and the national parliamentary. They therefore are subject to claims and demands from both domestic politics and external sources, inlcuding EU peers, the markets and international organizations in which they are members and to whose rules they are committed. Governments decide how to balance these sometimes contradictory claims. At both levels, institutional constraints apply. In the EMU, supranationally-agreed rules limit public spending, while domestic institutions are set to provide increasing welfare benefits for citizens in the event of crisis.

How to balance between these constraints? In this crisis, politicisation of EU policymaking meant that governments had – at the international level – to make compromises that would soothe domestic political parties and electorates, because they were not at liberty to substantially fulfill their demands. Take Greece: the Tsipras government has made every effort to make it seem like they struck a better bargain with the creditors than did earlier governments, although the outcome really is the same – *troika* programme and austerity. Take Finland as an example. The Katainen government spent a lot of political capital negotiating the so-called collateral deal in exchange for Finnish participation in the Greek and other Eurozone financial assistance packages. Everyone knew this deal had no real significance: if the debtor country were to default, Finland would not get its money back. The deal was struck to convince Finnish politicians and taxpayers that the government got away with something from negotiations at the EU level. In neither case did the electorate get what it wanted – the Greek people did not want the *troika* programme, and the Finnish people did not want to participate in funding it – because neither Tsipras nor Katainen were at liberty to give it. Hence, in this crisis, the politicisation of the crisis at the domestic level has meant an imperative for governments to strike bargains in which domestic electorates seemingly get something, although in reality they do not. Responsiveness has been rhetoric, rather than substantive. The implication for earlier theory is that although e.g. Hooghe and Marks (2009) would predict politicisation to affect government preferences such that policy choice would better reflect domestic imperatives, in this crisis it was not directly the case: intergovernmental policymaking reflected domestic demands only rhetorically, while in reality it reflected supranational imperatives.

Yet, the crisis had two distinct stages, in which distinct logics applied. Only at the second, sovereign debt crisis phase did supranational imperatives fully take hold. In the first stage of the crisis – the "short winter of Keynesianism" in 2008–2009 (Farrell & Quiggin 2012) – the setting remained more traditional. At the national level, domestic party and interest group politics dominated, and international cooperation was rather characterized with coordination than pooling of competences. This hinged on the interpretation of the crisis as one pertaining to the financial markets and not being a question of state finances. Therefore, fixing the system of international finance rather than fixing the system of states (for example, by revising the Basel Accord and coordinating national regulatory responses) seemed adequate responses. Countries with most banking problems, and with least fiscal capacity to handle them would have preferred a genuinely supranational response, possibly creating joint supranational fiscal capacity. These included the Mediterranean EU Member States but also France, which had long preferred a *dirigiste* state at the supranational level: more political governance of the markets beyond the state. The position of these states was a supranational Keynesian.

The US and the UK, liberal market economies with sizeable banking sectors, supported a strong international response but not building new supranational regulatory or fiscal competences, as did the supranational Keynesian states. In Europe, Germany, together with most northern Member States with little banking problems and large surpluses, strongly opposed building any new supranational competences whose purpose would have been the mutualization of risk and liabilities. These countries represented a nationalist Keynesian policy stance: crisis resolution should involve Keynesian-type regulatory and stimulus measures, but while these may be intergovernmentally coordinated, the ultimate responsibility rests with each country. Despite its otherwise strongly *ordoliberal nationalist* policy approach, Germany also enacted a substantial stimulus package in the crisis (Cameron 2012). The position of the UK–US–northern EMU coalition of states was echoed in the G20, whose IMF Director Strauss-Kahn said in 2008: "I welcome the emphasis on fiscal stimulus, which I believe is now essential to restore global growth. Each country's fiscal stimulus can be twice as effective in raising domestic output growth if its major trading partners also have a stimulus package."[19] The G20 did not emerge as a proponent of supranational Keynesianism, but national Keynesianism. Ireland was *sui generis* case in this stage of the crisis: it was the only European country not to engage in any kind of stimulus, but responded in a wholly orthodox manner, starting off with austerity right from the beginning. Ireland's policy stance at this stage was nationalist ordoliberal, although it may from the beginning have preferred stronger supranational coordination than did those Northern European states with less severe banking crises.

Most northern Member States at the time had conservative cabinets. At this stage, the opposition to further authority transfer and mutualization of liabilities may have well have reflected domestic partisan and interest group pressures in these countries: as Armingeon (2012, 2) observes:

> …in the early years of the current crisis, economic policies varied hugely (...) Some countries, such as Spain and the US, seemed to return to Keynesian recipes. Others, such as Germany and Switzerland, opted for a middle way between massive counter-cyclical policy and austerity, while others, such as the Baltic states, implemented resolutely tough austerity policies. However, by 2010 the range of anti-cyclical policies had narrowed radically and nearly all democratic countries seemed to converge programmatically on the path of fiscal consolidation.

In other words, in the early Keynesian stage of the crisis, countries' domestic imperatives lead and supranational constraints came second. Therefore, responses showed remarkable variation. In this stage, then, we could expect domestic debates to feature actor positions that reflect the classic theories depicted above, and governments to act at the international stage in accordance with the perceived national interest:

1) Left-of-centre parties and labour organizations in the sheltered sector pushed for a social version of national Keynesianism;
2) Right-of-centre parties, employers, and labour organizations in the traded sector pushed for a moderate liberal version of national Keynesianism;
3) Parties were divided regarding supranational Keynesianism,
    a. when it meant more political regulation of financial markets, the Left would be in favour;

[19] http://www.imf.org/external/pubs/ft/survey/so/2008/new111508a.htm.

   b. when it meant conserving the status quo in the financial markets, the Right would be in favour;
4) Governments acted in terms of the national interest, as defined in the domestic policy process.

It was only at the second stage of the crisis that its state-systemic character revealed itself, and governments were forced to adapt their perceptions of the national interest in accordance with increasing supranational constraints. At this stage, the outcomes of domestic policy coordination declined in importance, and governments' responsiveness to domestic demands became rather rhetoric than substantive (see Hobolt & Wratil 2015). As observed above, the first stage of the crisis at least partly sowed the seeds for the second stage. In the absence of supranational fiscal capacity to fund stimuli or banking rescues, countries' responses and recovery paths became dependent on their domestic political and fiscal situations. The northern coalition remained nationalist Keynesian because it did not require new supranational competences, which would have only benefited the federalist Keynesian, southern coalition. Yet the sovereign-debt stage of the crisis made clear that building a genuinely supranational response could not be avoided. The threat of contagion from Greece to other EMU Member States in spring 2010 forced Eurozone governments to act and in March 2010 the European Council concluded that economic policy coordination in the Eurozone "shall be strengthened".[20] In May, Eurozone governments agreed on a joint financing mechanism, the European Financial Stability Facility (EFSF), later to become the European Stability Mechanism (ESM), through which financial assistance to Greece – and subsequently to Ireland and Portugal – could be extended. The position of the northern coalition had not changed. They did not want further competences at the supranational EU level. Now, however, they had become creditors to other Eurozone states. While they could not avoid this outcome – even as their electoral imperatives would have advised them not to assist Greece, Ireland or Portugal – they now had the bargaining position to design any such new competences as they wished. Hence, while northern creditor governments could not give their electorates what they wanted – no joint liabilities nor fiscal transfers – they could at least demand strict conditionality in exchange for loans from the EFSF and the ESM. France got what it wanted – more supranational economic governance – but with a very German flavour. As before, Germany consented to more supranationalism, provided the institutional basis for cooperation resemble its national ordoliberal institutions. Therefore, the other significant outcome in this stage of the crisis, the EMU economic governance reform, is strongly federalist ordoliberal in character. The Southern debtor coalition preferred Keynesian federalism, implying automatic fiscal transfers and joint debt – the Eurobonds. Yet its bargaining position was weak. France's position is ambivalent: it had a traditional

[20] http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/113591.pdf

preference for Keynesian federalism, but in the crisis it has sought to ally with the creditor coalition. Moreover, as countries have exited their *troika* programs, they have also seemed to exit the federalist Keynesian coalition, and joined forces with those demanding tough austerity from the debtor states. In sum, at the supranational level we would expect:

1) Creditor states (Germany, Finland, France, Austria, Luxembourg, the Netherlands) to favour ordoliberal federalism;
2) Debtor states (Ireland, Spain, Greece, Portugal, Italy) to favour Keynesian federalism;
3) Debtor states in the post-*troika* program to favour ordoliberal federalism.

As observed above, at this stage, when the issue of supranational redistribution raised its head, the GAL–TAN axis is most likely to have characterized national parliamentary debates, as the issues of authority transfer and redistribution were intertwined. Hence, at the national level we would expect:

1) Conservative nationalists – extreme right-wing parties such as the Finns Party or Front National – to favour national Keynesianism or ordoliberalism;
2) Neo-liberal conservatives – economically liberal centre–right parties such as the Finnish Kokoomus or the CDU – to favour ordoliberal federalism;
3) Internationalist Leftists – the Greens, Social Democrats – to favour Keynesian federalism;
4) Nationalist Leftists – industrial working-class parties such as the Left Alliance in Finland – to favour national Keynesianism.

As we observed above, at this stage the international constraints clearly dominated and governments, whether debtor or creditor, had not many alternatives to some form of supranational response. Domestic politics in the creditor coalition may at best have influence the tone this supranational response took. In other words,, building new supranational competences could not be avoided, but whether this quasi-federalism took a Keynesian or an ordoliberal form may reflect domestic politics in the creditor coalition. By contrast, domestic politics in the debtor countries are likely to have been largely insignificant for the outcomes at this stage. Finally, Table 2.3 summarizes this discussion and predictions from earlier theory.

Table 2.3: Actor Positions and Issues in Eurocrisis Debates

	Domestic redistributive	Supranational redistributive	Authority transfer
Party	Left–right	GAL–TAN	GAL–TAN
Government	Left–right	National interest/GAL–TAN	National interest/GAL–TAN

2.2.5 Conclusion

In this chapter, I have set out the theoretical lens through which the following empirical chapters will analyse press debates on the financial and economic crisis in Ireland and Finland. The theoretical approach of this dissertation contributes to literature on agenda-setting, critical junctures and the role of coalitions and ideas in policymaking. The dissertation argues that coalitions reshuffled in the crisis because the ideas actors held of economic reality, changed. It thus underlines the critical role of economic ideas in explaining policy outcomes in crises. The chapter laid out two models of ideational change at critical junctures and argued that the conventional, hierarchical model cannot account for the kind of change – or resilience – observed in this crisis. The chapter therefore put forward another, schematic model of change. In this model, incremental ideational change has potentially transformative impact on policy outcomes. The model predicts change when actors recombine elements of ideas that exist within a paradigm. Hence, no overarching paradigm change, such as would be predicted by the hierarchical model, is required to bring about significant ideational change in times of crises. The chapter then argued that to initiate the political process whereby ideational and policy change occurs, issue entrepreneurship in the public space is required. Actors need to engage in deliberate attempt to push forward their favoured ideas, frame them according to their preferred interpretation of the situation, and coalesce to make this interpretation prevail. The theoretical framework of the thesis hence emphasizes the role of political communication as a cause for ideational and policy change.

The second part of the chapter has contextualized the outcome of interest, the prevalence of austerity as an economic idea and policy response to the Eurozone crisis, to the universe of ideas and actors likely to appear in the European public sphere. It has also predicted outcomes in public contestation on austerity based on existing approaches to Europeanized political conflict. The prediction from this discussion is that debates on austerity are likely to represent a new type of supranational distributive conflict, which current theories have little to say about. Hence, the task of the empirical part of the thesis is exploratory in this regard. Yet the chapter has tentatively predicted that debates in Ireland, as a debtor country which had to adjust, should include a domestic redistributive dimension in addition to the clearly international dimension. In the creditor country Finland, such domestic redistributive conflicts do not necessarily appear. What the chapter labelled a "meta-hypothesis", was that issue entrepreneurship will affect how the crisis was presented in the public debate – as an issue in international politics, or as a distributive issue – which then defines whether the debate would be structured along the domestic left–right axis or rather the pro-against integration axis, predicted by the international relations model of integration. In redistributive questions, the chapter predicted the Left-right axis to dominate, but in questions of authority transfer, the GAL–TAN axis would be relevant. Finally, the chapter observed that the policy responses to the crisis unfolded at rather distinct stages: a Keynesian stage in 2008–9, where many governments engaged in substantial stimulus efforts, and an ordoliberal stage from 2010 onwards, where responses concentrated on and converged around fiscal consolidation. The chapter hypothesized that the first stage be characterized more by conventional, national-level left–right politics, whereas the latter stage by intergovernmental bargaining. At this stage, political competition at domestic level was expected to follow the GAL–TAN model.

These, then are the theoretical premises of this thesis. The following, two empirical chapters on Ireland and Finland will set out to test the presumptions in practice.

Chapter 3

IRELAND

What is the interest rate? How long does Ireland have to pay back the money and reach the mythical target of a 3 per cent budget deficit? These may look like technical fiscal questions. They are in fact political and moral ones. They cut to the heart of the European project.

– Fintan O'Toole, *Irish Times*, 16 November 2011

In the Eurozone crisis, the public finances of Member States became subject to supranational distributive conflict. In the absence of pre-existing mechanisms for handling such disputes, these were improvised in a process that involved not only finding the most efficient solutions, but also naming, shaming and punishing culprits. Although the EU's supranational intervention to national accounts was presented as a bookkeeping exercise, it was, in fact, a highly political process, involving a new type of transnational distributive conflict. Ireland, the once-celebrated Celtic Tiger in the northwestern periphery of Europe, was one of the key of stages on which this conflict played out. Faced first with a full-fledged banking crisis in late 2008, Ireland's public finances crumbled under the weight of banking rescue operations, a severe recession in the real economy, and domestic structural imbalances that had been allowed to develop in the pre-crisis economy. Ireland therefore had to take a bailout 2010 from the *troika* composed of the European Commission (EU), the European Central Bank (ECB) and the International Monetary Fund (IMF), further locking it into austerity for the following years. How did the celebrated Celtic Tiger become one of the GIIPS – the Eurozone's debtor nations – and why did it respond to this crisis the way it did?

The first thing to understand about the Irish crisis is its strong path-dependent features. Most people interviewed for this study pointed out that to understand the causes of Irish austerity now, one must look back. The same interpretation is put forward in much of the literature. Christensen (2013) has argued that when the actual crisis hit, Ireland had "already undone itself". Barnes and Wren (2012), in turn, have pointed to path-dependency by arguing that failures of Irish institutions during the crisis were the "outcome of the political economy of Irish economic growth and development during the boom" (ibid, 291). The first part of this chapter argues that Ireland's political economy went, in the pre-crisis period, through a shift from the export-oriented Celtic Tiger model to a consumption-led model that prevailed in the pre-crisis period. Here, the chapter makes use of the analytical framework recently proposed by Baccaro and Pontusson (2016), which emphasizes demand-side factors as determinants of distinctive growth models in advanced economies. Specifically, their framework distinguishes between political economies where demand is produced by domestic household consumption and those where it is created by exports. Between roughly the mid 1990s to the early 2000s, Ireland belonged to the latter type. Yet in the early 2000s, it switched to household consumption-led growth. This shift, the chapter argues, goes some way to explaining why Ireland ended up as it did in the crisis. Specifically, it altered the ideas actors had of how to best pursue economic growth. In the new model, powerful ideas helped actors believe that gaining growth from domestic consumption and asset price inflation, both fueled by credit, was entirely acceptable and sustainable. The new economic model was also in the immediate interests of almost everybody. But, crucially, it was in the long-term interests of nobody. Yet beliefs about the economy persuaded policymakers, bankers and the public that what was in their immediate interests (reckless credit extension) was also in their long-term, fundamental interest (sustained economic growth). Such is the power of ideas.

The first part of this chapter thus lays out the basics of Irish political economy, from the 1990s through to the late 2000s crisis. The second part argues, based on evidence from interviews, that the Celtic Tiger economy was sustained by an ideational convergence amongst key policymaking elites, facilitated by institutional structures that disincentivized cross-administration checks and balances. The third part, based on newspaper data on public debates in the crisis, demonstrates how these domestic ideational coalitions worked in the crisis, and together with transnational counterparts, produced the prevalent narrative of and response to the crisis. The last section concludes with more quantitative evidence of issues, actors and frames in the press debates.

3.1 The Political Economy of Ireland

Until 1987, Ireland was a relatively poor country and an industrial latecomer among European states. The then Fine Gael (FG)[21] government had responded to the late 1970s oil crisis with expansionary fiscal policies, putting Ireland's current account deficit close to 15 per cent, public debt at 122 per cent, and inflation at 20 per cent of GDP by 1986. The incoming Fianna Fail (FF)-led coalition changed direction. It devalued the Irish pound and started to implement fiscal consolidation to bring down the deficit, cutting public spending by 10 per cent between 1987 and 1989. Two policy novelties were key to the macroeconomic stabilization. First, the establishment of Social Partnership, a tripartite wage-bargaining institution, brought the state, unions and employers together to form a negotiated strategy of fiscal consolidation, contributing to the country's competitiveness by producing wage restraint and industrial peace (O'Riain 2013, Regan 2012). Secondly, the 1980s marked the beginning of an industrial policy strategy centred on attracting foreign direct investment (FDI) to Ireland, particularly in high-value added manufacturing and services sectors, in order to pursue export-led growth. This strategy, as Regan (2012) has observed, was from the beginning state-led. The government established two agencies, Enterprise Ireland and IDA, whose main objective was "to encourage investment into Ireland by foreign-owned companies."[22] The role of these agencies in fostering Ireland's FDI-led growth model became highly important (Campbell, forthcoming). Led by IDA and Enterprise Ireland, the country has to date managed to draw in one of the highest stocks of FDI among the OECD (O'Riain 2013, 54).

The strategy of macroeconomic stabilization, wage restraint enabled by tripartite wage bargaining, and high growth in the FDI-led export sector bore fruit. The "Celtic Tiger" period from the mid 1990s to the early 2000s was characterized by unprecedented economic growth figures, with an average of over 10 per cent annually. Unemployment simultaneously decreased to a low of four per cent by 2000. These developments gave Irish governments the fiscal space to increase spending, the bulk of which was used to pay down national debt. Hence, Ireland's debt-to-GDP ratio dropped to 38 in 2000 and further to 20 in 2007. In addition, a surplus of 14 per cent was stored in a National Pensions Reserve Fund. Despite strong growth, wage pressures and inflation remained "relatively subdued", and Ireland's cost base was therefore competitive (O´Riain 2013). Domestically, a successful strategy of negotiated industrial and economic policy within the SP framework contained inflationary pressures. Externally, "a temporary surge in productivity in the United States and the European Union in the second half of the 1990s dampened the increase in unit labour cost in the world's largest economies" (Regling & Watson 2010, 11).

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21 For a description of the Irish party system, see section 3.3 below.

22 http://www.idaireland.com/about-ida/

An implication of the FDI-dominated export-led growth strategy was the failure to develop an indigenous Irish export base (O'Riain 2013). Ireland was an agricultural economy long into the twentieth century, and indigenous industrial manufacturing never became a major component in the national economy, a fact that is reflected also in the absence of a clear left-right dimension in the Irish party system. The choice to pursue export-led growth led by foreign multinationals reinforced this situation: "Domestic industry remained weak however, with some improvements in the linkages between multinational firms and Irish sub-suppliers but relatively few Irish owned firms emerging in key sectors until the mid 1990s" (O'Riain 2013, 54). In the 1990s, however, Irish policymakers attempted to correct this situation by developing their own version of a German-style "coordinated market economy", by strengthening the ties between the foreign-owned industry and Irish employers. The Irish "developmental network state" (O'Riain 2013, 57) used the network instituted around Enterprise Ireland and the IDA to create connections between the Irish and foreign-owned sectors, and handed out state grants to facilitate this. Notably, investment capital for both the Irish-owned and foreign exporting sectors at this point came, for the most part, directly from national and international private capital markets and from public investors, such as the Irish state and the EU (e.g. cohesion funds). The role of financial intermediaries and the banking sector therefore remained modest. This state-led model of export growth, fueled by FDI and a favorable tide in the world economy at large was sustained by well-functioning domestic institutions. The conditions were thus created under which Ireland effectively grew its way out of the 1980s debt crisis. Ireland appeared to have successfully reconciled extreme trade openness and a basically liberal economic model – Ireland became the second most open economy in the OECD, with the sum of exports and imports constituting over 1.7 times GDP (Donovan & Murphy 2013, 10) – with features of coordination. As Regan (2012, 6-7, emphasis added) observes:

> Irish economic actors were following the German rather than the British model of industrial relations (…) the idea of social partnership and tri-annual wage agreements emerged out of a preference by Irish administrative, political and trade union elites for a European style industrial relations regime. Fiscal, wage and macroeconomic policies required a negotiated approach to problem solving. Despite the institutional inheritance of a British adversarial industrial relations regime, and a Westminster style parliament, Ireland managed to develop the conditions for a *variant of German inspired neo-corporatism*.

Yet this was not the Ireland that met the international financial crisis in 2008.

In the early 2000s, problems began to develop both at home and abroad. The world economy slowed down and the dotcom-bubble that had fueled exports from Irish-based multinationals burst. Ireland joined the European Monetary Union (EMU) in 1999, which underlined the importance of containing inflation and wage pressures. Yet, years of high growth were increasingly producing distributive demands at home. The Social Partnership, which for a time had successfully served as a platform for negotiated wage restraint, changed function. As discussed above, between 1987 and 1994 the core aim of the SP was to bring state elites, unions and employers together, in order to create a strategy of coordinated fiscal adjustment, securing industrial peace and wage restraint. A key rationale for this from the point of view of the government was Ireland's prospective entry to the Single European Market, in 1992. In other words, as Regan (2012) argues, the SP was in part a domestic strategy to internalize the constraints of European integration. As such, it encompassed a strong element of national economic planning, in an explicit attempt to "move beyond short-termism" (Regan 2012, 5). In the 1990s Ireland was deliberately seeking distance from the Anglo-liberal type of institutional structure, and to move towards a more coordinated continental model. The SP was part of this endeavour.

Yet in a context of voluntary bargaining, as exists in Ireland, the unions had to somehow sell participation in a centralized institution to its members. They did so by exchanging wage restraint for cuts in personal income taxes to ensure secular increase in private disposable income. This trade between unions and the state left employer preferences intact. Yet it understandably enjoyed wide support both among wage-earners as well as in society at large. High growth allowed the government to increase provision of public services despite the slowly-eroding tax base. To make up for the gap left by income tax cuts, the government increasingly moved to gather revenue from indirect taxes. As the economy began to overheat towards the mid 2000s, nearly half of income earners were exempt from income tax and revenue came, instead, from the overheated construction and services sectors. In this manner, the Social Partnership indirectly, yet clearly, fed into the formation of the bubble economy. Coming to the 2000s, the structure of the SP itself changed. It now included a new "social pillar", a variety of societal stakeholders, such as poverty-tackling agencies in the voluntary and community sector. The new social pillar in the SP ensured that the interests of non-union domestic groups for increasing social spending were well represented at the state level. Along the way, O'Riain (2013, 64) argues, the SP gradually lost sight of a long-term economic strategy, and increasingly focused on "cash benefits of the wage and tax agreements" to constituencies represented by its various members. Yet how to finance increasing state spending when external trade balance was faltering, represented a problem. The tax cuts for wage restraint bargain was apparently sustainable so long as revenue from the rapidly growing economy remained buoyant. But as dark clouds gathered in the world economy in the early 2000s, Irish policymakers came to a crossroads. To sustain high growth and the distributive bargains that depended on it, action was required. Both external and the internal conditions produced *demand* for a new growth model. Ireland thus had to choose an economic strategy for coping with the external and internal policy challenges, and this, as the then Minister for Enterprise, Fíanna Fail's Mary Harney put it, meant choosing "between Boston or Berlin" (O´Riain 2013, 67). In practice, Ireland had to either gravitate decidedly towards the coordinated continental European model, or turn back to the Anglo-Saxon liberal model. Seeds for both had been planted in the Irish economy in the 1990s. Yet, the choice Ireland made in early 2000s, was to allow features of the liberal model to increasingly take hold.

External conditions, most importantly Ireland's EMU membership in 1999 and a "world economy characterised by relatively high growth, low headline inflation, strong liquidity creation, and low interest rates" (Regling & Watson 2010, 11), facilitated the choice between an export-oriented and a domestic consumption-oriented model. In short, capital and credit to bolster domestic consumption were available like never before. The new European Central Bank (ECB) in Frankfurt implemented a unitary monetary policy for the entire Eurozone, leading exchange risk to seemingly disappear, and interest rates among the Member States to converge towards the low German level. Capital hence flowed into the previously high-risk, high-interest rate peripheral economies, such as Ireland. As observed above, investment into Ireland's FDI-led export economy had, in the 1990s, come for the most part directly from both public and private investors: international capital markets, the European Union, and the Irish state itself. The newly abundant financial capital therefore now sought investment opportunities not in the already well-capitalized export sector, but in the booming construction and services sectors. To intermediate capital flows, the role of the banking sector increased: the share of financial intermediation of total value added in the economy grew from 21 per cent in 2002 to 26 per cent in 2008.[23] Now, Irish banks borrowed heavily in the interbank market and then extended credit generously to domestic borrowers - households, firms and individuals. Kelly (2009, 2) observes that:

> bank lending grew to 200 per cent of national income by 2008. Irish banks were lending forty per cent more in real terms to property developers alone in 2008 than they had been lending to everyone in Ireland in 2000, and seventy-five per cent more as mortgages.

In the new growth model, the balance in the Irish economy shifted, such that an increasing proportion of GDP came from the construction and private services sectors, while the role of exports, particularly exports from Irish indigenous sectors, declined. The expansion of the construction sector was remarkable: Ireland went from getting 4–6 per cent of GNI from this sector the 1990 to 15 per cent in

[23] OECD (2016), Value added by activity (indicator). doi: 10.1787/a8b2bd2b-en.

2006–07, well above the average level in developed economies (Kelly 2009, 1). Growth in Ireland was increasingly fueled by domestic demand and not exports, and the demand itself was fueled by bank credit. Growth in the construction and services sector, moreover, sustained a new, pro-cyclical fiscal strategy of the state where public expenditure increased rapidly, financed by abundant revenue from these sectors. Between 2000 and 2010, social welfare rates both for the working population and for pensioners doubled. Average public service salaries increased by 59 per cent. What made these developments dangerous was that they were financed from an increasingly narrow and pro-cyclical revenue base. Particularly taxes on personal income were being lowered and the tax net narrowed, such that by 2010, 45 per cent of taxpayers were exempt from income tax altogether (The National Recovery Plan 2011–2014, 6). In the labour market at large, wages could no longer be contained. Features of the Irish wage settlement system ensured that wage development in the booming, domestic non-traded sectors was not dependent on the performance of the internationally traded sectors and thus the "construction boom led to an employment boom which drove wages in all sectors of the economy to uncompetitive levels" (Kelly 2009, 1). Average wages in Ireland rose from €31 354 per annum in 2000 to €48 490 (at current prices) per annum in 2008 (OECD 2016)[24]. Hourly earnings in the Irish manufacturing sector, relative to main trading partners rose 20 per cent (Kelly 2009, 13-14). External competitiveness declined, and the Irish "economic growth and welfare increasingly depended on construction and property development for domestic customers, funded by a growing foreign debt" (Nyberg 2011, iii).

This new financialized and consumption-led growth model was sustained by a particular set of economic ideas. It was these ideas that created the illusion of the sustainability of the new Irish growth model, leading actors to believe that what was in their short-term interests was also in their long-term interests. Three narratives were particularly important. First, that the *light-touch regulation* of the financial industry was in the common interest. Secondly, that the Irish growth model was based on *sound fundamentals.* Finally, that in the event of a crisis, the Irish economy would perform a *soft landing* from the high-flying boom. These specifically Irish ideas were connected to two much broader ideas, which were key to the neoliberal paradigm that prevailed in the pre-crisis period: the so-called "great moderation" and the efficient markets hypothesis. Together, these fundamental beliefs led policymakers to believe that Irish economic growth was based on sound fundamentals and therefore well predisposed to meet any potential economic downturn, to "land softly".

The great moderation is arguably best described as not an idea, but a period of success for a certain set of ideas about how the economy works. In short, under the great moderation policy was believed to have "tamed the cycle" (Eichengreen 2015, 8) such that fiscal interventionism and excessive

[24] https://stats.oecd.org/Index.aspx?DataSetCode=AV_AN_WAGE

financial regulation were no longer necessary. Monetary policy was sufficient to fine-tune the economy, such that shocks would no longer occur. The great moderation was a version of the "this-time-is-different" syndrome, where the present period appeared to have proven historical precedent wrong. In other words, while back in time, financial deregulation had tended to produced high interest rates and high volatility, now the opposite seemed to be true. In the period of roughly 2002 to 2007, financial deregulation was instead associated with *low* volatility and *low* interest rates. Hence, the circle appeared squared: why regulate, when laissez-faire was producing such wonderful outcomes? In Ireland, belief in the great moderation manifested itself particularly in a tendency to overlook historical evidence on asset price bubbles, with policymakers believing that "past international experience may not be an accurate guide to future developments in house prices because the international macroeconomic environment is now somewhat different" (Honohan 2010, 84). The great moderation was thus seen as proof for the efficient markets hypothesis, the belief that left by themselves, markets would produce economically optimal results. The particular twist to this belief under the Great Moderation was that market mechanisms no longer needed to be counterbalanced with government interventions, because markets no longer appeared to produce volatility. A miracle!

These Irish policy ideas clearly were part of what has been described above as the neo-liberal policy paradigm, prevalent up until, and mostly also during, the crisis. Specifically, the prominent place reserved for market self-regulation and the belief that public intervention was decreasingly necessary to ensure stability, place these ideas into the neo-liberal paradigm. Yet, as discussed in the theory chapter, ideas need champions, and those champions are likely to be actor who materially benefit from the prevalence of the particular ideas in question. In this case, the Irish policy beliefs were a necessary basis for a growth model where finance enjoys such a prominent position. Hence, we would expect finance to be among those who would favor ideational status quo, rather than paradigm change. In the new growth model, both what was believed as the adequate place of banks in the economy and society, as well as the banks' internal culture, changed. Finance had become structurally important for the Irish economy, specifically by ensuring a sustained level of domestic demand on which Ireland's growth model now depended. Moreover, to sustain this strategically central position, the idea of what banks *do* changed, such that "the old idea of a prudent bank with a modest profit level died (…) banks were transformed into profit-making entities, just like any firm" (Boyer 2012, 417). The adversity to risk among bankers and investors declined. They therefore engaged in riskier forms of finance, relying less on deposits and more on funding from the volatile interbank markets and – especially in the United States – different forms of securitization. Not that the banks themselves necessarily perceived these new forms of doing business risky: after all, the efficient markets hypothesis implied that less regulation and self-regulation was bound to deliver economically optimal results, and do it *safely*.

In Ireland, trailblazers of the new banking culture were the Anglo Irish Bank and, to a lesser extent, the Irish Nationwide Building Society (INBS). The new business cultures in these two banks were widely admired, and adopted by the rest of Irish banks. The Anglo Irish Bank characterized itself as a "relationship-based business bank", meaning that it concentrated its activities into providing (often very large) loans to a "relatively limited" number of well-known customers in mostly the property development sector (Nyberg 2011, 22). Anglo's business model meant limited access to traditional deposit funding. It therefore became dependent on (often offshore) retail deposits, corporate deposits and wholesale lending. The increased risk associated with its high-growth, relationship-based model was, however, not mitigated with tightening credit standards and risk assessment practices, but on the contrary, such standards were relaxed. The trademark of Anglo was to provide loan decisions quickly, which inevitably meant less time for risk assessment. The INBS's model was similar. It extended mostly property loans to well-known, often large, borrowers. The fact that lending was based on relationships, knowledge of the prospective borrower, was seen to mitigate risk. Hence, INBS extended "100% finance to experienced and proven property developers" with no other securities but the (property) asset itself (ibid, 23). In other words, personal relationships had taken the place of objective and abstract risk assessment in pre-crisis Ireland.

Yet, the prominent role of finance was widely endorsed among Irish policymakers, too. Arguably, key policymakers to some extent equated the interest of this particular industry with the interest of Ireland's national economy. This position is is well captured by the Minister for Finance Brian Lenihan (FF) in his speech to the Dáil in October 2008 "(…) the financial sector is undoubtedly a key element of our national economic infrastructure. Finance is the lifeblood of business, economic and household activity on a day-to-day basis." In other words, while the original champions of neo-liberal, financialized economy are likely to have been representatives of finance, Irish policymakers from the main centrist parties, Fianna Fáil and Fine Gael, had internalized finance's demands such that when the crisis hit, their first concern was rescuing this industry from ruin. As such, Irish policymakers' actual policy choices during the crisis represented a move away from purely neo-liberal ideas. As was observed above, neo-liberals, particularly the Austrians, would condemn such large-scale intervention to the economy as was done with the bank rescue operations, extremely hazardous. This was the quasi-Keynesian move by the Irish government, among others, to prevent an utter collapse in domestic demand that would have presumably followed a system-wide banking collapse. No paradigm change occurred, but the Irish government acted in accordance with its fundamental interest - keeping the economy afloat - using the few tools it had left. Yet, had finance not acquired such a strong structural position in the pre-crisis economy, the government's calculation may have looked different.

In the end, the new growth model, which appeared to be in the short-term interests of everybody, ultimately was in the long-term interests of almost nobody. Explaining the shift in the Irish growth model is beyond the scope of this study. Rather, understanding the change in growth model serves as a basis for understanding the structural basis for ideas and interests, which was in place when the crisis hit. In other words, the growth model at place in time *t-1* created the political-economic preconditions for the prevalence of certain ideas and interests at time *t*. The sections below reflect on the role of ideas, interests and institutions – three main types of political-economic variables – in sustaining the financialized, consumption-led model. The discussion is based on interviews and secondary evidence.

3.2 Ideas, Interests and Institutions in Ireland's New Growth Model

The interview evidence gathered for this study points to the existence of an ideational consensus in pre-crisis Ireland that facilitated the formation of the bubble economy and hindered anyone from shouting stop when the economy was overheating. What sustained such consensus?

Prominent explanations emphasize faults in the Irish political-administrative institutions (Hardiman 2010; Honohan 2010; Nyberg 2011). Such problems were also pointed out by many people interviewed for this study. First, there appear to have been problems associated with exchange of information between different branches of state administration. Ireland's Westminster-type structure of parliament and public administration concentrates power into a small core around the Prime Minister's office (O'Riain 2013). In the crisis, this structure had the consequence of concentrating *information* in the hands of that small core. Nyberg (2011, iv) has characterized the Irish administrative structure as "siloed", hindering effective exchange of views and information between departments. In the field of financial regulation, the fragmented administrative structure has been identified as a cause for the failure of the regulator to spot problems in the "new banking culture" and identify the crisis as one of solvency, not merely liquidity, in 2008.

The fragmentation of the administrative structure in this field was exacerbated with the creation, in 2003, of a new entity, the Central Bank and Financial Services Authority of Ireland (CBFSAI) with regulatory duties divided between the Irish Financial Services Regulatory Authority (IFSRA) and the Central Bank (CB). Honohan (2010) cautiously argues that such institutional fragmentation may have weakened the financial stability analysis by the CBFSAI and hence contributed to the astonishing regulatory failures, crystallized in the fact that "[a]t no point (…) did the CBFSAI staff believe that any of the institutions were facing serious underlying difficulties, let alone potential insolvency problems – even at a late stage as the crisis neared" (ibid, 8). An interviewee who served as a junior minister in the

Fianna Fail-Greens coalition, in power when the crisis hit, described how the rotten state of the banks came as a full surprise to most cabinet members, let alone regular TDs. According to him, outside the axis of Department of Finance and the Central Bank, there was no knowledge about what was going on.[25] For similar reasons of institutional fragmentation, whatever "weak but clear opposition" (Nyberg 2011, v) there was among the Department of Finance (DoF) to the concentration of credit activity in the construction sector, for example, it did not reach a wider audience - not even among cabinet ministers, as the ex-junior minister pointed out. Yet the president of a significant Irish trade union pointed out[26] that while there was little coordination between the DoF and other government departments, there seems to have been more interaction between the Department and the European Central Bank. According to him, the ECB was "pushing" the DoF, apparently towards the light-touch end of the regulatory scale. McCabe (2015, 50) draws a parallel between the ECB's great moderation-inspired belief system and that of Irish policymakers. The author argues that "[ECB President Jean-Claude] Trichet, as with the financiers and politicians in Ireland, drew upon the tenets of neoclassical economics to justify profit-seeking via asset speculation." Still others have pointed out the lack of ability and expertise among Irish policymakers and other societal actors, which facilitated herd-type of thinking and paved the way for external influence. Christensen (2013) has identified a lack of trained economists at the Department of Finance in Ireland as a weakness, which may well have hindered it in acting as a credible and audible whistle-blower. Moreover, when it comes to expressing opposition, the usual suspects – the left and trade unions – were weak. In interviews, trade union representatives, among them the President of a big Irish union, themselves emphasized the weakness of alternative economic analysis among the Left and trade unions in Ireland. The union President also readily acknowledged that the key institutional point of access for trade unions, the Social Partnership, had in the pre-crisis era become increasingly focused on pay deals for its members, at the expense of more comprehensive coordinated planning of economic activity. This, for its part, allowed for the financialized regime to reign, or a state capture by banks, as the union President put it.

Moreover, many authors have observed that in the pre-crisis ideational climate, expressing dissenting views was strongly discouraged (e.g. Honohan 2010). Perhaps the most famous example on how "naysayers" were treated is quoted by McCabe (2015, 50):

> Taoiseach Bertie Ahern, told a conference of the Irish Congress of Trade Unions that he was fed up with people who raised problems with the Irish economy. 'Sitting on the sidelines, cribbing and moaning is a lost opportunity', he said, adding that he didn't know 'how people who engage in that don't commit suicide'.

[25] Interview with a Junior Minister in the Fianna Fáil-Greens government, 17 May 2013.
[26] Interview with the President of a large Irish union, 25 June 2013.

Not only public administration, but also the internal culture at the banks seems to have been characterized by fear for expression of dissent, as Nyberg (2011, v) notes:

> It appears to have been difficult for individual members [of the boards of banks], especially those without banking experience, to express and maintain a view contrary to the majority view on the board. In some cases, members indicated that their approach was to initially register their opposition to a particular decision, but to then adopt the majority view.

In sum, the discussion above points to significant problems in the Irish political-administrative system, which hindered the exchange of information, discouraged dissent, and concentrated power and knowledge in the hands of a small core. Yet institutional actors were not powerless. Irish policymakers had access to knowledge and the institutional prerogatives that enabled them to shout stop, had they chosen to do so. Nyberg (2011, vii) singles out, in particular, the Central Bank which "had the right to direct the activities of the FR (financial regulator) and could advise the government." Honohan (2010, 42) similarly argues that the structure (of financial supervision), as complex as it was, did not itself materially contribute to the failures that occurred. What appears more important is the way actors decided to use – or *not to use* – the powers vested in them. Arguably, actors must have *believed* that not intervening in increasingly in the banks' increasingly reckless practices was in the common good and worrying about narrow revenue base was futile. The beliefs actors had of the workings of the economy were important. Again, however, actors only uphold ideas if these ideas apparently serve their interests. This highlights the primacy of politics behind policymaking in a given set of institutions. What then requires explanation is *why* actors chose to use institutions the way they did.

Many authors have explained outcomes in the recent crisis with the overwhelming organisational resources of business, especially finance (Culpepper & Reinke 2014; Hacker & Pierson 2010; Woll 2016; Ziegler & Woolley 2016). Indeed, as said, Irish banks clearly were the biggest beneficiaries of an economic growth model, premised on continuous credit extension. In the same vein, the construction industry – the main beneficiary of the lax credit standards in the new "relationship-based" banking culture – stood to gain. How did business strive to get what they wanted? Most accounts of business power in the recent crisis, have understood power in the instrumental sense, as the "use of resources that allow an actor to get others to do what they otherwise would not" (Woll 2016, 375). From this perspective, business is a disproportionately powerful interest group, which influences policymakers by means of its extraordinary resources that conveniently transform into campaign donations, for example. In the Irish case, business power has usually been understood in this sense, precisely. First, outright capture of the regulatory system by banks has been highlighted. Banks, specifically Anglo and the INBS were at the vanguard of Ireland's new growth model, and their high profitability and apparently invincible business models were widely admired. Moreover, the state administration, including the financial regulator, have been argued to have lacked the resources to keep up with the banks. Thus, Honohan (2010, 9) argues that a "deferential approach to the banking industry (…) may have contributed to a reluctance to second-guess bankers in any aggressive manner (…) [and] to what is described in the literature as 'regulatory capture'." According to McCabe (2015, 49) in pre-crisis Ireland there existed "an indigenous middleman/comprador class with business interests concentrated mainly on financial administration and property speculation which used the full power of the Irish state to protect itself from its own profit-seeking strategies."

Another way in which the instrumental business power argument has been used has been to emphasize crony politicians' close ties with business elites in the banking and construction sectors. This line of criticism was crystallized in the notion of the "Galway tent" where, during the annual Galway horseraces, back-rubbing between Fianna Fáil, in particular, and these business interests allegedly took place. Criticizing the government's budget cuts in December 2010, the finance spokesman of then-opposition party Fine Gael, Michael Noonan argued that

> Fianna Fáil are looking after their friends again. They should put the Galway tent back up in front of Government Buildings, and the Greens should be employed as doormen, he said." (*Irish Times,* December 10, 2010).

Perhaps less attention has been paid to the less visible, but highly consequential, structural business power in Ireland – and elsewhere. Structural power operates "through existing institutional arrangements that put certain actors in privileged positions, allowing them to change the range of choices open to others without apparently putting pressure directly on them" (Woll 2016, 375). Structural power "inheres in the fact that firms are agents of economic activity in capitalist democracies (…) Because a negative policy, or even the anticipation of one, may lead firms to lower their rate of investment, scholars have characterized the democratic state as structurally dependent on capital" (Culpepper & Reinke 2014, 429). Definitions of structural business power do not say anything about which type of business is likely to wield such power. Yet, if any one business was put to a "privileged position" through "existing institutional arrangements" in pre-crisis Ireland, it was finance. Or, even more to the point, institutional arrangements were adjusted to a financialized economy. Take the Social Partnership, for example. Wage restraint was the easier to accept, the more incomes could be augmented with credit. Cuts in income taxes were the easier to implement, the more revenue was coming in from the highly leveraged construction sector. Key societal bargains in the pre-crisis economy came to depend on the ready access to credit. This lifted the financial industry to an unprecedented position of structural influence in the Irish economy.

At a practical level, the structural power of business would mean that when contemplating policy decisions in the crisis, for example, policymakers in Ireland would have placed weight on the anticipated reactions of banks on such decisions. Instrumental power would mean that banks had direct access to policymakers at moments of such crucial choice. It appears plausible that both mechanisms would have been at play in Ireland. Moreover, high structural power in the pre-crisis period would have made it more likely for finance to have access to policymakers, thus using instrumental power, in the actual crisis. The more important policymakers *perceive* finance to be, the more they are willing to listen to bankers in moments of distress.

The rivalry between the instrumental and structural facets of business power is recently taken up in the debate on "winner-take-all" politics in the United States (Hacker & Pierson 2010) and in Europe, notably United Kingdom (Hopkin & Alexander Shaw 2016). This debate illustrates that the exact form of business power is variable, and depends on context. Hopkin and Alexander Shaw (2016) argue that as the political opportunity structure in the UK does not similarly favor an "organized combat" by powerful interests as it does in the US, structural power is bound to become more important. The US explanation hinges on changes in the organisational balance of powers in the society, such that trade unions and other "egalitarian counterweights" (Hopkin & Alexander Shaw 2016, 349) to business power have been dismantled. While Hopkin and Alexander Shaw observe that such a development also fits the case of Britain in the post-Thatcher era, they note that "[p]olitical science accounts (…) should predict a greater degree of pushback against the liberalizing agenda of the 1980s after the election of a centre-left party. The British case displays no such outcome. The government of New Labour not only declined to challenge the continued concentration of income growth at the very top of the distribution; it allowed, even encouraged, it to accelerate". In other words, the British case displays a paradox: unlike what the the balance of organisational power hypothesis of Hacker and Pierson (2010) holds, an explicitly left party, Labour, presided over the period in which powerful business interests exercised great influence, leading to the financialization of the British economy and society.

The Irish case displays a similar paradox. Unlike in the UK and the US, in Ireland the period of financialization in the pre-crisis era does not coincide with an increase in poverty and inequality, two outcomes typically associated with high business power. By contrast, both decreased. Poverty rate in pre-crisis Ireland goes in exactly the opposite direction as in the UK: downwards. The same goes for income inequality. In the UK, the gini coefficient increased from 0.35 in 2003 to 0.37 in 2007. In

Ireland, it dropped from 0.32 to 0.30 (OECD 2016)[27]. It therefore appears that the business power arguments need revisiting in the case of Ireland. If financialization means increase in business power, and business power should coincide with decrease in the power resources of labour and an increase in poverty and inequality, then how can we explain the shift to a financialized model in Ireland? As Swedberg (2012, 417) asks, "if finance is not productive, and if it does not create many new jobs itself, why do we want to keep it—especially if it is so unstable in nature that it creates recurrent crises that spread to the rest of society?"

Two kinds of factors explain this paradox. First, financialization appeared to serve the immediate interests of the society at large. For the ordinary consumer, financialization meant greater access to credit and consumption, mortgages and homeownership. Irish households leveraged massively in the pre-crisis era. Household debt in Ireland was at 111 per cent of disposable income in 2001. In 2007, it was 236 per cent (OECD 2016)[28] Savings in 2001 were 1.1 per cent of disposable income. In 2007, they were -2.1 per cent (OECD 2016)[29] This was a classic case of what Crouch (2009) has called privatised Keynesianism, where citizens augmented their incomes with financial sources. Finance has surely been the first and foremost proponent of an economic model that so directly serves its interests. Also domestic Irish construction business, to which a majority of the new, large loans by the "relationship-based banks" were extended, are likely to have been in favor. Yet households were not the only ones to take advantage of abundantly available credit. The debt-to-surplus ratio of non-financial corporations went up from 3,1 in 2001 to 6.3 in 2008 (OECD 2016)[30]. In the Irish case, financialization moreover *did* mean jobs. The construction industry was the biggest absorber of commercial lending. The construction sector was in 2006-7 contributing to almost 15 per cent of Irish GNI. Its share of total employment went from around 6 per cent in 1994 to near 13 per cent in 2007. To keep the construction bubble going meant steady income not only for property speculators. Thus also policymakers, particularly in the Fíanna Fail party, long in power before the crisis, actively endorsed this model of growth that seemed to serve so well the material interests of broad segments of society, and hence bringing in the votes.

Secondly, the labour movement, that could have been expected to oppose financialization and deregulation, was looking elsewhere. Specificallythe strategic orientation of the Irish union movement underwent a change in the pre-crisis period. Culpepper and Regan (2013) have observed that trade unions typically employ two types of power resources. First, they hold deterrent power vis-à-vis state policymaking by virtue of their ability to threaten with industrial action, were the government to go

27 https://data.oecd.org/inequality/income-inequality.htm#indicator-chart
28 https://data.oecd.org/hha/household-disposable-income.htm#indicator-chart
29 https://data.oecd.org/hha/household-savings.htm#indicator-chart
30 https://data.oecd.org/corporate/non-financial-corporations-debt-to-surplus-ratio.htm

against their wishes. Secondly, they can help governments to push through hard reforms through their ability to sell these reforms to their membership. These were the kinds of "carrot and stick" which unions had at their disposal in the previous economic crisis, in 1987. Because they could sell wage restraint to their members with cuts in income taxes, they gained access to the state apparatus via the Social Partnership. The employment of both types of power requires sufficient union density and bargaining coverage. Regan (2013) argues that coming to the crisis of late 2000s, Irish unions lacked both. First, the Irish wage bargaining system remained voluntaristic, and there were increasing signs that employers were overlooking the SP and acting unilaterally. Secondly, union density in the private sector had fallen to 22 per cent and the Social Partnership was, hence, increasingly associated with the public sector only.

In this sense, the power resources of Irish unions had indeed diminished in the immediate pre-crisis era. But in other ways, they were still high compared to other liberal economies, such as the UK. In other words, so long as the Social Partnership lasted, Irish unions still enjoyed privileged access to state decisionmaking, and were an essential party in the core wage and tax policy bargain that sustained growth and distribution in the pre-crisis economy. Their institutional position as part of the state apparatus was significant, although their underlying power in the labour market was corroding. In fact, it appears that the Irish unions sought close partnership with the state executive *because* of the decline in underlying power in the private labour market. Regan (2012) describes this as a shift in strategic orientation from the economic to the political realm. In other words, the core preference the Irish Congress of Trade Unions (ICTU) became to secure its own institutional position as part of the state apparatus, instead of engaging in a broader economic analysis and the developing of alternative economic policies. Because unions were busy guarding their own position, they overlooked worrisome developments elsewhere.

Or even if they did not, the *perception* of ICTU as part of the state apparatus made it exceedingly difficult for it to take distance from government policy when the crisis then hit. In line with the distinction of Mair and Thomassen (2010) to "parties-in-government" as opposed to parties on the ground, the ICTU had become perceived as a body that *governs* rather than a civic association that *represents.* Moreover, working so closely with the state for three decades, Irish unions came to internalize the ideas of their "coalition partners", and lost an outsider perspective that would have incentivized them to shout stop when the financialized economy was overheating. As an economist from a union that did not support the SP commented: "The wider trade union movement and the Left in general were intellectually unprepared for the recession, did not have an effective critique of the crisis. After two decades of social partnership they could not construct a strategy outside that partnership architecture."[31]

As a consequence, the crisis in Ireland saw not only the politicization of finance, but even more, the politicization of labour market relations. The union movement was associated particularly with driving up public sector labour costs, which then drove inflation in the economy as a whole, eroding Ireland's competitiveness. Yet as Regan (2012) among others has observed, this account appears thin. The property bubble was, surely, the greatest inflation driver in the economy. The bubble then "defined policy" in the period[32]. Rather, it was the shift in the strategic preference of ICTU, towards securing its own institutional access and hence, committing to guarding the core bargain of wage restraint for tax cuts, which makes the Irish union movement part of the problem. This bargain directly fed into the skewed, procyclical tax regime of pre-crisis Ireland. The close-knit ties between the "extra-parliamentary coalition partners" (Regan 2012) contributed to the centralisation of information and convergence of ideas among the small core of state executive, a group where even the union movement now belonged. The above discussion then underlines the crucial role for a system of checks and balances within a state: if one part of the system fails to acknowledge risks, these should be picked up by another. But if all have subscribed to the same narrative, then problems lay ahead.

[31] E-mail communication with an Irish trade union economist, April 2016.
[32] E-mail communication with an Irish trade union economist, April 2016.

3.3 The Financial and Economic Crisis in Irish Press

The sections below explore policymaking at key junctures in the Irish crisis from the perspective of policy ideas, frames and actor coalitions that put these forward. The discussion concentrates on four key events in the trajectory of the Irish crisis. Event 1 focuses on the bank guarantee, issued by the Irish government to cover all liabilities of Irish financial institutions in September 2008. Event 2 covers the debate on the first Austerity Budget of the Fianna Fáil-Greens coalition government, put forward by Minister for Finance, Brian Lenihan (FF) in October 2008. Event 3 turns to the Eurozone dimension of the crisis by looking at the debate on the Irish Bailout deal the FF-Greens government struck with the *troika* of foreign lenders in in November 2010. Finally, event 4 circles around the path-breaking Irish General Election in February 2011, where the FF-Greens coalition was ousted from office and a Fine Gael-Labour administration subsequently took over.

Let us first set the stage for these more detailed analytical sections. What did the Irish press debate look like? Who were the key actors, what were the main issues of contention, and what were the main frames put forward to justify issue positions? As Table 3.1. demonstrates, the most notable speaker category in the Irish debate were Irish parties, making up more than 40 per cent of all claims. In addition, the Irish government figures prominently, making up close to one quarter of all claims.[33]

Table 3.1: Speakers, IRL

Speaker Group	%	N
Parties, Ireland	**41.5**	1710
Government and Executive, Ireland	**24.6**	1015
Government and Executive, Other countries	8.8	363
EU Institutions	4.3	179
Trade Unions	3.4	140
Business and Employers	3.1	126
Interest Groups	2.8	114
Central Banks	2.7	112
Parties, Other countries and Europarties	2.1	88
Academia and Experts	2.1	88
International Organizations	1.9	78
Banks	1.5	63
Others	1.1	49
Total	100	4124

[33] This overall figure has to be taken with a pinch of salt, however. As Table 3.4 shows, the salience of parties varied considerably over events and the mean is significantly influenced by the high salience of parties in the election event, in particular.

The party system in Ireland is dominated by two parties, Fianna Fáil (FF) and Fine Gael (FG), whose origins go back to Civil War cleavages of the early twentieth century. Hence, Ireland's party system is not characterized by a clear left-right division, such as most other Western polities. Rather, both Fianna Fáil and Fine Gael have been characterized as centre–right, populist catch-all parties (Mair 2011). In other words, rather than by ideology, the two main Irish parties have been seen as driven by constituency-serving motivations. Throughout the period covered in this study, Ireland was governed by a coalition of Fianna Fáil and the Greens. After the 2011 election, however, the FF-Greens coalition was replaced by a coalition of Fine Gael and Labour. While Ireland can be described as a quasi-two-party system like the US and UK there has consistently been a "third" party that has joined in coalition government with either of the two main parties, a role that the centre-left Labour party has often played (Weeks 2010). In addition to Labour, Sinn Féin is a small party that figures persistently in the Irish party system. Weeks (2010) has categorized Sinn Féin as a populist and nationalist party that is nevertheless more left- than right-wing. Ireland does not have the kind of far-right populist party that have emerged in recent years throughout Europe. Rather, the crisis produced two small anti-austerity alliances, People Before Profit and Fis Nua, which can be characterized as more left- than right wing. Ireland also has an environmentalist party, the Greens, which, as said, participated in coalition government with FF in 2007–2011. Moreover, two other left-leaning groups, the Socialist Party and Worker's and Unemployment Action have a small number of seats in the lower house of the Irish parliament, the Dáil. The relative strengths of parties as well as status of Fianna Fáil and the Greens as parties of government are well represented also in more detailed analysis of party speakers, demonstrated in Tables 3.2. and 3.3. Table 3.2 demonstrates that Fianna Fáil and Fine Gael dominate and are accompanied by the "third parties" – the Greens, the minor coalition partner to FF and Labour, minor coalition partner to FG (from 2011 to 2016).

Table 3.2:. Salience of Selected Irish Parties

	%[34]
Fianna Fáil	30.8
Fine Gael	27.3
Labour	18.6
Greens	10.2
Sinn Féin	5.7
Socialists	1.7
Fis Nua	0.5
Independents	0.4
Workers Party	0.3

Yet the composition of actors shows significant variation when observed by each key event separately, as Tables 3.3 and 3.4. show. First, the key events clearly can be divided into two domestic and two more transnational events, as Table 3.3. demonstrates.

Table 3.3: Nationality of Speakers by Event, IRL

	National	**Non-National**	**Total**
Bank Guarantee	41.1	52.7	100
Austerity Budget	**99.8**	0.2	100
Bailout	44.2	55.8	100
Election	**96.9**	3.1	100
Total	18.1	81.9	100

As Table 3.4 further elaborates, the change in speakers over time is reflective of the different dimensions the crisis acquired at different stages. It landed in Ireland as an international financial crisis, with severe implications for the Irish banking sector. The first event therefore is both transnational (Table 3.3) and features a high proportion of claims by foreign executives and many by banks and central banks (Table 3.4). The crisis then turned into a fiscal crisis of the Irish state. The second event is therefore a typical redistributive conflict, with almost exclusively national participation (Table 3.3) and a high number of claims by interest group, trade union and employer representatives (Table 3.4). By the time of the bailout, the crisis metamorphosed into a systemic Eurozone crisis. This was, as Table 3.3 shows, again a clearly transnational debate, with prominent shares of claims by foreign governments, EU institutions and international organizations (Table 3.4). Finally, the Irish election event is again a predominantly domestic debate (Table 3.3) and is, in fact the only truly party-dominated debate, hence making it a typical election debate.

[34] Calculated as a per cent of all party/executive actors in Irish debate. Executive actors are included because Fianna Fáil party actors most often spoke as representatives of the Irish government.

Table 3.4: Speakers, All Events, IRL

	Bank Guarantee	Austerity Budget	Bailout	Election	Total	N
Parties, Ireland	11.8	13.8	9.5	**62.6**	41.5	1710
Government and Executive, Ireland	22.4	**34.4**	22.4	24.2	24.6	1015
Government and Executive, Other countries	**25.5**	2.8	**28.2**	0.1	8.8	363
EU Institutions	7.4	.	**14.8**	1.4	4.3	179
Trade Unions	0.8	9.8	1.5	3.6	3.4	140
Business and Employers	1.1	**13.1**	0.6	2.6	3.1	126
Interest Groups	2.2	**14.1**	0,5	1.7	2.8	114
Central Banks	7.6	0.3	**7.5**	0.5	2.7	112
Parties, Other countries and Europarties	**9.1**	.	3.4	0.3	2.1	88
Academia and Experts	3.3	9.1	1.8	0.7	2.1	88
International Organizations	0.5	.	**8.7**	0.7	1.9	78
Banks	**8.5**	.	0.8	0.1	1.5	63
Others	.	2.8	0.5	1.4	1.2	49
Total	100	100	100	100		
N	647	398	656	2423		4124

The changing actor constellations will be scrutinized more in detail with respect to every event below. Let us now turn to issues. What was the Irish press debate all about? Table 3.5 depicts main issues in the overall debate. As the table demonstrates, overall the crisis represented a redistributive conflict for Ireland. Hence, the high share of fiscal policy issues. Yet, this distributive conflict took different forms, as Table 3.6. demonstrates. In the key events 2 and 4 – the budget and election debates – it represented itself as a predominantly national distributional game. The requirement for domestic adjustment is also reflected in the relatively high share of claims on structural reforms. Yet if adjustment was domestic, the overall distributional conflict acquired a strongly transnational dimension, particularly in events 1 and 3. Hence, the share of EU-issues is higher in the bailout conflict (Table 3.6.) and the share of banking issues – also a transnational conflict at the time – in the bank guarantee event.

The election event, in turn, features a high share of procedural issues and structural reforms. This indicates that rather than being merely about domestic redistribution, elections in countries under *troika* surveillance are also - and very much - about domestic *political* adjustment to external constraints. As will be discussed more in detail below, the election was about acquiring stability into the Irish political system – reducing the "political risk" of the IMF–EU programme's success. In practice, this meant getting in place a stable coalition with sufficient legitimacy to push the programme through.

Table 3.5: Issues, IRL

Main Issue	%	Subsidiary Issues	%
Fiscal and Labour Market Policy	**31.7**	Taxation and Expenditure	24.1
		Labour Market and Employment	7.6
Structural Reforms	**18.7**	Political Reform	7.3
		Public Sector Reform	6.4
		Business and Economic Reform	5
EU Policy	**17.4**	Eurozone Bailouts	14
		Coordination and Institution-building	3.4
Banking Policy	**17**	Banking Rescue Measures	10.9
		Regulation and Reform	6.1
Procedural Issues	**15.3**	Coalition and Electoral Politics	10
		Democracy and Social Justice	2.8
		Crisis Resolution	2.4
Total	100		100

Table 3.6: Issues by Event, IRL

	Bank Guarantee	Austerity Budget	Bailout	Election
Fiscal and Labour Market Policy	2.0	**70.4**	14.5	**38.0**
EU Policy	8.4	2.6	**59.7**	11.0
Banking Policy	**84.6**	2.8	6.8	3.8
Procedural Issues	4.1	8.0	10.4	**21.0**
Structural Reforms	1.0	**17.1**	11.4	**26.4**
Total	100	100	100	100

Tables 3.7 and 3.8 explore frames in the Irish press debate. How did actors speak about these issues?

Table 3.7: Frames, IRL

	%		%
Economic Frames	**35.1**	Economic Growth and Employment	16.0
		Market Confidence and Interest	5.8
		Budget Balance	3.9
		Financial Stability	3.7
		Competition, Competitiveness	3.7
Justice Frames	**34.0**	Social Justice and Democracy	19.1
		Public Confidence and Interest	13.0
		Morality	2.7
Procedural Frames	**16.7**	Law, Rules and External Constraints	11.5
		Efficiency, Cost-Effectiveness	5.2
Polity Frames	**9.0**	National Interest and Sovereignty	7.2
		Eurozone Stability and European Interest	1.8
Others	2.4		
	100		100

Table 3.7 shows that the crisis in Ireland was debated first and foremost as an issue of economic distribution. In a debate such as this, the economic rationality of policy, in terms of economic growth, employment and market confidence/stability are pitted against considerations of social justice. As illustrated in Table 2.3, we would expect such debates to be constructed predominantly in the left–right axis. The distribution of frames in Table 3.7 seems to correspond to what we know of the reality of the crisis in Ireland. Whilst the crisis landed in Ireland as an international financial crisis, it soon assumed a fiscal dimension, presumably leading to a domestic distributive controversy. Such picture would appear to emerge both from the distribution of issues (Table 3.5) and from frames (Table 3.7). So-called polity frames gain perhaps surprisingly little salience. These frames refer to justification of policy regarding geographically delimited notions of justice or interest, such as national/European interest.

The widespread belief that the Eurozone crisis was politicized in nationalistic terms does not seem to adequately grasp the Irish debate. Below we will compare the Irish debate to the Finnish one and will be able to observe whether this varies across countries depending on their status as creditor or debtor. We could assume that in Ireland, a debtor country, the crisis was politicized as a distributive debate because domestic adjustment was high on the agenda, whilst in Finland this was not so. The relatively high share of procedural frames in the Irish data (Table 3.7) may refer to at least two things: first, to adjusting domestic political-administrative structures (such as getting in place a new government, able to implement the *troika* agreement, in 2011) and secondly, debate on crisis management procedures, particularly division of tasks between the domestic and EU-levels.

Table 3.6 depicted considerable variation over time in the salience of issues. Can we say the same about frames? Were different events framed differently?

Table 3.8: Frames by Event, IRL

	Bank Guarantee	Austerity Budget	Bailout	Election
Economic Frames	**39.2**	26.6	**43.8**	**33.9**
Justice Frames	**38**	**50.5**	20.2	**33.5**
Procedural Frames	15.5	11.9	**22.8**	17.0
Polity Frames	7.5	4.3	**15.3**	9.2
Others	0.6	6.5	5.3	.
Total	100	100	100	100

Table 3.8 does show variation in framing across events although clear trends are difficult to distil. The second event, the austerity budget, appears most clearly to have features of a redistributive debate – if debate on economic justice is indicative of such event – in that the combined share of economic and justice frames is the highest. Yet all events feature relatively high share of these two types of justification. The crisis was always debated in terms of economic justice in Ireland. Justice arguments may have taken different forms, however. As the Table 3.8 shows, the bank guarantee debate also features many justice frames. Here, what may have been at stake is the justice of government intervening to save private banks, whereas in the austerity budget event, justice is more likely to refer to just burden-sharing between different domestic social groups. Procedural and polity frames show a slight increase towards the end of the observation period. The bailout event appears the mirror image of the budget event, where economic, polity and procedural frames dominated. Presumably, and in accordance to the theoretical expectations set up in the chapter above, the bailout debate features attempts by Irish and European authorities to de-politicize the bailout agreement, and present it as a technical solution to an economic problem. The procedure of such technicality may be debated, whereas its justice dimension appears irrelevant. If anything, Irish and European authorities are likely to justify the deal in terms of safeguarding the stability of the Euro, which is a core European and hence, Irish interest.

The following sections will provide a thorough qualitative analysis of each event separately. Hence, the quantitative evidence presented above will be discussed more in detail, paying attention to the more specific frames, issues, and actors and the connections between these in each event.

3.3.1 The Irish Bank Guarantee, September 2008

The first Irish key event focuses on the debate surrounding the fateful decision of the Irish government to issue a blanket guarantee period covering all deposits, senior debt and dated subordinated debt of five Irish financial institutions, in the night of 29–30 September 2008. The institutions that participated were the Anglo Irish Bank, AIB, Bank of Ireland, Irish Nationwide Building Society and EBS Building Society. Later, Irish authorities extended the guarantee to two foreign banks with considerable presence in Ireland, the Ulster Bank and the Royal Bank of Scotland. Whether it knew it or not, the Irish government was taking on a huge liability, when issuing the guarantee.

Why the government might have done as it did has sparked much analysis. The short answer is that Ireland's pre-crisis economic policy choices left it extremely vulnerable in the event of a sudden external shock in the financial markets, and when such vulnerability dawned on the government, they acted in a state of near panic. In doing so, the government utilised the ideas and consulted the actors that were prominent in the pre-crisis financialized economy, as described above.

The international financial crisis hit Ireland fast and it hit it hard. Ireland's banks had, as observed in the preceding section, considerably increased their leverage in the pre-crisis years. Furthermore, much of the capital intermediated by Irish banks, ended up in the construction and services sectors. Hence, as firms in these sectors were themselves indebted and their customers, the Irish consumers, had also an unprecedented amount of credit card and other debt, the maintenance of Irish banks' asset values essentially depended on the continuing flow of credit in the international and domestic banking systems. When the first warning signs from international money markets came, in 2006, Ireland immediately felt the tremors and by the mid 2000s, according to Kelly (2009, 3) the Irish construction industry was "in real trouble". Hence, from March 2007 the share prices of Irish banks "fell steadily" (ibid). As observed above, although warning signs existed, the belief in sound fundamentals of the Irish economy was widespread - also external observers, such as the IMF, shared this belief - such that no major intervention in the overheated economy occurred until "late September 2008, with a run in wholesale markets on the second largest Irish bank Anglo Irish" (Kelly 2009, 3). In other words, the domino effect following the collapse of US investment bank Lehman Brothers in early September 2008 caused widespread market panic which, in the Irish case, culminated in the run on deposits in the Anglo Irish Bank.

The problem was deemed by core policymakers as a systemic threat to the whole Irish banking system. Following this belief, the Fianna Fáil-Greens coalition government responded with an extensive guarantee for all deposits and senior debt in five Irish domestic banks on the night of 29 September

2008. The following press statement was releasedin the early morning of 30 September (McCabe 2015, 53):

> The Government has decided to put in place with immediate effect a guarantee arrangement to safeguard all deposits (retail, commercial, institutional and interbank), covered bonds, senior debt and dated subordinated debt (lower tier II), with the following banks: Allied Irish Bank, Bank of Ireland, Anglo Irish Bank, Irish Life and Permanent, Irish Nationwide Building Society and the Educational Building Society and such specific subsidiaries as may be approved by Government following consultation with the Central Bank and the Financial Regulator ... This very important initiative by the Government is designed to safeguard the Irish financial system and to remedy a serious disturbance in the economy caused by the recent turmoil in the international financial markets.

Here the government's sole justification was economic. The guarantee was necessary to provide financial stability that was, considering the structural features of Irish economy discussed above, also essential for broader economic stability. The guarantee decision was a fateful one for the whole trajectory of the Irish crisis.

Why was it done? The guarantee decision has conventionally been understood to signal two things: the dependence of the Irish state on its banks and the role of outsiders, notably from the then ECB chief, Jean-Claude Trichet, in influencing the government (e.g. O'Riain 2013). Yet again, ideas played an important causal role. As early as 2006, Irish authorities had, to comply with EU rules, established a Domestic Standing Group (DSG) comprised of the Central Bank, the financial regulator and the Department of Finance. The Group's role was to prepare crisis management procedures. As of mid 2008, crisis preparations intensified. The DSG now convened at executive level. A separate Liquidity Group was established with the Deputy Director-General of the Central Bank as chair. The Liquidity Group's task was to follow and report on the liquidity position of main Irish banks. Although the liquidity situation in these institutions deteriorated all through 2008, a full understanding of actual liquidity flows was not established by this group, as Honohan (2010) argues. The crisis preparation centred exclusively on liquidity, not solvency issues. As was discussed above, a key problem in the Irish political-administrative structure was the lack of exchange of information between different government bodies. In addition, the light-touch regulatory approach and deferent attitude towards the structurally important banking sector allowed the banks to effectively withhold information from state officials. McCabe (2015) documents actions by the head of the Anglo Irish Bank, Sean Fitzpatrick:

> [Fitzpatrick] had temporarily transferred loans worth €87 million that were in his name to Irish Nationwide Building Society. This was done in the days before the group's 30 September year-end audit, and was undertaken in order to avoid disclosing the loans to the group's shareholders. The loans were transferred back a few weeks later. Fitzpatrick had done this every September for the past eight years. He was forced to resign in light of the revelations.

At some instances, Honohan (2010) argues, not even senior management of the banks themselves had the full picture of the structure and quality of their assets. Lewis (2011) reports a similar story in an in-depth study of the Irish crisis, published in the journal Vanity Fair. According to the story, the top executives in Ireland's three main banks – the Anglo Irish, Bank of Ireland and AIB – all continued to invest in shares of their own banks until the moment of collapse. Anglo Irish chief Sean Fitzpatrick was, according to Lewis (2011), listed among the bank's creditors when it failed, having as late as April 2008 bought subordinated Anglo Irish notes worth of €5 million. Hence, "the Irish nouveau riche may have created a Ponzi scheme, but it was a Ponzi scheme in which they themselves believed" (Lewis 2011, 12).

Because of their firm belief in the solvency of the Irish banks, policymakers prepared for problems of liquidity, at most. Similarly, economics professor Morgan Kelly of University College Dublin argues that the "most likely rationale for the Irish government's actions is that it still believed that the liquidity problems of the Irish banks merely reflected market nervousness in the wake of the Lehman collapse, and not justified concerns about the solvency of these institutions" (Kelly 2009, 15) Quotes from the Minister for Finance, Brian Lenihan (FF) and Taoiseach Brian Cowen (FF) tell a similar story.

> I have it clear throughout that the central issue was liquidity in the banks and not the questions of insolvency, Mr Lenihan told the Dail shortly before 10pm. (*Irish Times*, 2 October 2008)

> The taking of equity completely misses the point, Mr Cowen insisted. The taking of equity would not provide the liquidity necessary to maintain a stable financial system in this country in the short, medium or long-term. (*Irish Times*, 1 October, 2008)

Tweaking the agenda towards the *liquidity crisis assumption* was the first way in which banks used their structural power in the Irish crisis. In mid-2008 the DSG produced a paper called Crisis Resolution Options, which discussed policy options such as assisted private sector acquisition, nationalisation *and* a blanket guarantee. Hence, unlike many accounts have led us to believe, Irish policymakers did not come to the final decisionmaking table wholly unprepared. Yet, Honohan (2010, 117-8) points out that the paper was lacking in detail on implementation of these various options. By Monday 29 September, Ireland's flagship lender, the Anglo Irish, was facing a full-fledged run on deposits. The whole international financial system was in uproar. The last phase of preparation in the run-up to the eventual guarantee consisted of informal meetings between the DSG agencies, the National Treasury Management Agency (NTMA) (later transformed into NAMA, National Asset Management Agency) and consultants. Coming closer to the actual date of the guarantee, two further options, a domestic lending scheme drawing from the Central Bank's investable assets, Pension Reserve Fund and the NTMA, and so-called Emergency Liquidity Assistance from the CB, were discussed. The problem with both was limited firepower. A fear at the background of any rescue measures was a reputation loss for the Irish banking system. The authorities were reluctant to disclose any preparatory measures or, indeed, do anything, unless they knew that what was being done was enough to convince markets. The fear was any domestic schemes might lack such firepower. Another worry was that European authorities might condemn such actions as illegal state aid (which later became an issue, indeed). Again, the anticipated reactions from financial markets appear to have been a key consideration behind the Irish government's policy choices in the crisis. Fear of market punishment as a factor that constrained policymaking agenda is the second indicator of the structural power of finance in the Irish crisis.

Yet as the discussion above revealed, structural power is only one facet of business power. The closer the crisis came, the more important instrumental power became. There are two instances in which instrumental power appears to have been at issue. First, the Irish banks have been suspected to have influenced the government's decision to issue the guarantee by making it explicit that they be facing bankruptcy, with immediate and disastrous consequences for the whole economy, lest the guarantee be issued. The concept of "systemic importance" was key here. The instrumental power argument in this context would be that the Anglo Irish Bank – the bank facing biggest deposit runs in autumn 2008 – managed to persuade policymakers of its systemic importance, such that issuing a guarantee rather than letting it collapse would be essential. The question of systemic importance has caused controversy in the academic and policy debate. McCabe (2015) argues, based on an assessment by the DoF in 2009, that Anglo was *not* systemically important, as it mostly operated in the niche market of property speculation rather than the broad market. Honohan (2010) shares the view that judging by its role in the general payments system in Ireland, Anglo was not systemically important. But considering the context – the extreme lack of trust in the interbank market in September 2008 and the interconnectedness of Irish banks – he (2010, 131) argues that "there can be little doubt that a disorderly failure of Anglo would, in the absence of any other protective action, have had a devastating effect on the remainder of the Irish banks." The interconnectedness of the banking system meant that systemic risk posed by any action was high. Centralisation of risk in the financial system also apparently goes some way to explaining why dated subordinated debt, the riskiest form of capital, was included in the guarantee. The fear was, according to Honohan (2010, 125) that holders of these bonds also held Irish government bonds, and their exclusion could adversely affect Irish government bond ratings. Be that as it may, pushing policymakers to intepret Anglo as systemically important was the first consequence of direct, instrumental influence in the crisis.

Another instance where instrumental power of the banks has been brought in as an explanation for the guarantee concerns the experts the government used to advise them in the run-up to the guarantee. As said, Christensen (2013), among others, has identified the small role of trained economists in the DoF as a key weakness in the Irish administrative system. Indeed, it appears that the experts the government did hear in the immediate vicinity of the guarantee decision came from the world of finance. Namely, the US investment bank Merrill Lynch had been "engaged as consultants by the NTMA/Department of Finance in early September – on the weekend before the guarantee" (Honohan 2010, 118). By Monday 29 September, Ireland's flagship lender, the Anglo Irish, was facing a full-fledged run on deposits. The whole of the international financial system was in uproar. The actual, far-reaching decision to issue a guarantee was therefore reached in a quick pace, in a series of overnight meetings between an extremely small circle of top government policymakers, the Central Bank, and representatives from two Irish banks, Bank of Ireland and Allied Irish Banks (AIB). The Irish government was represented by the prime minister, Taoiseach Brian Cowen (FF), and Minister for Finance, Brian Lenihan (FF). The informality of the last row of meetings was such that no written record of the policy discussions held in them exists. Hence, assessing who exactly advised what is difficult to assess (Honohan 2010; Nyberg 2011). It seems probable, however, that the weak expertise at the DoF and the investment bank acting as a consultant would have advanced rather than hindered the banks' points of view being considered. It appears that pushing the agenda particularly towards the liquidity crisis assumption and convincing policymakers of Anglo's systemic importance, by way of direct contacts with policymakers in the immediate vicinity of the guarantee decision, were cases of instrumental influence. Yet the strong structural position of the banks in the pre-crisis economy allowed them to gain access to policymakers in the first place, and put the fear of market punishment to the hearts of policymakers more strongly than otherwise would have been the case. It hence seems appropriate to say that the in the Irish case, exercise of instrumental power at *t* crucially depended on structural power of banks at *t-1*. The means whereby both types of influence were used, was influencing the underlying economic assumptions of policymakers (e.g. liquidity versus solvency crisis), which then led them to act in one manner instead of another.

The government appears to have presumed that the guarantee would never materialize. As they interpreted the crisis in line with the prevalent international consensus at the time, as a sudden lack of trust in the interbank market, causing a – hopefully temporary – lack of liquidity in the Irish market, an injection of confidence was what was needed. To make the guarantee work, it needed to convince the markets that no solvency problems existed in Irish banks. Furthermore, it needed to convince the domestic Irish public that all was under control and the guarantee would never fall on the taxpayer's shoulders. The quotes below express the interplay between economic reasoning and social justice concerns, apparent from Table 3.7, in this debate. The Minister's message was, essentially, that the economically necessary rescue plan would under no conditions hamper the principle of economic justice.

> There is understandable concern that the Exchequer is potentially significantly exposed by this measure. I want to reassure the House and the Irish people that this is not the case. The risk of any potential financial exposure from this decision is significantly mitigated by a very substantial buffer made up of the equity and other risk capital, said Mr Lenihan. By any measure there is, therefore, a very significant buffer before there is any question of the guarantee being called upon, he said. (Minister for Finance, Brian Lenihan [FF] in the Dáil, 30 September 2008)

> The commitment I am giving, that if a deficit emerged, the sector would pay – not the taxpayer. (Minister for Finance, Brian Lenihan [FF] in the Dáil, 30 September 2008)

It can be assumed that instead of trying to get markets to trust Irish banks by talking to them in public, the government wished to convince them by its *actions*. From this perspective, the whole bank guarantee exercise was an attempt to beat the crisis by making the markets believe – as Mario Draghi successfully did four years later – that the Irish government would do whatever it takes to save the banks. For this reason, displaying sufficient firepower, which would have been absent in the alternative rescue plans, was necessary. Similarly, though, what the government did *not do* was an exercise in winning over markets' trust. It *did not* capitalize, nationalize, or let banks go for fear of market reactions. The government trusted the Irish banks to be solvent, and wished, by its actions, to convey this trust to the markets.

> The Government believes the guarantee will ease concerns about the financial strength of the institutions and improve banks' access to funds in international markets. (*Irish Times*, 1 October 2008)

> It is important we restore confidence to our banking system. (Minister for Finance Brian Lenihan [FF], *Irish Times*, 7 October 2008)

In hindsight, whether the government chose the banking guarantee strategy because it did not know banks were facing solvency, not liquidity issues, or because it tried to make it *appear so* vis-à-vis markets, is debatable. Patrick Honohan (2010, 6-7), the current Irish Central Bank Governor and author of an inquiry into the events in the crisis, points out that:

> the weaknesses of Irish banks were not caused by the interruption in the flow of cheap money from abroad. Even before the failure of Lehman Brothers in September 2008, Irish residential property prices had been falling for more than 18 months and few observers expected their fall to end soon.

Doubts about the solvency of the Irish banks were expressed in the press debate shortly after the guarantee.

> The guarantee of deposits and most loans does not deal with solvency problems that could arise from the under-capitalisation of banks, combined with bad debts which have yet to be audited. (Former Taoiseach Garret FitzGerald [FG], *Irish Times*, 4 October 2008).

> If you ever guarantee anything, you have to assume one day you are going to get it called. You have got to bank and account on that basis. It would be trillions and trillions of taxpayers' pounds involved. (Lord Digby Jones [Labour UK], *Irish Times,* 3 October 2008).

Finally, the ECB (cited in McCabe 2015, 54) also cautioned against the potential liabilities on the Irish state:

> While the ECB appreciates that any guarantees provided by the Minister under the draft law would be contingent in nature, given that the financial exposure of the Irish Stare under such guarantees is potentially very large, the Irish Government could be obliged to make significant payments in case these guarantees are called over the next two years.

Yet the government stuck to the liquidity crisis story. It's telling that the warnings quoted above mostly came from outside actors, not Irish ones. The consensus in Ireland on the healthy fundamentals of the Irish economy, and the capacity to "land softly" in the event of a crisis, was widespread, as argued above. Because the government understood the guarantee as a mere confidence injection, and did not expect it to materialize, it underplayed the potential effects on the state finances and the taxpayer. Instead, it sought to frame the guarantee as an act in the public interest and to protect the taxpayer from potential liabilities, making the rescued banks pay instead. In essence, the government's message was that guaranteeing financial stability was protecting the public interest. This framing also reveals the strong structural dependence of the Irish state on credit for its day-to-day activities.

> What we are guaranteeing is the lifeblood of the banking system - a system of lending and borrowing that is essential to the successful operation of any banking system. (…)He pointed out that it was also in the interest of taxpayers such as merchants, workers and farmers, to be protected by keeping cash flowing. (…) We cannot afford to let the financial bloodstream of the country and the banking system dry up, he said. (*Irish Times* , 1 October 2008)

According to Lenihan (*Irish Times* , 1 October 2008), the

> extended international credit crunch brought home the pivotal role of the financial system in the Irish economy and in the day-to-day lives of ordinary people but also the broader social responsibilities of the financial sector to society at large (…) It has affected our markets in a true way and it has given a clear signal. The Government made a decision on the basis of the need to manage. It's not the shifting sands, it's bedrock of our economy.

In the short perspective, hence, attempting to secure the flow of credit continue undisturbed was, indeed, a patriotic act. What this perspective overlooked, of course, was the true state of the banks' underlying assets. A well-placed economics editor pointed out in an interview[35] that it would have been challenging for anybody to accurately predict the pace in which asset values would fall in 2008. This included the banks' senior management: Honohan (2010, 119) points out that "[e]ven executive directors of Anglo Irish Bank seem to have had no inkling of the problems to come if we are to judge from the fact that three of them acquired and held sizeable blocks of shares in the Bank close to the peak of its share price in 2007." In other words, banks *were* solvent, until they weren't.

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[35] Interview with an economics editor in a prominent Irish newspaper, 21 May 2013.

The government was not the only one to put forward the liquidity assumption in the press debate. Banks pushed for a similar interpretation with a similar framing: rescuing the banks was an act in the common public good. CEO of the Anglo Irish Bank - the bank in deepest trouble, facing a full-scale run on its deposits in September 2008 - Sean Fitzpatrick insisted that there was

> no Armageddon in Ireland because of bad debt (…) bad debts are next month's problem and I believe they [the banks] are well placed to deal with that. (*Irish Times*, 6 October 2008)

Banks instead used the opportunity to frame the situation as an exogenous shock, rather than anything caused by their own misconduct. By being innocent of any responsibility, they framed the bank guarantee as a just course of action:

> This was caused by the global crisis and we as banks were going to fall eventually if we didn't get money. The Government was the only place we could turn to and why should the Government not act because if we didn't turn to them and they didn't act, we could end up with no banking sector being Irish-controlled and that could not be a good thing **for all of us** going forward. (*Irish Times*, 6 October 2008)

The debate on external versus domestic causes of the crisis would, as we shall see, remain a prominent topic throughout the whole crisis. This debate started already in this first event, as the Fine Gael-Labour parliamentary opposition argued, in contrast to the external causes-story, that the crisis had its roots in domestic banks' misconduct endorsed by the government, Fianna Fáil in particular.

Arguing that "the banking crisis meant that a "decade of corporate greed" had "come home to roost", Irish Labour leader Eamon Gilmore accused the government for selling the "deeds of the country" to the banks for too cheap a price. This is another version of justice framing, which the Labour party in particular used in this debate. Eamon Gilmore challenged the government's decision from both a social justice point of view, arguing that he could "see what's in it for six chief executives of the six banks between them earning EUR 13 million a year (…)" as well as from the point of view of the democratic process, demanding to know "what are we getting in return?" (…) What were the "nuts and bolts" of the deal, he asked. He was concerned that the guarantee was "just as likely to embolden the banks to take even greater risks." Mr. Gilmore also and defended a strategy of taking equity instead: the government "could have bought a 50 per cent stake in the entire banks in this country for EUR 5 billion. Instead you've given them a guarantee for almost EUR 500 billion. (*Irish Times,* 1 October 2008)".

Labour, to its credit, was the only Irish party that refused to just accept the guarantee, and instead demanded to know more of the terms of the guarantee legislation, as suspected there was a high risk for the taxpayer involved. Labour was the only party to vote against the guarantee in the Dáil.

International precedent was of consequence in how the process was handled. The US experience of tossing their bank rescue scheme back and forth in the Congress, was taken as a negative example of how not to act, if market confidence was to be restored:

> The critical thing, though, was not to do as the Americans have done and hold a long-running debate about the issue, creating more confusion and worry. It was vital to make a clear decision and to stick to it (…) For a Government that has been on the back foot since the disastrous Lisbon referendum defeat, the decisiveness of the approach to the banking crisis was reassuring. The response of the Irish stock market yesterday was a positive development and, while it is far too early to start counting chickens, things at least appear to be getting better rather than worse. (Stephen Collins, *Irish Times*, 1 October, 2008)

In a sign that the government also did appreciate the potentially serious consequences its "huge gamble" (Kennedy 2015, 89), it also used the external eonstraints frame, to indicate that it had *no choice* (but to issue the guarantee) in the face of such adverse external market environment. As becomes clear from the quotes below, this was also the considered advice from the Central Bank of Ireland, which in this instance mediated between market sentiments and the Irish government.

> As you know, a very serious decision was made by the Cabinet very late on Monday night when the considered view on the advice of the governor of the Central Bank and the regulator was that we would have to initiate the proceedings that we did. (Tanaiste Mary Coughlan [FF], *Irish Times,* 2 October 2008).

> I had to make that decision. It was made clear to me that this was what was required. (Minister for Finance Brian Lenihan [FF], *Irish Times,* 2 October 2008)

Although the Irish government intended the guarantee only for domestic Irish banks, it was subsequently forced to further extend the guarantee to include also two foreign banks with notable presence in Ireland, the Royal Bank of Scotland and Ulster Bank. The inclusion of foreign institutions in the guarantee further increased the liabilities for the Irish taxpayer. It was brought about by insistence of the Commission that a guarantee for Irish institutions only would contradict the EU's state aid legislation. Foreign financial institutions eagerly adopted the Commission's competition (to ensure level playing field) frame. This debate explains the relative prominence of the deposit guarantee issue, as well, partly, the relatively high use of the Law, Rules and External Constraints frame. The Commission insisted the Irish guarantee breached EU competition legislation, and was an instance of illegal state aid.

> You can't introduce something like that, it is not allowed. And a guarantee without any limits isn't allowed either (…) My people were in Dublin on Friday and Saturday, and returned with positive news that there will be corrections to the plan. They will correct the discriminatory elements which we don't like (…) They will reformulate their plan, after which we can establish together that it is in compliance with the Treaty. (EU Competition Commissioner Neelie Kroes, *Irish Times*, 6 October 2008)

Foreign banks that had significant subsidiaries in Ireland - The Royal Bank of Scotland and Ulster Bank - leveraged on this and claimed to have the right to be included in the scheme.

> Mark Duffy, chief executive of Bank of Scotland (Ireland), said: We like the scheme so much we want to join it. It is not a level playing field and we would like to be treated on the same basis. (Irish Times, 10 October 2008)

The debate on (the absence of) EU-wide standards for deposit guarantees demonstrates two things. First, it is a good example of debate where everybody spoke about the same thing – bank and deposit guarantees – but framed it differently. The Irish government framed it as a question of public and national interest. The EU authorities framed it as a question of law and rules. The banks framed it as a question of competition, extending the justification to competition law, whose guardian at the EU level, Commissioner Neelie Kroes, was the prominent figure to put forward the legality frame in conjunction to this question of cross-border standards for guarantees. As it turned out, the point of view of the banks and the Commission prevailed, at the peril of Irish public finances.

Secondly, this outcome demonstrated the effects which the lack of EU coordination would have on individual sovereigns. The Irish government wanted EU-wide, systemic response to the crisis in order to avoid a disproportionate burden on individual sovereigns and the banks shopping around for best guarantee schemes. Similarly, Angel Gurria, the head of OECD

> said in a report published yesterday that European countries may have to agree a co-ordinated plan to halt damage to their banking sectors (…) Considering the exposure of European financial institutions, we might have to start thinking of a systemic plan for Europe if things don't improve on the other side of the Atlantic. (*Irish Times*, 2 October 2008)

In the absence of coordinating capacity, the Irish government then defended its second-best option, where each sovereign would have been liable only for its own banks and had the independent discretion to act upon problems in these banks, which, as observed above, did not please the Commission.

> Mr Lenihan told reporters yesterday morning he did not accept that the foreign-owned banks operating in Ireland had been left exposed by the plan (…) He said bank customers were looking for rival systems of protection in rival Member States but he accepted that this created a dangerous tendency (…) It is a tendency towards economic nationalism and I regret that but we are on our own here in Ireland and the Government has to act in the interests of the Irish people, he said. (*Irish Times*, 1 October, 2008)

> I would like to plead to national governments today not to act unilaterally, but rather to continue their practice of consulting the commission when they are confronted with problems that may require state aid to the banking sector, she said. (Competition Commissioner Neelie Kroes, *Irish Times*, 2 October 2008).

The Irish government was stuck between a rock and a hard place. On the one hand, its banking system was on the verge of collapse and required immediate action. On the other hand, such action was condemned by the Commission. To avoid acting unilaterally, and exposing taxpayers to private debts of banks, the Irish government would have required a systemic EU response. But this was not in place, and suggestions to put it there did not suit the German government.

> "The German government does not see the need for an EU-wide solution to the banking crisis as proposed by Minister for Finance Brian Lenihan yesterday." (*Irish Times,* 1 October 2008)

> "A spokeswoman for the federal finance ministry said: It's clear that all European countries affected by the crisis need to communicate with each other but it is also clear at the moment that in each national case, the individual governments are the ones best suited to finding the correct solution." (*Irish Times,* 1 October 2008)

Hence, the Commission's insistence on playing by the book, on the hand, and the lack of will by strong EU governments – notably Germany – to increase intergovernmental cooperation (the one thing that could have overridden the Commission's authority) on the other, drove the Irish government to implement the guarantee legislation. This was not, as shall be discussed below, the only cause for the fiscal crisis of the Irish state that followed, but it certainly did not help either. As Mair (2011) put it, the government managed to "literally overnight" double Ireland's debt-to-GDP ratio from circa 40 to 80 per cent of GDP.

The Irish bank guarantee subsequently to a huge liability for the Irish state and taxpayer. Still, in November 2008 - two months after the guarantee - a report from the Irish Central Bank and the financial regulator to Minister for Finance Brian Lenihan on the financial position of the institutions covered, concluded that their capital levels were adequate, even when tested against several stress scenarios. At this point, Lenihan did admit that some banks may require some extra capital, but the impression was given that this was going to be modest in size. As quickly as in December 2008, the government announced a first recapitalization programme of €10 billion for the covered banks. The rationale given for this – still consistent with the liquidity crisis assumption – was that capital was required because of reduced activity in private markets, in turn caused by the general loss of trust, not because of solvency issues in Irish banks. Banks accepted capital injections first reluctantly, but deemed them as preferable to takeover by private equity groups, "which were hovering over the carcasses of the Irish banks. If the private equity groups were allowed inside the door, the board, staff, and culture of the banks would have been filleted" (TD Shane Ross (Ind.), cf. McCabe 2015, 56). Banks apparently counted on the state capitalization being, instead, unconditional support. Finally, in January 2009, the Anglo Irish Bank was nationalized, despite having been cleared as fundamentally healthy only the previous week by the investment bank Merrill Lynch, hired to advise the government. The whole cost of the bank guarantee exercise for the Irish state has, ultimately, been estimated at €64 billion (McCabe 2015). The European Commission has calculated that €1.6 trillion, or 13 per cent of the EU's GDP, was used for measures to protect the banks, including recapitalizations, asset relief and guarantees, between 2008 and 2010.

3.3.2 Austerity Budget I, October 2008

On 16 April 2010, the Finnish newspaper Helsingin Sanomat quoted the then Prime Minister of Greece, Georges Papandreou, saying that "instead of debt restructuring, we are going to restructure Greece". Papandreou's resolution to fix his country's problems by fixing the Greek state demonstrates well the ethos that the European crisis management quickly acquired across the prospective Eurozone debtor states. So, too, in Ireland.

The interpretation of the crisis among policymakers and in the public quickly turned from a problem of private banking debt to a problem of public finances and sovereign debt. From 2010 onwards, this shift had transformative consequences for the overall EU debate. Yet in Ireland, the interpretive turn happened earlier than elsewhere: in autumn 2008. As had been the case with financial crisis, the real-economic crisis hit Ireland sooner and harder than it did most other economies. Ireland entered recession in Q4 of 2008, while most OECD did so only in 2009. On average, OECD economies contracted by four per cent, but Ireland – together with Finland and Slovenia – contracted by seven to eight per cent. In contrast to a popular misperception, Ireland neither first started to implement austerity as a result of the bank guarantee, nor did it only resort to austerity when the *troika* of foreign lenders dictated that it do so, in 2010. Ireland began fiscal consolidation in July 2008, when the Fianna Fáil-Greens government introduced the first expenditure reductions.

At the EU-level, the interpretive turn had the consequence of fundamentally altering the battle lines in the public debate. It was no more volatile financial markets against struggling depositors and savers, but frugal states against profligate ones. In Ireland, the turn to a fiscal crisis was characterized by pitting groups of citizens against each other, instead of pitting markets against citizens. The press debate at this point became a domestic distributive debate, as demonstrated with high salience of fiscal and labour market issues, as well as justice framing. Based on Table 2.3, we would then expect to observe the debate to be structured along partisan left–right lines. Yet we observe in Table 3.4 on page 85 that the share of parties in this debate is moderate, 13.8 per cent compared to 34.4 per cent of sentences by Irish government. Two things explain this. First, representatives of Fianna Fáil – mostly, Minister of Finance Brian Lenihan and Taoiseach Brian Cowen – fall under the executive category in the coding scheme. Secondly, Ireland's effectively two-and-a-half (Coakley 2010) party system allocates a bulk of representation to interest groups, instead of small parties. Interest groups, such as various community groups and charitable organisations can be seen to play the role of small parties in Ireland in the sense of representing various societal interests. Hence, in Table 3.4 we see that business and employers, interest groups and trade unions are all particularly salient actors in this debate. In other words: this was a domestic redistributive debate that pitted Irish groups against each other, but these groups were not only represented by parties, but by interest group associations.

What made this interpretive turn possible in the Irish case? One factor was the very real severity of the crisis. The financial crisis immediately affected Ireland's public finances, for the structural reasons already explored above. Unlike would appear obvious, the real economy in Ireland was not affected primarily due to a fall in exports. Ireland is an extremely open economy: between 1996 and 2007, exports averaged 83.7 per cent of GDP.[36] The share dipped in years immediately before the crisis, down from 95.4 in 2001 to 79 in 2006, which illustrates the shift in growth model to one centred on domestic consumption. Yet in the actual crisis, the volume of Irish exports *resumed*, and in 2009 exports again formed 93.5 per cent of GDP (OECD 2016).[37] Rather than a decline in exports, the Irish fiscal crisis was caused a *collapse in domestic demand and tax revenue*, which had more to do with the international credit crunch than with a slowdown in international trade. The growth in household disposable income in Ireland started to slow down in 2007, and turned negative between 2009 and 2010. The volume of household debt peaked at €203 billion in Q3 of 2008, and then started to decline. Household transactions in financial assets - currency, deposits, shares - started to decline in 2007.[38] In other words: households had leveraged massively in the years leading up to the crisis and now started to save and reduce their economic activity. As domestic demand had become dependent on leveraged households, their declined activity affected the economy at large. Moreover, households were not the only leveraged economic units in pre-crisis Ireland: the debt of non-financial corporations as percentage of GDP had gone up from 150 to 300 between 2005 and Q3 of 2008. In the credit crunch, the Irish Ponzi scheme started to unravel. Asset prices plunged, affecting household net worth as well as the ability of construction firms to roll over their debt. Domestic consumption declined, further decreasing economic activity and demand for domestic Irish firms. What was crucial was that the state depended on precisely the domestic, Irish, non-traded sectors for revenue. The real-economic recession quickly eroded the state's revenue base.

Yet, as in any recession, spending went up. Unemployment increased to 12 per cent in 2009 and 14 per cent in 2010. Despite discretionary spending cuts, expenditure increased by 8.9 per cent in 2009. As in the same period and revenues plunged from 36.7 to 34.7 per cent of GDP, by 2009 a €20 billion gap had opened between revenue and spending. This was to be financed by more debt, as well as by

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36 The exceptionally high share of exports is partly illusionary, due to accounting practices of Ireland's many multinational firms. Yet, more accurate measures of export openness are not available in official statistics.

37 Regan (2016) has explained the remarkable resilience of Irish exports in the crisis with Ireland's significant multinational sector - untouched by the crisis - and the dominance of services in the composition of exports.

38 https://www.centralbank.ie/polstats/stats/qfaccounts/Documents/Quarterly%20Financial%20Accounts%20for%20Ireland%202015%20Q4.pdf

broadening the revenue base and further expenditure cuts, particularly in the public service payroll. The 2009 budget, delivered in "one of the most difficult and uncertain times in living memory" (Minister for Finance, Brian Lenihan in the Dáil) was brought forward from December to October 2008, and included revenue raising measures of €2 billion (one per cent of GDP) including 0.5 per cent increase in VAT and an income levy of one per cent of gross income up to €100,000 and two per cent above that. A highly controversial measure was government decision to abolish the automatic right to free health care – "automatic medical cards" – for people over 70 years of age. The income levy rates were subsequently doubled, as was the health levy. Both levies were then replaced in 2011 by a "universal social charge" (USC), a new form of income tax. Further cuts and revenue raising measures ensued in the coming years, amounting by 2015 to more than €30 billion, of which approximately two thirds came from expenditure cuts and one third from revenue raising measures. Moreover, the fiscal crisis brought an end to three decades of concentrated wage bargaining, as the government unilaterally legislated public sector pay cuts between 5 and 15 per cent in 2009. This is a point that will be returned to below.

What becomes clear from this discussion is that the expensive bank rescue measures were not the immediate cause of the Irish fiscal crisis, unlike has been assumed in many commentaries. Rather, the fiscal crisis was caused by the imbalanced and procyclical character of the pre-crisis economy and the fiscal policy that depended upon it.

But how to respond? At this point, in autumn 2008, Ireland was not yet priced out of the markets. The €20 billion gap in revenue and spending clearly did not make taking more debt a lucrative choice. Yet it would be wrong to say that the Irish government at the time had no alternative. There were choices to be made, both in terms of the structure of fiscal consolidation and its size. What then appears as curious is the relative ease with which the government could embark on the path of austerity and stay on it, without major protest or societal upheaval. It was even able to override the pay agreement in the public sector without disrupting societal peace.

The first reason for this, already explored in the sections above, was the profound change in economic fundamentals in pre-crisis Ireland, which had crucially changed the structure of interests and their prevalence in decision making. To reiterate the change shortly, pre-crisis Ireland was financialized, which put the interests and influence of the banking industry on top of societal hierarchy. On top were also builders, who apparently had close ties with both bankers and politicians, who immediately benefitted from the new loose lending culture, and who drove the economic boom that apparently benefitted everybody. These interests, and the fact that a broad societal coalition had subscribed to a narrative that legitimized the pre-crisis economic model, were the first factor that drove Ireland's response.

The second reason was a change in the structure of interest intermediation. Civil society organisations, most importantly the Irish Congress of Trade Unions (ICTU), which might have acted as deterrent forces in the face of financialization, were in fact so deeply committed to key bargains in the pre-crisis economy that acquiring an outsider perspective, when the economy came crumbling down, was impossible. As Regan (2013) has observed:

> voluntary and exclusive institutions of wage setting (Ireland), as opposed to inclusive and legally binding institutions of wage setting (Finland, Netherlands and Slovenia) weaken the power resources of labour and decrease the possibility of a negotiated response to the adjustment constraints…

In the voluntary institutional structure, the energy of the union movement went to *securing power resources*, instead of focusing on substance. As such, the ICTU became perceived as essentially an arm of the government, not a civic association with a representative task. Whether the ICTU had actually subscribed to the ideas of its "coalition partners", the government, or whether it only appeared so to the public, is irrelevant. In any case, the ICTU had lost legitimacy as a societal counterforce and therefore held little power to defy the government's austerity policies.

In terms of public debate, attention now turned fully onto the domestic blame-game. As observed in the discussion on the government's bank guarantee, cronyism was in the Irish debate typically associated with politicians cosying up with business and banking elites. Now, another strand of debate emerged, where the Social Partnership was portrayed as corporatism gone astray, as a corrupt institution merely protecting the interests of a few insiders: notably, public sector workers, and in the meantime, pushing up unit labor costs and eroding Ireland's competitiveness. The erosion of household wealth and consumption power after the housing bubble had burst and credit lines dried up had the effect of shattering the coalition that had underpinned the Social Partnership. Hence, the institution was fracturing from the inside. Trade unions, together with parliamentary opposition parties – save for Fine Gael, decisively anti-union – responded by accusing the Fianna Fáil-banks-builders axis of crony capitalism, culpable for excesses in the private pre-crisis economy. The government had, as discussed in relation to the previous event, subscribed to the "external causes" narrative, which had it convinced that the Irish banks were suffering from problems of liquidity, caused by the international financial crisis, and hence, the situation in Ireland was not particularly grave. The Green Party leader, Minister for Energy and the Environment Eamon Ryan downplayed the claims of economic mismanagement by the government by blaming external factors, such as the EMU low-rate environment:

> "We can't spend our whole time looking back and regretting actions that were taken in the last 10 to 15 years", he said. "My only regret is that inappropriately low interest rates turned some of its [the Irish economy's] success into excess". (Eamon Ryan [Greens], *Irish Times*, 13 October 2008)

Having diagnosed the problem as lack of external confidence, because of the sudden widespread mistrust in financial markets, the Irish employers' organisation, IBEC was the first in the whole press debate to identify the cure: balancing the public budget. This was IBEC's version of the expansionary fiscal consolidation (EFC) argument, where the causal chain runs from fiscal consolidation to regaining market trust to that reigniting the engine of economic growth. The Fianna Fáil-Greens government shared IBEC's analysis.

> Employers' group IBEC warned yesterday that unless further corrective action was taken to stabilise the State's public finances, Ireland's reputation in the international investment community would be damaged. (*Irish Times*, 7 October, 2008),

> (…) we must take the necessary steps to bring order to the public finances. This will instill confidence in those at home and abroad, who want to invest in our economy. (Brian Cowen [FF] in the Dáil, October 15, 2008)

Yet the parliamentary opposition was not prepared to buy the external causes story. Instead, parliamentarians started to wonder how it was that Ireland appeared to suffer so much more than did equivalent European economies.

> The Fine Gael leader also demanded he explain how, based on published data, Ireland is now the only country in Europe in recession and after "wanton waste" the Government was softening up the public for a "financial Armageddon" in the Budget." (Enda Kenny [FG], *Irish Times*, 15 October 2008)

> Ms Burton accepted that the recession had been made worse by the international credit crunch, but she insisted: "Ireland is suffering hard and deep because our recession has its origin firmly in the house price bubble which Fianna Fáil stoked, mishandled and refused

> to dampen. It is no accident that Ireland is the first of the eurozone economies to go into recession. (Joan Burton [Labour], *Irish Times,* 11 October 2008)

Instead of external market factors, the opposition traced the origins of the crisis to homegrown Irish crony capitalism, where the long-incumbent Fianna Fáil, bankers and builders were the key culprits.

> Mr Gilmore claimed it was "a party for a privileged circle", many of whom were close to Fianna Fáil. (Eamon Gilmore [Labour], *Irish Tmes*, 15 October, 2008)

> Fianna Fáil-led Governments and their friends, the property speculators and developers, the stock-brokers and the bankers, have created this massive economic mess. (Caoimhghìn Caolain |Sinn Féin], *Irish Tmes*, 16 October, 2008)

> He claimed the best expression of the Government's philosophy had come not from any Minister but from the chairman of Anglo Irish Bank, Seán Fitzpatrick. (…) Mr Fitzpatrick's world, he said, was also the world of Fianna Fáil, the PDs and the Greens. (Eamon Gilmore [Labour], *Irish Tmes,* 16 October, 2008)

Hence, there were two types of justifications in this debate that centred on the notion of *trust.* The government and employers emphasized external trust, to be regained by fiscal consolidation. The opposition focused on trust among the domestic public, which Fianna Fáil had apparently forfeited when engaging in crony shoulder-rubbing with the economic elites, and hence created the bubble for which the middle classes were now suffering. Ultimately, the opposition began to demand that the government be changed, but at this point, such demands were not yet commonplace.

> Medical card decision a breach of public trust. (Enda Kenny, [FG], *Irish Times*, 20 October 2008)

> Failure of trust is a stab to the heart of a society. Dr Alan Greenspan, former chairman of the Fed, in a recent lecture at Georgetown University, argued that trust is at the very core of our economy and our democracy. Reversal of this decision is the only move that could return even a tiny element of national trust in this Government. (Enda Kenny [FG], *Irish Times,* 20 October 2008)

In response to these allegations, the government now endorsed a second type of narrative, which was highly consequential for the whole future of crisis management in Ireland, as elsewhere. Accepting the Irish crisis had also domestic roots, it now argued that it was not only a small circle of elites who stood to gain from the boom: rather, it was *us all*. And because *we all* partied, it should be *us all* who carry the burden of adjustment. This was the rhetoric device of government to shift blame to the broad social coalition that had allegedly upheld the pre-crisis economic model.

> I won't accept that the basic Government strategy over the last 10 years was a mirage, was something that didn't bring benefit to our people. It certainly did and those days, if we provide the proper financial and prudent management to this economy, those days can return to Ireland, despite your exaggerated claims. (Brian Cowen [FF], *Irish Times,* 15 October 2008)

> [The crisis represented an] opportunity for us all to pull together and play our part. (Brian Cowen [FF], *Irish Times,* 15 October 2008)

> Burden must be shared by all at time of greatest national need. (Brian Cowen [FF], *Irish Times*, 16 October, 2008)

The tweak from considerations of private sector responsibility to a narrative that centres around the public finances and middle classes is remarkable. Demands for tighter regulation of banks and measures to hold bankers responsible are almost entirely missing. Even when external market factors are identified as causes for the crisis, the response is adjusting the *public* budget. And even when crony capitalism is identified as a cause, it is the *political* elite, rather than the business and banking elites, which are held to account – in the press debate, at least. Only in one instance, in the debate on the bank guarantee bill, is Labour's Joan Burton reported to have argued that

> The scheme gives no indication that any senior bankers will be resigning, or will be removed as was the case in the UK. Nor is there any apology forthcoming from anyone in the banking sector. (*Irish Times*, 16 October 2008)

When regulatory issues were debated in the Irish press at the time, they concerned regulation of states rather than the private sector.

> The European Commission said the scheme may remove competition concerns with EU regulators. Limiting it to Irish-owned banks had raised fears the guarantee discriminated against foreign-owned banks operating in Ireland. (*Irish Times*, 10 October 2008)

Austerity hence became, very quickly, the shared frame of reference in the Irish press debate. Rather than presenting credible alternatives, the parliamentary opposition, interest groups and unions then engaged in rhetoric concession bargaining, focusing rather on *fair burden-sharing* than questioning the necessity of adjustment in the first place. Alternative economic analysis was absent.

> (…) union representatives said they had set out their concerns at the thrust of the Budget and how it impacted disproportionately on middle and lower-income groups. (*Irish Times*, 18 October 2008)

> The Irish Congress of Trade Unions (ICTU) said that the Budget showed "little evidence of social solidarity and will result in working families shouldering the biggest share of the burden. (*Irish Times*, 15 October 2008)

In the absence of challenging analysis from the Unions, few groups had an interest in implementing reforms that would fundamentally challenge the low-tax, high-spend model of pre-crisis Ireland. Particularly Irish small and medium-sized enterprises (SME) had an interest in tilting the balance of adjustment towards spending cuts. The core political party to endorse a low-tax economy in this crisis was Fine Gael, which rode to election victory in early 2011 with promises not to tax the economy to an early death. The adversity to taxation has long roots in Ireland's political economy, but is still somewhat surprising given the role the narrow tax base behind the fiscal crisis.

> IBEC was firm that the Government should not increase taxes and in its submission, proposed no measures aimed at increasing tax revenue. (*Irish Times*, 7 October 2008)

> It is particularly disappointing that the Minister for Finance has failed to advance any reductions in public sector numbers while, at the same time, he has increased the tax burden on the small business community. (Small Firms Association, *Irish Times*, 15 October 2008)

> This should target more cuts in current spending rather than placing a higher burden on taxpayers, he said. (Dermot O'Leary [Goodbody Stockbrokers] in *Irish Times*, 18 October 2008)

> Every tax has been increased, said Mr Bruton. This is not what the country needed. (Richard Bruton [FG], *Irish Times,* 15 October 2008)

One key feature of Ireland's low tax regime is the low corporation tax, a priority for Ireland's many MNCs. This was non-negotiable for the Irish government – even in the face of external pressure. The government showed little will to transform low-tax economy. Policy measures were rather aimed at bolstering the existing model than changing it.

> I welcome the fact that the Minister gave clarity on the corporation tax rate, he said, referring to Mr Lenihan's pledge that the Government will not increase the 12.5 per cent charge on company profits. It sends out the signal that Ireland is open for business. (Peter Carroll [BDO Simpson Xavier], *Irish Times*, 15 October 2008)

> I want to emphasize that this rate of tax is not for changing upwards and it will continue to be a vital part of Ireland's economic brand, he said. Mr Lenihan added that the low company profits tax rate was vital to the vibrant and modern business base on which the Republic's economic prospects depend. (*Irish Times*, 15 October 2008)

The Irish construction industry was a key group in the coalition that benefitted from and sustained the pre-crisis economy. Before the October 2008 budget, real-estate developer and financier Derek Quinlan was quoted in the press:

> According to Quinlan, if the first-time buyers could be enticed back into the market then the effect would trickle up. His suggestion to the minister for finance is to offer a EUR 30,000 first-time buyer's grant, for a limited period of, say, nine months. This, along with the considerable discounts being offered by developers, could get the market moving, which in turn would get the banks lending again. (*Irish Times,* 9 October 2008)

The government delivered on Quinlan's wish. It granted first-time buyers a tax break to stimulate activity into the construction industry. This was, par excellence, a conservative rather than transformative policy measure. The government actively endorsed the existing model of the economy, rather than acknowledging that there was anything wrong with it. Hence, the construction industry appears in the press debate as one of the very few groups satisfied with the budget proposals:

> The property industry broadly welcomed the measures for first-time buyers. Paul Murgatroyd, economist with Douglas Newman Good, said the local authority mortgage scheme should "improve access to credit for those people currently finding it the most difficult to obtain finance from the normal lending sources, through absolutely no fault of their own. (*Irish Times*, 15 October 2008)

> Tom Parlon, director general of the Construction Industry Federation, also welcomed the key Budget provisions on stamp duty and mortgage relief, saying they "should help address the lack of liquidity, whereby first-time buyers could not access adequate finance to complete the purchase of their homes. (*Irish Times,* 15 October 2008)

Naturally, the instinct of governments in a crisis is to first try more of the same, rather than start immediately reforming the status quo. Yet, the complacency with which the budget treated bankers and builders, in comparison to most other societal groups, is telling of the trust the government had in the sound fundamentals of the Irish economic model, and unwillingness to contemplate any problems arising from it. Here the fundamental difference of opinions regarding blame and punishment in the Irish debate becomes visible. The parliamentary opposition blamed the crony circle of builders, bankers and the government, charging that the budget treated these industries with undue softness, while letting the rest of society bear the burden:

> The Construction Industry Federation (CIF) is the only group to support the Budget, Labour leader Eamon Gilmore said as he challenged Taoiseach Brian Cowen to move the writ for the Dublin South byelection to test acceptance of the Budget. (Eamon Gilmore [Labour], *Irish Times,* 16 October 2008)

> But some people were kept happy. Brian Lenihan found ways to please Tom Parlon and the Construction Industry Federation, thereafter devoting his energies to making war on the middle classes. (Enda Kenny [FG], *Irish Times,* 20 October 2008)

Academics also participated in the debate. Regan (2012, 172) maintains that cuts in income taxes were not the only unsustainable element in the pre-crisis tax regime, but also the:

> provision of a whole series of tax expenditures (tax allowances and reliefs) aimed at the construction sector. As a percentage of total tax revenue these schemes accounted for more than three times the EU average. By 2007 tax expenditures accounted for more lost revenue than was taken in via income tax.

On the contrary side, the government, together with prominent public commentators and academics (McHale 2012, 2016; Lane 2012; Kelly 2009), emphasized that it was the middle classes who had benefitted the most. This view has, subsequently became the official, national view, as it was enshrined in the National Recovery Plan that formed the basis for Ireland's bailout agreement in 2010.

> In view of the current low level of net direct taxes paid by typical middle and low income households (once account is taken of child benefit and mortgage interest relief), it is inevitable that the burden of higher taxation must fall on these groups, in addition to any extra revenues that are obtained from the highest income cohorts. (Philip Lane, *Irish Times,* 7 October 2008)

> From the late 1990s, the benefits of our booming economy were felt across every section of the population. Working-age social welfare rates are now more than twice their rate in 2000. Over the same period, the State pension almost doubled. These increases were well ahead of the cost of living. (NRP 2010, 6)

Yet there was a fundamental inconsistency in the opposing coalition's argumentation. In the quote above, chairman Enda Kenny of Fine Gael criticised the government of playing into their builder-friends' pockets. Yet below, the Fine Gael economics spokesman, Richard Bruton, implicitly criticises the government for not doing enough to stimulate activity in the construction industry, precisely. The quotes from the trade union confederation ICTU tell a similar story. Whilst ICTU economist Paul Sweeney criticises the government's pre-crisis economic policy for favouring the construction sector and hence "inflating the bubble", the ICTU Secretary-General, David Begg, speaks to exactly the contrary direction by asking the government to stimulate the economy via the construction industry. The parliamentary and extra-parliamentary opposition appears fragmented and confused in its public commentary.

> The Budget "was going to make the construction depression even longer" and he added: "There isn't even a sense they are getting their public finances back on track." (Richard Bruton [FG], *Irish Times,* 15 October 2008)
>
> The austerity budget "would not have been necessary if the Government had not had not inflated the property bubble with large tax subsidies for investors." (Paul Sweeney (ICTU), *Irish Times,* 15 October 2008)
>
> Ictu general secretary David Begg said the Government has a unique opportunity to address the housing needs of thousands, boost economic growth and protect construction jobs. (*Irish Times*, 11 October 2008)

Allen (2015, 80) has observed that the union movement demonstrated an

> inconsistency between an anti-austerity rhetoric and acceptance of austerity in practice (…) Union leaders, for example, who called a major demonstration on 13 February 2013 against austerity and in support of the ICTU's 'better way programme', retreated a few months later and urged acceptance of Haddington Road proposals which took another 1 billion from the pay and pensions of public sector employees. It meant that workers agreed to longer hours, reduced overtime rates and further pay cuts for higher earning employees.

A trade unionist observed in an interview that "[t]he Irish trade union movement, collectively, made little impact on the debate simply because, with rare exceptions, it did not enter the debate. It did not contest the macro-economic ground, ceding that to orthodox economists (…)"[39] He further added that "[c]oming out of the recession, [the union movement] remains divided and, therefore, inconsequential to the wider debate. There are some who want tax cuts, dove-tailing with the orthodoxy's demand for a smaller state; there are others (…) who [want] spending increases and, in particular, investment."

The union movement was, hence, fragmented, intellectually unprepared, and its most important part, the ICTU, had become associated with the policymaking apparatus of the state. When the crisis hit, the ICTU had reason to fear for its institutional position of power. In early 2009, the government approached ICTU to engage in talks on a negotiated strategy of adjustment. Hence, the "trade union

[39] Written communication, April 2016.

movement signed up to a 'framework' document committing the social partners to €2 billion [worth of] fiscal adjustment."[40] After this, though, the "government effectively kicked ICTU out of negotiations by bringing forward substantial public sector pay cuts at a late hour with no details."[41] The union movement thereafter focused on getting its institutional power resources back, not on creative thinking about macroeconomic alternatives: "ICTU effectively spent the next few months agitating to get back into talks, not to pursue an alternative strategy."[42] Once again, the union movement lost energy just trying to get a seat at the table. Yet, having held that seat for such a long time, had also cost ICTU legitimacy as a credible counterweight to the government. The union movement, therefore, subsequently became seen as *part of the problem*; namely, as a part of the crony circle of Fianna Fáil government, business and the banks (Culpepper & Regan 2013).

> During their addresses, Mr O'Connor and Mr Begg were heckled and booed by sections of the crowd. (*Irish Times*, 29 November 2010)

Ultimately, the Social Partnership crumbled because the narratives of the government and employers on the one hand and the unions, on the other, diverged. The Social Partners were internally divided as to who had created the bubble, benefitted from it, and who should shoulder the bill. The government chose to focus on raising taxes for the middle classes, and hence denounced the central bargain of the Social Partnership era, wage restraint for low personal income taxes. Union leaders apparently saw the tax benefits for the middle classes as indispensable for the Partnership, and hence the government moving (unilaterally) to raise taxes as a deal-breaker.

> Mr O'Connor said the Taoiseach had outlined the Government's rationale for the Budget, and had cited the degree of progress made over the social partnership years in alleviating the tax burden for low and middle-income earners. (*Irish Times*, 18 October 2008)

> The controversial measures in the Budget could pose difficulties for social partnership, union leaders told the Taoiseach yesterday. (*Irish Times*, 18 October 2008)

The debate around the October 2008 austerity budget began to reveal the fragile position of the Irish government at the intersection of the various, conflicting interests and points of view within Ireland and outside of it. The business community emphasized the requirement to rebuild external confidence

[40] Written communication, April 2016.
[41] Written communication, April 2016.
[42] Written communication, April 2016.

by way of quick fiscal consolidation, and favored spending cuts over tax increases. The banks – equally vital for Ireland's economic performance – had to be backed up by state guarantees, which another important "external principal", the EU Commission, suspected to be a breach of state aid legislation in the EU. Finally, the domestic electorates and the government's domestic partners, notably trade unions, were deeply disappointed in measures enacted in attempt to appease business and the external EU principals. Trying to act "responsibly" and to "represent" at the same time (Mair 2011), the seeds for an ensuing political crisis were planted already at this point. A chorus of voices – from well-placed observers to unions and the opposition – started to speak now of the *government* as part of the problem, not the solution. The government was deemed to have neither the external credibility nor domestic legitimacy to lead Ireland out of the crisis. Focusing on external confidence more than internal legitimacy, its capacity for action was being slowly corroded from the inside. These tensions were only going to get deeper in the next, sovereign debt-phase of the crisis: .

> Had the public finances been well managed during the years of extraordinary plenty, the Government would now be in a position to mitigate the effects of recession by cutting taxes and increasing spending. Such steps would have the additional effect of boosting confidence by providing reassurance that those at the helm are capable of navigating a course back to stability and growth. But the public finances were grossly mismanaged during the boom years. As a result, the Government and its finances are now a part of the problem rather than the solution. This is as appalling as it is tragic. (Economics editor Dan O'Brien, *Irish Times*, 17 October 2008)

3.3.3 The Irish Bailout, November 2010

In the Eurozone crisis, the weaknesses built up in the pre-crisis Irish economy proved too big of a burden for Irish policymakers to bear alone. Negotiated response in the context of Social Partnership was no longer an option, and the problems of banks had not gone anywhere. The liquidity crisis assumption gradually evaporated. The realization that the banks were insolvent dawned on Irish policymakers. Moreover, the Irish problems now became European problems. The Greek crisis had revealed the interconnected fortunes of EMU Member States. Hence, if markets were not trusting Ireland, the EU authorities could not trust Ireland. Supranational intervention was inevitable, but its shape and content was up to political choice.

In terms of press debate, EU policy now became a dominant issue category. What had been a banking crisis first and a fiscal crisis then, now became a European sovereign debt crisis. Economic and procedural frames dominate, as Table 3.8 demonstrates but we now saw also an increase in polity frames. Policy was justified by *European* and *national interest*. Often, the two appeared to be one and the same thing. Now, what followed was not a distributive battle between domestic Irish groups, but transnational arm-wrestling between Ireland (as represented by its government), the EU institutions - including the ECB - and other EU Member State governments. As Table 3.3 demonstrates, this was the second of the two transnational events, where non-Irish actors made more than half of all claims. Moreover, this was an elite-driven transnational debate dominated by executive actors and EU actors, in particular (Table 3.4). As such, the tenor and composition of debate now drastically differed from the previous, budget debate. Banking problems were now resurfacing. Because of the banking rescue operations, private and public debt were now mixed in the books of the Irish state, and threatened to drag the state down. Hence, the ECB appears in the debate as a mediator between states, banks and the EU. Faced with an existential crisis of the Euro, the ECB now grudgingly accepted a role as a lender of last resort - of sorts. Eurozone rules prevented the ECB from providing support directly to banks, so money had to be circulated via Member States' books. The Irish state saved its banks, and the ECB-EU troika saved Ireland. With harsh conditions.

Let us observe the sequence of events in the run-up to the bailout. Through 2009, the solvency situation of Irish banks deteriorated. The government intervened first by a series of capital injections but ultimately ended up nationalizing almost the entire banking sector. It then set up a National Asset Management Agency (NAMA) where bad loans of the banks were transferred. The combination of the bank bailouts of and a severe recession in the real economy contributed into a worsening fiscal crisis. By 2010, the government's budget deficit was 11 per cent of GDP and sovereign debt stood at 111 per cent of GDP. A vicious circle, where worsening macroeconomic indicators pushed the premium on Irish government bonds upwards – further worsening the deficit – was in place. By May 2010, the spread on German bunds had increased to 5.9 per cent. To push down borrowing costs, the Fianna Fáil-Greens coalition then developed a National Recovery Plan (NRP) for 2011–2014, intent on closing the deficit and getting the economy growing again. Again, it is worth stressing that unlike many commentators have appeared to assume, the age of austerity in Ireland did *not* begin with the bailout. The *troika* intervention was, rather, a credibility-enhancing rubberstamp on the NRP, drafted by Irish authorities. Moreover, by the time the *troika* came in, late 2010, austerity measures worth of €14.6 billion *had already been implemented*. In the domestically-designed NRP, another €15 billion was envisaged for the next four years. To ensure the credibility of the plan in the eyes of international investors, austerity was to be front-loaded. "To demonstrate the seriousness of its intent, the government has decided that 40 per cent or €6 billion of the €15 billion adjustment will be made in 2011" (NRP 2011, 6). The NRP was another instance were the structural power of finance in the Irish economy is laid bare. As will be discussed below, the plan was explicitly designed *in anticipation of* market reactions. It was another instance where the Irish government chose to emphasize trust among its external principals - markets and the EU authorities - rather than the domestic audience.

The attempt failed. By mid-November 2010, yields on Irish bonds had risen to nine per cent. Borrowing costs were quickly becoming unsustainably high. Both Irish and the EU's growth estimates failed to match reality and instead, a growing deficit was registered. Things clearly were spiralling out of the hands of the Irish government. The government now responded with a game of denial, attempting to lead attention elsewhere and persuade markets that everything was under control. Evidence exists that at the time, European authorities (apparently, in particular, the ECB) tried hard to persuade the Irish government to take the bailout deal. Yet in a rhetoric aimed at both the markets and the domestic audience, the Fianna Fáil-Greens government claimed, to the last minute, that merely "technical discussions" with potential foreign lenders – the EU, ECB and IMF – were going on. When the first public reference to the bailout deal then came, it was not the government, but the governor of the Irish Central Bank, Patrick Honohan, who announced it in a radio interview on the morning of 18th November 2010. Kelly (2011) accuses Honohan's exposure of the government's cover by "playing for the opposing team" and effectively forcing the government to give into the apparent pressure from the ECB to accept the bailout. Indeed, rapidly afterwards, the government did enter negotiations on a €85 bailout loan with the ECB, the EU Commission and the IMF. The emergency loan came with strict conditionality, which finalised the grasp of austerity in Ireland for years to come.

Let us turn to observe the debate in more detail. The first stage of the bailout debate was sorts of shadow-boxing between the Irish government, EU institutions and the markets. Several lines of communication took place simultaneously. As observed above, the Irish government and EU actors together attempted to win market confidence by conveying the image that the Irish were equipped to domestically put forward the necessary reforms. At the same time, the government tried to ensure the domestic audience that no external pressure for taking the bailout deal existed. In other words, whilst the control was gradually slipping away from the hands of the Irish government, it rhetorically tried to hold on to this power, by denying the outside intervention.

> Ireland is not making an application for EU or IMF funding for the State, according to Taoiseach Brian Cowen. He said last night an application was not being made because the country was already funded right up to the middle of next year. (*Irish Times*, 16 November 2010)

> Euro group chief Jean-Claude Juncker tried to damp down pressure on the Government ahead of the finance ministers meeting tonight, saying the Irish authorities were not even near the point where they would ask for external help. The commission dismissed reports of bailout talks as an exaggeration and the spokesman for economics commissioner Olli Rehn declined to discuss the questions that might be raised in any intervention to assist the banks. (*Irish Times*, 16 November 2010)

As said, EU institutions, foreign governments and parties now participated in the debate more than before. They now had clear stakes in it, as the systemic Eurozone dimension of the crisis had become evident. The key word was contagion. EU officials and governments feared that market distrust would spread from Ireland, Greece, Portugal and Spain to other Member States.

> We, the countries of the euro zone, want to stabilise the euro and to avoid contagion risks. It‘s one of the points that we said to our colleague maybe it’s better to be one day before, than some days too late, under the umbrella, said Proell. (*Irish Times,* 18 November 2010).

The Irish government framed its restricted communications strategy on the possible bailout negotiations with *polity frames*. By remaining silent, the government tried to gain time to persuade its external partners of its ability to handle the crisis domestically. The government knew its position was weak, and it tried not to show this weakness.

> Mr Cowen defended his communications strategy on the basis it was premature to disclose any information until the negotiations had come to an end. The Government was acting in the best interests of the taxpayer, he said. (*Irish Times*, 19 November 2010)

Yet, what appeared as high diplomacy for the government, was seen as a pathetic bluff by the domestic audience. The parliamentary opposition was angry for not getting a chance to deliberate what was on the table. Now, domestic Irish parties used the democracy-part of the social justice and democracy frame, to accuse the government of acting in a non-transparent manner. The Labour party in particular demanded to know more of the opaque EU-government negotiations in the name of openness, transparency and democracy. In the interpretation of the opposition, thus, national interest should have been determined in an open, democratic deliberation.

> Mr Noonan said Mr Lenihan had no cards left. His colleagues, over the weekend, with their incredible denials, embarrassed the nation and I am afraid their denials did not work. The other strategy the Minister has drawn from poker is bluff, and he is the greatest proponent of bluff I have ever seen in this House (…) He accused Mr Lenihan and Taoiseach Brian Cowen of bluffing for weeks. (*Irish Times*, 19 November 2010)

> The Minister for Finance needs to tell us the structure and the template of the negotiations. We want to know what is and what is not on the negotiating table. (Joan Burton [Labour], Irish Times, 19 November 2010)

The main policy tool at hand for the government was the National Recovery Plan (NRP), a tight fiscal plan for years 2011–2014. The plan was explicitly focused on regaining external confidence in the Irish economy, by helping to "dispel uncertainty and reinforce the confidence of consumers, businesses and of the international community" (NRP, 5). The plan was drafted by the Department of Finance, with a clear view of what it needed to contain to be credible. It is thus worth stressing that the explicit terms of the financial assistance deals for the Eurozone debtor countries were not the only mechanism of policy conditionality. The other, which was at stake in the NRP, was domestic policymakers anticipating what their external partners (the EU, the markets) might expect from them. This was a more subtle, implicit form of outside control. In the case of markets, we might speak of structural power. The EU authorities transmitted the preferences of the private and public creditors – the markets, the EU and the ECB – in the *troika.*

> As a country we have to inspire confidence. We have to be the people, and a Government and an Opposition, that can show clearly that Ireland can stand alone, and will stand alone, and that it's determined to get out of the financial difficulties that we're in. (*Irish Times,* 15 November 2010)

> The announcement of the four-year plan and the budget provide our best chance to demonstrate that we can do what is necessary. (…) I think the threat to sovereignty is easily exaggerated in our case. If the four-year plan is being designed as it should be, there should be very little additional conditionality necessary. (John McHale [NUI Galway)] Irish Times 19 November, 2010)

Whilst the NRP was formulated in anticipation of what external principals might want, some domestic actors saw the potential outside intervention as a chance to push through long-overdue reforms. An interviewee at the Department of Finance[43] mentioned frame budgeting, where spending limits are defined for a four-year period in advance, as an example of such a policy. The department had, in the interviewee's opinion, long pushed for spending limits but had encountered political opposition that had prevented the policy from being implemented. Domestic political-administrative elites hence appeared as another "transmission belt" for the markets' wishes. Professor Donal Donovan, an Irish academic and a former IMF staff member, was one key figure who played such a transmitting role. He appeared in the press debate as understanding both worlds, the domestic and the transnational, insisting that the "[f]irm hand of the IMF will keep us steering in right direction."

> Perhaps the real subconscious concern among the public is that the IMF will - politely but firmly - "insist" that the Irish do what they have repeatedly said they are planning to do. But if it is the case that we do not really believe ourselves what we are saying, then maybe some "gingering" from outside is desirable and would probably prove necessary at some stage anyway. (Donal Donovan, *Irish Times*,, 19 November 2010)

Irish employers, the EU Commission, and the most important EU creditor governments welcomed the NRP.

> Employers body IBEC welcomed the details of the plan saying it provided much-needed certainty around Ireland's public finances and the path to recovery. (*Irish Times,* 29 November 2010)

> Commissioner Olli Rehn, visiting Ireland, says he has not discussed any need for an EU bailout, adding he believes market confidence would be restored once four-year plan to cut borrowings is published. (*Irish Times,* 29 November 2010)

> Berlin has welcomed Dublin's four-year plan after a warning from German chancellor Angela Merkel that the EU has a long road ahead of it to work off Ireland's mistakes of the past. (*Irish Times,* 25 November 2010)

[43] Interview with two officials at the Irish Department of Finance, 27 May 2013.

Yet, the one external principal that mattered the most for the state's borrowing costs (NRP, 16-17), did not approve: the market.

> The cost of raising money for the State rose to a new high yesterday as markets appeared to place no faith in the Government's four-year plan. (*Irish Times*, November 26, 2010)

Irish interest groups and unions entered the bailout debate mostly to voice opposition to the NRP. Hence, a line of battle emerged, where EU governments, EU institutional actors and the Fianna Fáil-Greens government (the most prominent actors in this debate) joined forces in defence of the NRP, whereas the domestic parliamentary opposition, interest groups and unions – not to mention the markets – opposed it. The former coalition saw adopting the NRP as an act in the national interest, to avoid taking an external bailout. The latter saw it in domestic distributional terms, as more unfair austerity for the coming years. For the markets, the plan probably did not go far enough – a point the future party of government, Fine Gael, was willing to endorse. In short, then, two alliances emerged: a domestic one that saw the NRP in terms of domestic redistribution, and an international one that saw the plan as an issue in international politics. In assessing the NRPs content, domestic groups evaluated it from both a social justice and an economic rationality perspective.

> The Labour Party remains convinced that it is not possible to frontload the budgetary adjustments to such an extent without seriously compromising prospects for jobs and growth. (…) She said the Labour Party had instead proposed a twin-track approach: balanced consolidation of the public finances with strategic investment in infrastructure, growth and jobs. (Joan Burton [Labour], *Irish Times,* 2 December 2010)

> Never has there been a clearer example of such bad economics than now. Working people did not create this mess. With the so-called recovery plan, the Government is attempting to make them pay for it. (Paul Sweeney [ICTU], *Irish Times,* 25 November 2010)

The main opposition party, Fine Gael, now began shifting sides. It was against the NRP, but unlike the Left and trade unions, the FG argued the suggestions in the NRP did not go far enough. Siding with the markets and the EU, the FG announced itself prepared to implement even more stringent austerity. Hence, it is not clear to which alliance FG at this point belonged. It can be assumed that trying to anticipate what markets and the EU might want from Ireland, instead of acting as a full member of the domestic opposition, made it easier for Fine Gael to switch into a party of government a few months later, in the early election of February 2011. Notably, FG defends its fiscal policy stance with polity frames, specifically national self-determination.

> However, if we show purpose and speed in making the decisions that need to be made about our revenue and expenditure, we can regain, quite quickly, full control of our own affairs and that must be our objective as a country. (John Bruton [FG], *Irish Times,* 19 November 2010)

> The format the party will adopt for the four-year plan is likely to be a critique of the Government's plan published this week, as well as an outline of Fine Gael's alternative proposals. These include more radical restructuring of the public service, with 30,000 fewer jobs (including the 3,800 voluntary redundancies) in the HSE. The document will also include plans to sell off State assets, including parts of the ESB and Bord Gáis, as part of its New Era jobs stimulus programme. (*Irish Times*, 1 December 2010)

The government eventually had to admit failure to convince the markets by domestic means, and the inevitability of an external bailout. After this had been established as a matter of fact, the discussion turned to three directions. First, nature of the intervention: complete loss of sovereignty or voluntary participation in a jointly created Eurozone financial assistance mechanism? Secondly, the discussion concerned the exact terms and conditions of the deal. And thirdly, the increasingly fragile position of the Fianna Fáil-Greens government.

On the first question, the domestic opposition blamed the government for a shameful yielding of national sovereignty. This is the sense in which domestic Irish parties used polity frames, particularly the "national interest and sovereignty" frame.

> He said the political leaders who had worked peacefully through the 19th century for independence and sovereignty and those who had engaged in a revolutionary struggle in the 20th century had done so on the basis that we would make all the decisions on spending and taxation ourselves, on our own (…) We're now in a position where we'll still be making the decisions but we won't be making them on our own, we'll have others looking over our shoulders, said Mr Bruton. (*Irish Times,*19 November 2010)

> For years it posed as the super-green patriots and the uncompromising republicans, Mr Noonan said. An inept Government, through its arrogance and avarice, had been responsible for the sovereignty loss. (Michael Noonan [FG], *Irish Times*, 19 November 2010)

The government responded by emphasizing that Irish policymakers were the architects of the NRP, which acted as a de facto basis for the Memorandum of Understanding with the troika of foreign lenders. This demonstrates how the government used procedural, particularly the law, rules and external constraints frames to indicate the lack of external constraints on Irish policymaking. Moreover, they combined this framing with nationalistic framing, saying that a domestic process of policy formulation regarding any financial assistance deal was the key metric, with which the loss/maintenance of sovereignty should be measured. Hence, whilst the opposition (especially Labour) had demanded parliamentary deliberation on the bailout deal, the government instead emphasized the role of the administrative elites in preparation of the bailout deal.

> On the question of relinquishing sovereignty, Mr Cowen said the Budget and four-year plan would not be changed by the external bodies but said a small, open economy like Ireland did not have the luxury of taking decisions without reference to the wider world. (*Irish Times*, 22 November 2010)

> It will be the sovereign decision of the Irish Government, on behalf of the Irish people, that will decide what shape any package would be, were we to decide that that is in our best interest, he said. (*Irish Times,* 19 November 2010)

Where alterations to the exact terms of the dal were proposed, they were rather incremental adjustments in the composition, timing, or exact amount of austerity measures, rather than challenges to the overall austerity frame.[44]

> In contrast, the Labour Party document will propose that the savings over the next four years will be achieved in a 50/50 split between cuts and new taxes. The party will propose some EUR 4.5 billion in adjustments for next year. The document will also reflect the

[44] This is, at least, the picture that emerges from press debate. In written communication with the president of a large Irish union, the president denied the lack of real alternatives and came forward with several documents and speeches in which the Union movement had proposed fundamental alternatives. Yet, in the press debate, the claims from the opposition and unions challenge the government mostly from a social justice point of view or propose incremental changes.

> partys strong opposition to the pension fund being used as part of the bailout for the banks. (*Irish Times,* 1 December 2010)

> Labour (rightly) says that the EUR 6 billion correction next year poses risks to economic growth. But that is what this State has been told to do by those who decide these things now. This is the awful reality of a loss of sovereignty. (*Irish Times,* 4 December 2010)

Regarding the government's own increasingly fragile position, it now shifted blame on Ireland's problems on the banks and rejected accusations of political mismanagement. Hence, the government had come far from its position in the bank guarantee debate, where it was willing to align the Irish national interest with that of the banks. Gunnar Trumbull (2013) argues that successfully representing a particular group interest as the general interest is a key tool for public influence. As a well-known Irish commentator Vincent Browne observes (*Irish Times,* 23 February 2011): "Once there is a mindset that the appeasement of financial elites is in the national interest, ahead of the interest of the people (the argument of course being that these interests overlap), then the interests of the people will be subordinated to the interests of those elites." Now, it appeared that at least at the level of rhetoric, the Irish banks had lost this form of power. The government still acknowledged the necessity of saving the banks, but it now perceived banks as a problem. The government had to accept external help because the liabilities of banks had become liabilities of the Irish state. In the question of blaming the banks, the government and the opposition came together. Yet, the opposition accused the government of costly rescue policies:

> The banks were too big a problem for the country. The key issue all the time for the Government is to ensure that we do not have a collapse of the banking sector, Mr Lenihan said. (*Irish Times,* 22 November 2010)

> Mr Noonan claimed the origins of the crisis were in the Government's disastrous banking policy. It was warned in detail by Fine Gael, which for two years has argued that Anglo Irish Bank should be wound down in an orderly fashion. (*Irish Times*, 19 November 2010)

> Ms Burton said the documents set out in gory detail the wide-ranging programme of pain negotiated by the Fianna Fáil-led Government and they confirmed the entire bill for Fianna Fáil s disastrous bank guarantee is to fall on Irish taxpayers." (Joan Burton [Labour)], *Irish Times*, 2 December 2010)

Furthermore, in a curious rhetorical twist, the government sought to escape allegations of giving up sovereignty by arguing that taking financial assistance from other EU Member States was part of politics as usual in a monetary union. Naturally, the ECB should intervene when the liabilities of banks threatened the stability of a Member State, and thereby the whole union. This was when the European interest became equalised with the interests of its constituent parts, the Member States.

> "When asked if he had any concerns about a possible erosion of Irish sovereignty, the Minister said: When you borrow, you lose a little bit of your sovereignty, no matter who you borrow from. (…) He added that he saw sovereignty in a European context, given Ireland's membership of the euro." (*Irish Times*, November 17, 2010)

> There is no question of a loss of sovereignty for Ireland . . . Those sovereign decisions that are there for us to take regarding putting order on public finances [are being taken], he said. (…) Mr Cowen said the focus of the discussions would be on the banking problem and its implications for the euro. Ireland had ceded sovereignty in this area when joining the euro but the process would not impinge on Ireland's sovereignty on tax or on fiscal matters, he added. (*Irish Times*, November 19, 2010)

Moreover, Eurozone stability, a key concern of EU policymakers at the time, was aligned with financial stability. In other words: again, the stability of the financial sector – the banks – was equated with the general interest. Only this time, the equation was applied to a European, rather than national, context.

> In Brussels, EU economic and monetary affairs commissioner Olli Rehn said the finance ministers welcomed the Government's request for aid. Providing assistance to Ireland is warranted to safeguard the financial stability in Europe, he said. (*Irish Times,* 22 November, 2010)

> This agreement is necessary for our country and our people. It is in the best interests of Ireland and of the European economy on which our future prosperity depends. He said loans were available to Ireland at a cheaper interest rate than if funds were borrowed from the markets and, without them, tax increases and spending cuts would be more severe. (Brian Cowen [FF] *Irish Times*, 29 November 2010)

The domestic Irish debate intertwined with a transnational debate on how the EU's permanent financial rescue mechanism should be designed. Here, the main issue was whether private investors should be forced to take a haircut on their investments, if a bank faced solvency problems. The issue was brought to the public agenda initially by President Nicholas Sarkozy of France and Chancellor Angela Merkel of Germany who in October 2010 had made a joint statement in the French town of Deauville demanding such private sector responsibility be included in any permanent EMU rescue mechanism. The effect of this declaration on Irish market position was an issue in the debate. Many, among them the Irish government, argued that the declaration had caused an upswing in Irish bond yields, a "point of no return", where markets panicked to such an extent that a bailout for Ireland was imminent. In addition to the harmful effects of the Deauville declaration, the government also accused domestic groups of scaring the markets with their demands.

> (…) in recent years there has been much commentary about the need for senior bondholders to accept their share of the burden of this crisis. I have to say that there has been far too much discussion. (Brian Lenihan [FF], *Irish Times*, 2 December 2010)

> Too much domestic noise about the need for senior bondholders to accept their share of the financial crisis burden contributed significantly to the erosion of deposits from the Irish banking system, Minister for Finance Brian Lenihan has claimed. (*Irish Times,* 2 December 2010)

Again, the government directly contradicted the demands from opposition parties, especially Labour, for more transparency, and even accused excessive public debate as having *caused* the market mistrust. The opposition contradicted the view

> about bondholders bearing responsibility in future caused the current wave of unrest and the attack on countries perceived to be weak. (Joan Burton [Labour] *Irish Times*, 2 December 2010)

Rather, it shared the views of Merkel and Sarkozy on forcing "haircuts" for bondholders.

> On banking, Fine Gael differentiates itself from the incumbents position in so far as it advocates burning at least some of those bondholders everyone is so sick of, and so sick of hearing about. Fine Gael makes clear it would force losses on the unsecured senior bondholders in Anglo Irish Bank. (*Irish Times*, 4 December 2010)

This debate represents a point at which the preferences of Eurozone governments started to diverge. Germany, France and the rest of what became the "creditor" bloc in the Eurozone advocated investor responsibility. This was both economically and electorally rational for governments who anticipated becoming net contributors to the ESM. It was also electorally rational for Irish politicians, but only when they were *not* in government. The government had to bear responsibility for the state's creditworthiness, and when this was threatened by talks of burning bondholders, it became economically rational for the Irish government to oppose any debt haircuts. This became the position of governments in the bloc of debtor countries of the Eurozone.

> Investors fretted that the permanent mechanism for future crises unveiled on Sunday by the EU had increased the risk of a default by a euro zone country. (*Irish Times*, 30 November 2010)

> What you are seeing is a transfer of risk from governments to investors, said Robert Parker, senior adviser to Credit Suisse. (*Irish Times*, 30 November 2010)

As markets reacted to speculations of investor responsibility, creditor governments had to take steps back and announce that no haircuts would be applied until 2013.

> Mr Ackermann said that any new euro zone crisis mechanism, to come on stream in June 2013, should include a collective action clause allowing bondholders and governments to find a common solution. However, any such measure should, he said, be voluntary and market oriented, citing past agreements on emerging market debt as an example. (*Irish Times*, 27 November 2010)

> Trying to force existing bondholders to accept a loss on their investment was impossible, he added. (*Irish Times*, 27 November 2010)

Germany and the rest of the creditor bloc changed their views on investor responsibility when faced with intense pressure from the markets and the ECB. Yet, for Ireland, moving the option of private losses from the table effectively meant that the only solution left was that the state take a bailout loan with which to back up the banking sector. As said, Eurozone rules prevent the ECB from directly supporting the banks. This was another instance in the debate where the inadequate coordinating capacity in the EU directly harmed Member States in trouble, such as Ireland. Had there existed ways for the ECB to back up banks directly, the Irish government would not have had to assume private losses into its books – in the name of European interests and stability. Again, as in the first event, the lack of EU coordination and persistently diverging views of Eurozone governments had grave implications for individual Member States.

> "If one is really serious about trying to make a go of the default route, it would be necessary to contemplate life outside the euro area so as to take advantage of some of the economic flexibility that comes with an independent currency." (Donal Donovan in *Irish Times*, 3 December 2010)

> Mr Lenihan said no programme would have been possible if Ireland intended to dishonour its senior debt. There is simply no way that this country, whose banks are so dependent on international investors, can unilaterally renege on senior bondholders against the wishes of the European Central Bank (…) The Minister stressed that without this programme our ability to fund the payments to social welfare recipients, the salaries of our nurses, our doctors, our teachers, our gardaÌ would have been extraordinarily limited and highly uncertain. (*Irish Times,* 2 December 2010)

The original position of the *troika* had not been opposed to debt defaults. It is rather the case that when faced with an existential crisis of the EMU, the views of EU policymakers changed, but those of the IMF did not. In other words, the rationality of imposing losses on private bondholders depended on where you stood. For those at the helm of a currency area that was up to its neck in debt – such as EU institutions and MS governments – then deferring to creditors would be rational. For others – such as the IMF and MS opposition politicians – it was easier to see why both social justice and economic arguments would support debt haircuts. In the end, the markets got their way.

What was left for the domestic opposition? A domestic political crisis. A bailout was imminent, but at least those responsible for it could be forced out of office. Simultaneously, the opposition used the government's waning popularity to question the legitimacy of the bailout deal.

> (…) an EU bailout would further indebt the Irish people and a credible plan was needed to save the economy. This requires the abandonment of the Government's disastrous banking policy and the removal from office of the Government itself. We need a general election as soon as possible and at all costs we must try to prevent the passing of the threatened slash-and-burn budget which will deepen the recession, he said. (Caoimhghìn Caoláin [SF],*Irish Times*, 18 November 2010)

> (…) no party should feel bound by any deal struck by this Government, which has no mandate or political authority and which was seeking to strap the people into a sell-out deal with the IMF and EU that would dictate the shape of the fiscal affairs of the State in the future. (Caoimhghìn Caoláin [SF], *Irish Times*, 3 December 2010)

> Sinn Féin has taken legal advice on the constitutional status of the Government's agreement with the European Union and the International Monetary Fund. (*Irish Times*, 1 December 2010)

Subsequently, the legitimacy, size and format of the bailout deal would become a major topic in the election debate in February 2011. The opposition would challenge not only the validity of the deal, but its duration and content. All major opposition parties would campaign on the pledge to renegotiate the deal and hold private sector actors accountable. These were issues for domestic electoral politics. The transnational actors now involved in Irish policymaking did not oppose a domestic political crisis, so long as it did not disturb the execution of the *troika* deal. Democratic events in domestic politics – such as early elections – became perceived as "political risk", whereas the quintessential skill for good governance was perceived passing the "necessary" or inevitable reforms or legislation.

> Election will not disrupt plan, says Government. (*Irish Times*, 2 December 2010)

> The Government has insisted it will introduce all legislative measures required to obtain the EUR 85 billion EU-IMF financial package before next year's general election. (*Irish Times*, 2 December 2010)

> While doubts about growth and interest rates have fuelled market concerns, the biggest doubt about our creditworthiness is whether we have the political capacity to push through the needed adjustments to our spending and taxes. Political squabbling and attempts to pass the burden between different interest groups has not helped. (John McHale [NUI Galway], *Irish Times* 19 November 2010)

3.3.4 The Irish General Election, February 2011

The early general election in February 2011 is best described as a culmination point of the preceding crisis, where all the different dimensions the crisis had by then acquired, came together. Ireland was simultaneously going through a banking, fiscal, and a Eurozone sovereign debt crisis. Now, a domestic political crisis was added.

The real task at hand for the Irish electorate was to bring about a stable government, willing and able to implement the bailout agreement, negotiated just a few months earlier. This was a show of the power that Ireland's external partners now had over the country's domestic policymaking. If Irish domestic actors, both private and public, had used significant structural power over their own affairs in the pre-crisis era, at present that power had been handed over to European authorities who, together with the markets, were to decide when Ireland was again ready to stand on its own.

At the level of press debate, the metamorphosis of the different aspects of the crisis into one systemic problem is illustrated in Table 3.10 in the concluding section. Whereas each prior phase of the crisis had been dominated by one issue area in particular – banking, fiscal, and EU policy, respectively – now salience of these policy areas is more evenly distributed. Yet the election debate was a truly domestic one in character, with almost 97 per cent of sentences by Irish actors. The EU and markets may have been wielding significant power in the background, but in public debate, it was up to the Irish themselves to devise a strategy for coping with the multiple crises. This was a particularly partisan debate, with Irish parties accounting for more than 60 per cent of claims (Table 3.4). Yet parties not only debated spending, taxation and jobs, as would be expected in an election debate. Rather, as this election was about putting in place a coalition that could function and see Ireland through the bailout programme, procedural issues and structural reforms were highly salient issues, together making up almost 50 per cent of all claims –far more than in any other event (Table 3.6). The election was about domestic political and institutional reform, more than it was about redistribution or spending – the scope for which was obviously, still, limited. Focus on procedure is also visible in framing, as Table 3.8 shows. Economic and justice frames were agen prevalent, polity frames less so. Polity frames maintained some traction, however, as a key campaign theme for all main parties was a pledge to renegotiate the terms of the bailout deal.

The political crisis unfolded in two episodes. First, the Fianna Fáil-Greens coalition began to fall apart in conjunction with the bailout agreement - and surely, in part, because of it. The main coalition party, Fianna Fáil, was in internal chaos, which culminated Micheál Martin replacing Taoiseach Brian Cowen as party leader. The Greens announced they would leave the coalition, after having supported the Finance Bill for 2011, the passing of which was included in the terms of the bailout deal. The Greens then left in January 2011, while Brian Cowen, continuing to act as Taoiseach, called for an early general election. The election date was set for February 25, 2011. This latter part of the political crisis, the debate surrounding the early election, is subject of the discussion below.

The election proved a watershed moment in Irish political history. Fianna Fáil, having served in government for 61 of the 79 years since the first time it contested elections in 1932, suffered a massive defeat, where its share of seats in the 166-seat Dáil dropped from 77 to 20, or to 12 per cent. Its minor coalition partner, the Greens lost all their six Dáil seats and were practically wiped off the Irish political map. The opposition parties, by contrast, scored record victories. Fine Gael secured 76, or over 45 per cent, of Dáil seats. Labour became the second-largest party in Parliament and Sinn Féin, too, tripled its number of seats. A peculiar feature of the Irish political landscape is the relative absence of challenger parties, either in the Left or Right. There is Sinn Féin, of course, but its capability or willingness to actually challenge day-to-day policymaking and grasp power, has proved limited. In the 2011 election, a new leftist alliance, mobilizing on rejection of austerity and the bailout deal, however emerged. The United Left Alliance (ULA), composed of the Socialist Party, the People Before Profit Alliance and the Workers and Unemployed Action, managed to get five Dáil seats. As a result of the election, the Fianna Fáil–Greens coalition was pushed out of office, and a new coalition government was formed between the two largest parties in the new Dáil, Fine Gael and Labour. Enda Kenny, party leader of Fine Gael, was elected Taoiseach. The alliance between Labour and Fine Gael appeared, on the surface, uneasy: the new coalition partners disagreed on virtually every aspect of policy. Yet, perhaps because of perceived pressure to form a stable majority government, the parties overcame their differences and formed a coalition, which moreover lasted for the full period of four years.

Let us turn to observe the debate in more detail. In essence, there were now two kinds of players in Irish political life: domestic "normal" political actors, as well as Ireland's external partners, the *troika.* It was the *troika*'s preference that a stable coalition, able to deliver on the terms of the bailout agreement, were elected. This, however, was not what the Irish parties campaigned on. Concerned of the electorate's opinion on the loss of sovereignty, both Fine Gael and Labour, the main opposition parties, pledged to renegotiate the "punitive" bailout. Since a unilateral default – the effective alternative to the bailout – had been ruled out, what remained was the option of renegotiation.

> Mr Kenny ruled out any default on Ireland's debt, but said he was determined to try to renegotiate the EU-IMF deal and insist senior bondholders share the burden. (*Irish Times,* 22 February 2011)

> At the launch of the Labour campaign in the Guinness Storehouse yesterday, leader Eamon Gilmore vowed that, in government, he would renegotiate the EU/IMF deal. We can't afford it. It won't work. We will find ourselves in 2014 if anything worse off than we are now if we stick with that deal, he said. (*Irish Times,* 3 February 2011)

The first instance where the future coalition partners, FG and Labour, differed, was the tone of their language. Recall how in the bailout debate, the then government had emphasized the importance of diplomatic tact in dealing with Brussels. Labour took clear distance from this view, and boasted, in its campaign slogan, that it would be "Labour's way or Frankfurt's way". Fine Gael, by contrast, represented itself as a responsible party of government, underlining the diplomatic skills and personal contacts with other EU leaders of the incoming Taoiseach, Enda Kenny.

> He said his visits to German chancellor Angela Merkel and European Commission president José Manuel Barroso were intended to put them on notice that Fine Gael wanted to renegotiate the interest rate on the IMF-EU deal and explore burden-sharing when it came to bondholders. (Enda Kenny [FG], *Irish Times*, 17 February 2011)

While Fine Gael and Labour's demands were compatible with the prospect of taking office - renegotiating, not rejecting the deal – the smaller parties, Sinn Féin, United Left Alliance and the non-party MPs ("Independents") – advocated just such rejection. Sinn Féin, in line with its nationalistic undertone, advocated a domestic solution, namely tapping into the National Pensions Reserve to fund the deficits, thus keeping Ireland afloat without external intervention.

> Mr Ó Caoláin called on all parties to make clear to the EU and the IMF, and the wider international community, that the bailout deal was unacceptable, unaffordable and ruinous to the Irish economy and the people. It was negotiated and imposed by a discredited Government and it must be set aside, he added. (*Irish Times,* 2 February 2011)

> Mr Doherty said Ireland did not need to draw down money from the EU and IMF because EUR 30 billion was available this year from the National Pension Reserve and the Central Bank Exchequer Fund. (*Irish Times*, 7 February 2011)

Fine Gael and Labour specifically wanted to renegotiate a lower interest rate for the bailout loan and impose costs of the banking rescue measures on private bondholders. Both these measures were electorally rational for the parties to campaign on. Lowering the interest rate would release some fiscal capacity into the economy, enabling parties' campaigns to include at least some spending pledges in the otherwise austere context. Burning bondholders, in turn, was widely perceived by the public as just, and including such a clause in the bailout deal would have greatly increased its legitimacy – hence making it easier for the prospective party-in-government to oversee its implementation. Thus, being stuck in what was inevitably concession bargaining, these Irish parties acted according to electoral interest.

> The leaders of the two main Opposition parties have ruled out any immediate recapitalisation of the banks if they are elected to form the next government. The new government should postpone any further bank bailouts until April, when the Central Bank's stress-testing of the lenders is complete, said Fine Gael finance spokesman Michael Noonan. (*Irish Times*, 11 February 2011)

> Labour party leader Eamon Gilmore was even more emphatic, saying his party would not put any further capital into Bank of Ireland, AIB and EBS building society before renegotiating the bailout with the International Monetary Fund (IMF) and the EU. (…) Under that renegotiation, Labour would insist on burden sharing with bondholders as part of bank restructuring, he said. (*Irish Times*, 11, February 2011)

The power of the EU over national policymaking, and the power of markets over the EU, ultimately dictated which campaign pledge would be fulfilled and which not. In July 2011, as part of a wider Eurozone debt deal, the interest rate of the Irish rescue loan was reduced from nearly 6 to 3.5 or 4 per cent. Simultaneously, the loan maturity was extended from 7.5 to 15 years, such that Ireland could extend its adjustment effort to a longer period. Yet the EU was against imposing bondholder losses. It was against for the simple reason that the reactions from the markets to any *mentions* of such mechanism being included in the permanent EU rescue facility, ESM, had been furious. Indeed, market reactions to the deliberations between Angela Merkel and Nicolas Sarkozy in autumn 2010 were a key reason why Ireland, Greece and soon Portugal were in bailout in the first place. Market reactions clearly circumscribed the room for manoeuvre of EU leaders.

> Eurozone finance ministers have eliminated the prospect of any move to impose losses on senior bondholders in Ireland's banks, economics commissioner Olli Rehn said. (*Irish Times*, 16 February 2011)

> As top ECB officials closely observe the Irish election campaign, this was the second time in five days that Mr Trichet made the case against any restructuring of Ireland's debt. In Brussels yesterday, Mr Trichet said the Irish rescue plan and that of Greece did not comprehend the notion of bondholders being compelled to take a haircut on their investments. (*Irish Times*, 8 February 2011)

Later, a report by the European Court of Auditors (2016)[45] observed that alternatives to include bondholder responsibility in the ESM while containing the risks for Eurozone stability *did,* in fact, exist. Yet in anticipation of adverse market reactions, EU leaders failed to explore these options. The structural power of financial markets may have been strongest in countries such as Ireland, but it influenced EU politics at the systemic EU level, too.

Irish policymakers thus found themselves in a triple bind. On the one hand, they were practically constrained by Ireland's EU membership, being forced to play by its common rules. On the other, they had been constrained by market discipline at home, domestic banks taking advantage their structurally important position and persuading them into costly banking rescue measures. Yet the EU as a whole was refraining from certain courses of action because of fear for market punishment. Had such fear not existed, and losses been imposed on bondholders, for example, the costs of the crisis for countries like Ireland would have been less severe. Had the Irish government been less structurally dependent on domestic banks, the guarantee would never have materialised in such expensive form. Had Ireland not been in the EU, it would have had other tools of adjustment, notably printing presses, exchange rates and capital controls, at its disposal. It was this triple bind that Ireland made it impossible for Ireland to adjust in any other manner than a domestic austerity programme.

[45] http://www.eca.europa.eu/Lists/ECADocuments/SR15_18/SR_CRISIS_SUPPORT_EN.pdf

> Mr Kenny ruled out any default on Ireland's debt, but said he was determined to try to renegotiate the EU–IMF deal and insist senior bondholders share the burden. There's no case for a sovereign default here under any circumstances (...) You simply don't do that as a country." (*Irish Times*, 22 February 2011)

> I notice in the last few weeks there's a growing recognition among all the parties that unilateral default is not an option for Ireland. He said Ireland had to remain open for investment. (Brian Lenihan [FF], Irish Times, 17 February 2011)

The incumbent government parties, Fianna Fáil and the Greens, had materially learned just how constrained their space for manoeuvre was, and appeared disillusioned and exhausted in the debate. Their comments echoed the position of the EU institutions, here illustrated with a quote from the then ECB chief Trichet:

> The idea that you can go in and bang the table is an approach not grounded in reality, said the Fianna Fáil leader, who added that the country could not afford to travel on a wing and a prayer. (Michéal Martin [FF], *Irish Times*, 8 February 2011)

> Being in Government during an economic crisis, you are in a straitjacket, he said (…) You are going to be in government, you are going to be in exactly the same straitjacket and if you think you can magic your way out of this without making hard decisions then you are deluded. (John Gormley [Greens], *Irish Times*, 8 February 2011)

> Asked if it was realistic for Irish parties to say they will renegotiate the deal, Mr Trichet said he was reluctant to comment on the democratic process in any EU country. I would only say: there is a plan, the plan has been approved by the IMF, the plan has been approved by the international community, the plan has been approved by the commission in liaison with the ECB. Let's apply the plan, he said. He described this stance as the very, very strong position of the bank. (*Irish Times,* 4 February 2011)

Faced with severe external constraints that circumscribed their room for making campaign promises, parties concentrated on blame-allocation and suggestions for institutional reform. These two topics were closely aligned: the burden of institutional adjustment should, naturally, fall on those found guilty of the crisis. As in the austerity budget debate of autumn 2008, the issues of cronyism and vested interests were at the core of this debate. Unions and left-of-centre parties again saw the banks and businesses as main culprits for creating the bubble:

> Simultaneously the private sector must be reformed. A radical reform of its corporate governance; of company law, moving from shareholder value to all stakeholders; unwinding the Nama wives club; the bank bonus culture and enforce the law to stamp out cronyism in private business. (Paul Sweeney [ICTU], *Irish Times*, 31 December 2011)

> The Taoiseach said that over the past 2½ years the Government was making decisions that were necessary for Ireland's future. I will stand and continue to advocate that we continue along this path of adjustment and make sure we bring back investment and employment by doing the job that is necessary. (*Irish Times*, 22 January 2011)

Here was another instance where the prospective coalition partners, Fine Gael and Labour, had drastically different views. Labour was clearly in the coalition that saw main fault for the crisis lay within the private economy, whereas Fine Gael, together with employers' IBEC, accused the Social Partnership as an emblem of corporatism gone wrong:

> But the cavalier approach to decision-making has been a root cause of the current crisis. During the good times, policy in areas such as housing, investment and tax reform was formulated without impact assessment. It was largely populist and short-sighted. We are suffering the consequences of that approach now. (Danny McCoy [IBEC], *Irish Times*, December 31, 2010)

> Fine Gael TD Lucinda Creighton said Mr O'Connor and other trade unions should be worried if her party was elected to government, as it would put the taxpayers' interests ahead of the vested interests. Jack O'Connor and other wealthy union officials may well dread the prospect of Fine Gael in government as we will not put their interests first. Union bosses may pine for the days when they had an undue influence on government policy. The fiasco of public service benchmarking and the social partnership is the sorry legacy of this cosy relationship. (*Irish Times*, 15 February 2011)

Knowing that Labour was more or less the only party left defending the Social Partnership, the ICTU openly backed a coalition between Fine Gael and Labour. It may be that the backing of ICTU had, in the absence of a Social Partnership, decisive influence in getting Labour into the coalition. Including a labour party into an otherwise centre-right government was a 2010s form of negotiated adjustment, with Labour giving a broader sense of legitimacy for the *troika*'s austerity programme:

> The election of a single-party Fine Gael government would be a recipe for disaster, the head of the country's largest trade union has said. Siptu president Jack O'Connor said yesterday while the great majority of people in Fine Gael were good and well-intentioned, the party was committed to the deflationary principles of the outgoing Fianna Fáil administration. (*Irish Times*, 16 February 2011)

Unions may have, moreover, entertained hopes that Labour in government would make a substantive difference. In the campaign, its stances on many policy areas were decidedly different from FG's. The main difference between these parties concerned the relative roles of the state and the private sector in promoting growth. Fine Gael promoted reform in the private economy, notably lowering costs of business and opening new sectors to competition. Here, it was on the same page with business. Business essentially advocated going back to *status quo ante* – resuming lending with confidence-enhancing measures – but improving Ireland's credibility as a business destination with lower costs.

> We will soon outline in detail how we plan to foster new demand in the domestic economy, invest in badly needed modern infrastructure, lower business costs, open up sheltered sectors of the economy to competition, target youth unemployment and reform the way the public service interacts with business. (Richard Bruton [FG], *Irish Times*, 30 January 2011)

> Some measures, such as those aimed at reducing the cost of doing business and the broadening of the tax base, are sensible and long overdue. (Danny McCoy [IBEC], *Irish Times*, 31 December 2010)

> Ireland's indigenous investors have little or no capital left. This country is relying on overseas investors for support. We need them to buy our investments and to lend us money. (Bill Nowland [Chartered Surveyor], *Irish Times,* 16 February 2011)

The opposite ICTU-Labour coalition advocated a more state-centred approach, with public spending as a driver of growth:

> Recovery must be judged, not on economic growth, but on job increases. It will be a long time before there is a large sustainable increase in jobs, with these policies. (Paul Sweeney [ICTU], *Irish Times*, 31 December 2010)

> Mr Begg said the current austerity programme represented a jobs destruction programme that would prevent economic growth from taking hold. (…) He said EUR 2 billion per year over three years should be invested in projects that would create jobs and upgrade infrastructure, such as a national water utility, a nationwide next-generation broadband system, a national programme for retrofitting homes and key transport links such as Metro North. (*Irish Times*, 16 February 2011)

Labour also advocated the establishment of a public bank, with the task of addressing the shortages of credit, identified as obstacles to recovery, an idea immediately refuted by Fine Gael.

> The need for a strategic investment bank has come about because of the failure of the Irish banking system to support small and medium-sized enterprises (SMEs), Ms Burton said. The bank and its credit function was a key element in Labour's economic strategy, she added. (*Irish Times*, 7 February 2011)

> Fine Gael ruled out establishing a new banking institution. The party (…) previously advocated setting up a State-owned investment bank but abandoned the proposal, saying the State now owns or part-owns most of the Irish banks. (*Irish Times*, 7 February 2011)

IBEC was opposed to state spending as a driver of growth, because it had subscribed to the story of bloated unit labour costs as the main cause behind the crisis. This was also implicit criticism towards the Social Partnership, as a wage-setting mechanism.

> IBEC director general Danny McCoy added that regulated wage agreements in the retail, hospitality and construction sectors were like a whale that has been beached after the Celtic Tiger period, with the rates fixed too high. (*Irish Times*, 8 February 2011)

> We need to ensure that statutory wage-fixing mechanisms work effectively and efficiently, and that they do not have a negative impact on economic performance and employment

> levels, the Minister said in a statement yesterday. The announcement of the review was welcomed by IBEC. Many of Ireland's regulated wage rates are too high by international standards, said IBEC director Brendan McGinty. (*Irish Times*, 10 February 2011)

Cutting public sector employment was another issue where Labour and ICTU's views were diametrically opposed to those of Fine Gael and IBEC.

> Mr Gilmore said Fine Gael and Fianna Fáil were on the same page as to their fiscal plans. They have to come forward with where it is they intend to impose additional taxes, what additional cuts they will make and how they will take jobs out [of the public sector], he said. (Eamon Gilmore [Labour], *Irish Times*, 17 February 2011)

> Siptu president Jack O'Connor said it was clear the Government wanted to introduce the cut to the minimum wage before its appointment with the electorate and a new government took charge. This has been slickly presented as a response to the EU-IMF negotiation when in fact it was already the objective of the Minister for Finance. It follows an established trend whereby the Government tries to correct the mess it caused at the expense of the most vulnerable workers, said Mr O'Connor. (*Irish Times,* 12 January 2011)

In short, Labour and ICTU saw mismanagement in the private economy as the key cause behind the crisis and bargained for a mode of adjustment that would increase the power of the public sector over the private economy. Fine Gael and IBEC had a contrary story to tell, where the public sector was culpable for inflation, loss of competitiveness and cronyism. Given that they were on the opposite sides to this debate, how is it that Fine Gael and Labour end up forming coalition together?

Labour wanted power, and the general interest - as expressed especially by Ireland's external partners - in the bailout-era Ireland demanded political stability, a point emphasized in the quote below by a former FG Taoiseach, Garrett FitzGerald. To make the prospect of coalition more feasible, Labour moderated its position in several issues, for example about renegotiating the bailout, towards the election.

> Mr Gilmore insisted yesterday there was no question of coalition talks with Fine Gael taking place ahead of polling day but he pointed to common ground between the two parties on many issues. He repeated his warning about the prospect of a single-party government and said that a coalition that included Labour would be more fair and balanced. Warning against support for Sinn Fein, United Left Alliance and Independent candidates, he said: The outcome of such a vote would mean the election of a single-party Fine Gael government. (*Irish Times*, 23 February 2011)

> Meanwhile, former taoiseach and Fine Gael leader Dr Garret FitzGerald said Mr Kenny would be best served going into government with the Labour Party. Speaking at the University of Limerick, Dr FitzGerald said such a coalition would be much more solid than seeking support from Independents, which he described as disastrous. With Independents you have no idea. They can blackmail you for something in their constituency, he warned. (*Irish Times*, 22 February 2011)

Finally, while the immediate reason for FG to take Labour on board in government may have been to ensure a stable majority without having to seek support from the Independents each time a controversial legislative bill was to be passed, another reason may have been to seek broader societal legitimacy. As observed above, FG had a problematic relationship with trade unions. With the Social Partnership collapsed, it may have been a wise move from FG to take Labour on board as a minor partner, thereby securing some of the "negotiated response" that had characterized economic recovery in the 1980s, but not now.

3.4 Conclusion

In this chapter I have analyzed the way the financial and economic crisis changed and evolved over time in Ireland. I have argued that the domestic banking crisis and fiscal crisis of the Irish state feature strong path-dependent traits, and that their origins can be traced to structural changes in the economic growth model, in the pre-crisis era. The thesis does not put forward a structural explanation, however. Rather, the purpose of exploring the Irish political economy in the beginning of this chapter was to set up the scene in which ideas and interests worked, in the crisis proper. The transformation of the Irish growth model from export-oriented to consumption-based had the effect of lifting finance to a position of unprecedented structural influence. This structural position then enabled bankers to wield instrumental power in the policymaking process of the state. These developments – the change in underlying economic model and the change in constellation of ideas and interests – together produced a financialized economy in pre-crisis Ireland. Yet interests, either, are not the whole story. Namely, while the consumption-based, credit-fuelled economy appeared to serve the short-term interests of most people, it served the long-term interests of almost nobody. The illusion that short-term interests were in fact equivalent to long-term interests, was upheld by a set of widely shared ideas. The ideational consensus was facilitated by institutional features, notably a siloed administrative structure. The chapter argued, however, that one additional key reason was the embeddedness of core deterrent organizations, unions and community groups, in the administrative apparatus of the state, in the pre-crisis Social Partnership institution. Acting as a "non-parliamentary coalition partner" of the government, the Irish unions, in particular, came to share the analysis and ideas of core policymakers. When the crisis then came, it was too late to take an outsider perspective and device alternative analysis and responses. Hence, herd behavior, grounded in set of common ideas and facilitated with institutional features, was key to why the Irish crisis was allowed to develop and why it was resolved the way it did.

These domestic weaknesses – strong structural and instrumental position of power of finance, and key industries, notably construction, as well as the paralysis of the union movement – made it hard for the Irish to grapple the crisis on their own, and paved way for external influence in policymaking. Such outside influence came to a head in November 2010, when Ireland had to succumb to a bailout from the *troika* of foreign lenders. The politics of crisis management in the EU, exacerbated by its many institutional flaws, obviously had a lot to do with how the crisis was managed in Ireland, particularly from 2010 onwards. But the chapter has attempted to show how Irish policy actors themselves had paved the way for such influence with domestic policy decisions, in the pre-crisis era.

The exploration of the Irish policy choices in the pre-crisis era then served as a basis for understanding the Irish policy path in the actual crisis, in 2008–2012. The Irish politics of crisis management has been illuminated here by a detailed analysis of press debates over four key junctures in the crisis. The key rationale for the choice of analysing press debates has been rooted in the conviction that analysing discourse is a powerful way of getting the ideas of actors, the narratives they have subscribed to, out in the open. The analysis of public debates showed drastic changes in the character of the crisis over time, as illustrated by changes in the prevalent issues, speakers, and frames. The following concluding section will delve deeper into this analysis, to tentatively address the question of causal importance: what drives the variation in the three variables of interest – issues, speakers and frames – over time?

As Table 3.3 suggests, the first striking difference between the key events is the nationality of speakers. The first and third key events were clearly transnational, with almost equal shares of sentences by national and transnational speakers, while events two and four were almost entirely dominated by national speakers. Tables 3.9 and 3.10 below depict the relationship between issues and speaker nationality, first in the data as a whole and then separately by each event.

Table 3.9: Issues by Actor Nationality, IRL

	Non-national	National
Fiscal and Labour Market	7.,8	**37.1**
Structural Reforms	5.5	**21.7**
EU	**41.9**	11.8
Banking	**38.1**	12.2
Procedural	6.6	**17.2**
Total	100	100

The main point to take away from Table 3.9 is that looking at the data as a whole, Irish and non-Irish speakers clearly spoke about different issues. Fiscal and labour market policy and structural reforms were domestic issues, addressed by Irish speakers whereas EU policy and banking issues were addressed more by non-Irish speakers. Yet in Table 3.6. we see that issue saliences significantly varied over events. The bank guarantee debate was dominated by banking issues, both among national and non-national speakers. The austerity budget event was dominated by fiscal and labour market policy issues, raised to the agenda by domestic speakers – who made up 99.8 per cent of speakers in that event. Towards the two latter events, the agenda gets more mixed. EU policy issues cleraly rise in salience, especially in the bailout debate. Fiscal and labour market issues remain on the agenda, however, whilst the saliences of both procedural issues and structural reforms rise moderately. Table 3.10 below observes the salience of issues by event for national and non-national actors. How is the variation in national/non-national actors' participation in different debates and the variation issue salience over events connected?

Table 3.10: Issues by Event and Actor Nationality, IRL

		Fiscal and Labour Market	**Struct. Reforms**	**EU Policy**	**Banking Policy**	**Proced. Issues**	**Total**	**N**
Bank Guarantee	National	3.1	1.5	5.5	**83.5**	6.4	100	327
	Non-national	0.7	0.3	**11.6**	**85.8**	1.7	100	303
Austerity Budget	National	**71.1**	**15.9**	2.3	2.9	7.8	100	384
	Non-national	0	9	**100**	0	0	100	1
Irish Bailout	National	**18.6**	7.7	**55.1**	8.4	10.2	100	274
	Non-national	10.7	9.4	**63.9**	5.6	10.2	100	363
Election	National	**38.5**	**27.4**	9	3.9	**21.3**	100	2236
	Non-national	**23.3**	8,2	**57.5**	1.4	9.6	100	73
Total	National	**37.1**	**21.7**	11.8	12.2	**17.2**	100	3437
	Non-national	7.8	5.5	**41.9**	**38.1**	6.6	100	747

There seems to be little variation in what non-national and national actors spoke of, when controlling for events. Rather, the way non-national actors participated in some events but not in others, seems to drive the variation observed in Table 3.9. In the bank guarantee debate, both Irish and non-Irish actors spoke about banking policy, in the budget debate, about fiscal policy, and so forth. We can best observe the differences in issue salience between non-Irish and Irish actors by looking at the first and the third event, which are those where these actor groups participated in almost equal measure (see the right-most column in Table 3.10). As the table shows, in these events national actors were only very slightly more likely to speak about fiscal and labour market policy than were non-nationals, and vice versa for EU policy. But overall, everybody spoke about the same issues. The higher salience of fiscal and labour market policy and procedural issues for national actors as shown in Table 3.9 is rather because discussion on these policy areas dominated the two national events – the budget and election – in which non-national actors hardly participated. In the election event (Table 3.10) we can see that when non-national actors did participate in this debate, they did speak more about EU issues and less about distribution and jobs than did national actors. But the differences do not appear significant.

The next thing to observe, then, is whether the functional role of actors is related to variation in issue salience. Are parties more likely to speak of redistribution than executives, for instance? Tables 3.11 and 3.12 depict the participation of different actor groups in the debate by event, and the salience of issues by actor groups.

Table 3.11: Actor Groups by Event, IRL

	Executive	Non-Executive	Banks and CB	Academia	EU/Int. Org	N
Bank Guarantee	**48.4**	24.3	**15.9**	3.3	8.1	630
Austerity Budget	32.9	**57.6**	0.3	**9.3**	0	377
Bailout	**50.2**	15.4	**8.5**	1.9	**24**	637
Election	25.2	**71**	0.7	0.8	2.3	2215
Total	33.9	52.9	4.4	2.2	6.6	
N	1308	2040	170	86	255	3859

Table 3.11 demonstrates that the two transnational events were also two most executive-dominated events. In other words, the bank guarantee and the bailout events featured high participation from non-national speakers, as well as from executives, banks and IO/EU actors. The budget and election debates, by contrast, were dominated by domestic and non-executive actors: parties, civil society representatives, academia and experts.

Table 3.12 shows that we do observe variation in issue salience across functional actor groups. Among executive actors, issue salience is quite evenly spread. Governments were a prominent speaker group in debates across the range of issues. Among non-executive actors – partes and civil society actors – fiscal and labout market policy issues and structural reforms were particularly prominent issues. Banks and central banks heavily concentrate on banking and EU-policy issues. EU actors and international organizations speak most of all on EU-policy issues, although banking policy is also prominent among these actors. Academia and experts concentrate on fiscal and labour market policy on the one hand, and banking policy on the other.

Table 3.12: Issues by Actor Group, IRL

	Executive	Non-Executive	Banks and CB	Academia	EU/Int. Org	N
Fiscal and Labour Market	21.6	**41.4**	1.2	**52.3**	9.8	1198
Structural Reforms	19.2	**20.9**	4.7	4.7	12.9	723
EU	**23.5**	9	**31.2**	10.5	**50**	681
Banking	**22**	10.4	**61.2**	**26.7**	**18.8**	675
Procedural	13.8	18.3	1.7	5.8	8.2	582
Total	100	100	100	100	100	
N	1308	2040	170	86	255	3859

Yet what is the connection between variation in different actor groups' participation across events and the observed variation in issue saliences across these groups? We might be tempted to conclude, for example, that fiscal and labour market issues were so prominent in the austerity budget event because non-executive actors participated so heavily in this event, or that the salience of EU policy issues in the bailout event was driven by the high participation of executive and EU actors in it. In other words, we might wonder whether different issues would have risen in agenda in each event, had the composition of speakers been different.

Table 3.13 depicts issue salience for each actor group by event. In the first event, the bank guarantee, we see extreme convergence in issue salience: everybody speaks almost exclusively of banking policy. In the second event, the austerity budget, we see first of all a rather limited actor constellation, with (mostly Irish) government, party and civil society actors dominating the debate, and issue salience centered on fiscal and labour market policy and structural reforms – with a small percentage of sentences dedicated to procedural issues. Still, the dispersion of issue categories across the involved actor groups is quite similar. Things change in the third event, the bailout. EU policy now springs up in the agenda, and becomes a salient issue category for all actor groups. Yet we now also see divergence in issue emphases across groups. Non-executive actors – in this event, parties – continue to emphasize fiscal and labour market policy and procedural issues more than do other actor groups. Banks keep banking policy on the agenda. EU actors speak particularly much about structural reforms – apart from EU policy issues. The bailout events appears to be the hight point of issue dispersion across actor categories, however. In the election debate, again, variation in issue saliences among those actor groups that do take part – mostly national government and parties – is small. Non-executive actors – parties – do speak more about fiscal and labour market policy than governments, but the difference is small. Banks and EU actors/international organizations do place more weight on EU issues, but their contribution to the debate is modest.

Table 3.13:

Issues by Event and Actor Type, IRL

		Fiscal and Labour Market	Struct. Reforms	EU Policy	Banking Policy	Proced. Issues	Total	N
Bank Guarantee	Executive	1.6	0	11.2	**83.3**	3.9	100	305
	Non-Executive	4.6	0	0.7	**85.6**	9.2	100	153
	Banks and CB	0	6	6	**88**	0	100	100
	Academia and Experts	0	0	0	**100**	0	100	21
	EU and Int. Org.	0	0	23.5	**76.5**	0	100	51
Austerity Budget	Executive	**56.5**	20.2	8.1	0.8	14.5	100	124
	Non-Executive	**75.1**	15.2	0	4.2	5.5	100	217
	Banks and CB	0	100	0	0	0	100	1
	Academia and Experts	**82.9**	11.4	0	2.9	2.9	100	35
	EU and Int. Org.	,	,	,	,	,	100	0
Irish Bailout	Executive	**16.3**	5.6	**64.7**	3.8	9.7	100	320
	Non-Executive	**24.5**	9.2	**41.8**	8.2	**16.3**	100	98
	Banks and CB	1.9	1.9	**64.8**	**25.9**	5.6	100	54
	Academia and Experts	**16.7**	0	**75**	8.3	0	100	12
	EU and Int. Org.	9.2	**17.7**	**56.9**	5.9	10.5	100	153
Election	Executive	**27.7**	**37.2**	10	3.8	**21.3**	100	559
	Non-Executive	**41.4**	**24.5**	9	4.1	**21.1**	100	1572
	Banks and CB	6.7	0	**80**	13.3	0	100	15
	Academia and Experts	**77.8**	**0**	0	0	22.2	100	18
	EU and Int. Org.	21.6	11.8	**56.9**	0	9.8	100	51
Total	Executive	21.6	19.2	**23.5**	22	13.8	100	1308
	Non-Executive	**41.4**	20.9	9	10.4	18.3	100	2040
	Banks and CB	1.2	4.7	**31.2**	**61.2**	1.8	100	170
	Academia and Experts	**52.3**	4.7	10.5	26.7	5.8	100	86
	EU and Int. Org.	9.8	12.9	**50.2**	**18.8**	8.2	100	255

This means that at the point of the bailout, the meaning of what was going on for different actor groups diverged the most. Everybody debated the bailout in terms of EU policy, but for non-executive actors – domestic opposition parties, in particular – what was really at stake was spending and distribution. For banks and central banks, banking policy – in this instance, particularly the issue of private sector responsibility – was a key concern. EU institutional actors and international organizations – in this event, EU Commission and the IMF, especially – held structural reforms, demanded in exchange for the rescue deal, on the agenda.

How about framing? In the qualitative discussion, above, we saw differences in framing of issues between actor groups. In the discussion of the bailout event, for example, we saw that domestic Irish groups saw the bailout deal more as a domestic distributional issue and spoke about it in justice terms, while the Irish government and the EU partners saw going forward with the deal as an act in both the Irish national and the European common interest.

Let us first go back to Table 3.8. There, we observed that the salience of frames varied considerably across events. The bank guarantee event was framed mostly in terms of economic rationality and social justice. In this sense, this was a classic left–right debate, although not on direct redistributive outcomes on citizens, but on the justification of state intervention to rescue banks (which, of course has redistributive implications). As will also be seen in the Finnish debate below, at this point it was not yet clear that the state should at all costs run to rescue faltering banks, although this later in the crisis became the default practice. Therefore, the justice dimension of banking policy was subject to debate. The crisis also appeared as a crisis of procedures, particularly regarding the balance of national and coordinated (European) responses. Hence, the relative prominence of procedural frames. Polity frames, by contrast, remain almost unused. The boundaries of polity were not yet subject to debate, as they later were in the Eurozone crisis stage, but the distinction between nation-state level and supranational level remained clear. In the austerity budget event, the distribution of frames changed moderately, such that justice frames gained salience and economic frames lost. Austerity budgets are about sharing the burden of adjustment, and how this might be done equitably is obviously a prominent issue.

Things change in the two latter events. The combined share of economic and justice frames drops somewhat in comparison to the two earlier events, and the share of polity frames, in particular, increases. Now, boundaries of (distributive) polities became contested, and the crisis became an issue of supranational governance and burden-sharing, alongside a national issue of governance and adjustment. In Ireland, both dimensions were present, because the country was a debtor. As a Member State, it participated in EU-policy debates on the mechanisms and justifications for supranational rescue mechanisms. Therefore, once the crisis after 2010 became known as the Eurozone crisis (from the bailout event onwards) polity and procedural framing increases.

What about the connection of the variation in frames to actors? Above we saw that the bank guarantee and bailout event were transnational, and the budget event and election were national. Can we observe variation in how national and non-national actors frame issues? Table 3.14 shows that Irish actors were more likely to use justice frames than were non-Irish. By contrast, non-Irish actors used more economic and polity frames. Procedural frames were used in almost equal measure. Could the variation in the use of frames be explained by variation in the participation of Irish and non-Irish actors in the different events? Not really. It is not the case that justice frames would have been exclusively or even mostly used in the austerity budget and election events – the two domestic debates – or polity frames in the two transnational events, the bailout and the banking guarantee, as could be observed from Table 3.8.

Table 3.14: Frames by Actor Nationality, IRL

	Non-national	National
Economic	**45**	32.8
Justice	17.9	**37.3**
Procedural	**21.9**	19.2
Polity	**12.6**	8.3
Others	2.7	2.4
Total	100	100

Table 3.15: Frames by Event and Actor Nationality, IRL

		Economic	**Justice**	**Procedural**	**Polity**	**Others**	**Total**
Bank Guarantee	National	33	**46.2**	10.4	9.4	0.9	100
	Non-national	**47.1**	25	**23.5**	4.4	0	100
Austerity Budget	National	26.2	**50.8**	12	4.4	6.6	100
	Non-national	.	.	.	.	.	100
Irish Bailout	National	41.4	13.1	**26.3**	14.1	5.8	100
	Non-national	**46.4**	11.6	18.8	**17.4**	5	100
Election	National	33.8	**34.4**	23.5	8.4	.	100
	Non-national	**28.6**	14.3	**28.6**	**28.6**	.	100
Total	National	32.8	**37.3**	19.2	8.3	2.4	100
	Non-national	**45**	17.9	21.9	**12.6**	2.7	100

Table 3.15 further explores the relationship between framing and actor nationality. The first observation is that Irish actors are constantly more likely to frame the debate in terms of justice than are non-Irish. This appears to be so across events, whether domestic or transnational in character, and regardless of what issue are dominates. Non-Irish actors, by contrast, appear more likely across events to use polity frames and procedural frames. For non-Irish actors, participation in the debate is a foreign policy act, or they intervene to debate the procedures of crisis management. Irish actors, as rule-takers, are more concerned with sharing the burden of adjustment equitably.

Table 3.16 depicts significant variation in framing by different functional actor groups. Banks and central banks appear most eager to frame the crisis in terms of economic rationality, followed by executives and EU/international organizations. Non-executives and academia and experts use more justice framing than do other actors. EU/international organisations are particularly likely to use procedural framing. This may be because EU actors appear in the debate as guardians of rules, especially EU law and the policy conditionality imposed on the debtors in association with the rescue loans. Executives and EU/international organisations are most likely to frame the debate in polity terms: that is, to frame the problem and/or solutions in terms of national and/or European interest and unity, rather than in left–right terms. This would be as expected from hypotheses presented in previous chapter. Governments were expected to be more likely to debate the crisis in terms of national interest and non-executive actors in terms of redistributive justice.

Table 3.16: Frames by Actor Group, IRL

	Executive	Non-Executive	Banks and CB	Academia	EU/Int. Org	N
Economic	37.9	30.9	**69.1**	32.6	38.2	312
Justice	26	**44.1**	9.5	**46.5**	10.9	292
Procedural	19.3	17.7	14.3	16.3	**36.4**	167
Polity	**13.5**	6	4.8	2.3	10.9	77
Others	3.4	1.3	2.4	2.3	3.6	20
Total	100	100	100	100	100	100
N	327	401	42	43	55	868

Table 3.17 outlines whether the picture changes when looking at each event separately.

Table 3.17: Frames by Event and Actor Type, IRL

		Economic	Justice	Procedural	Polity	Others	Total	N
Bank Guarantee	Executive	**43**	32.9	11.4	**12.7**	0	100	79
	Non-Executive	22.7	**59.1**	**13.6**	4.6	0	100	44
	Banks and CB	**66.7**	13.4	13.4	3.4	3.4	100	30
	Academia and Experts	12.5	**87.5**	0	0	0	100	8
	EU and Int. Org.	15.4	23.1	**61.5**	0	0	100	13
Austerity Budget	Executive	31.3	**37.5**	8.3	**8.3**	15	100	48
	Non-Executive	23.2	**58.9**	**11.6**	3.6	2.7	100	112
	Banks and CB	.	.	.	.	.	100	
	Academia and Experts	44.4	27.8	27.8	0	0	100	18
	EU and Int. Org.	.	.	.	.	.	100	
Irish Bailout	Executive	**40.8**	13.3	**23.5**	**18.4**	4.1	100	98
	Non-Executive	29.2	**33.3**	12.5	**16.7**	8.3	100	24
	Banks and CB	**77.8**	0	22.2	0	0	100	9
	Academia and Experts	42.9	0	28.6	14.3	14.3	100	7
	EU and Int. Org.	**56.3**	3.1	**25**	9.4	6.3	100	32
Election	Executive	**34.3**	27.5	**26.5**	**11.8**	.	100	102
	Non-Executive	36.7	**34.8**	**22.2**	6.3	.	100	221
	Banks and CB	**66.7**	0	0	0	.	100	3
	Academia and Experts	20	80	0	0	.	100	10
	EU and Int. Org.	10	20	40	30	.	100	10
Total	Executive	**37.9**	26	**19.3**	**13.5**	3.4	100	327
	Non-Executive	30.9	**44.1**	17.7	6	1.3	100	401
	Banks and CB	**69.1**	9.5	14.3	4.8	2.4	100	42
	Academia and Experts	32.6	**46.5**	16.3	2.3	2.3	100	43
	EU and Int. Org.	38.2	10.9	**36.4**	**10.9**	3.6	100	55

The table documents that the *picture remains the same* when controlling for events. Across events, non-executive actors are more likely to frame the debate in terms of (redistributive) justice than are other groups (except academia and experts, but their numbers remain small). Executives always use more economic rationality frames than do non-executives, and executives are particularly likely to use polity frames. Banks and central banks enter the debate rarely, but when they do, they use economic framing. EU actors and international organisations frame the crisis as economic, and in terms of procedure. Besides the constant differences between actor groups, we can observe the increasing salience of procedural and polity framing across actor groups over time, and a simultaneous loss of hegemony of economic and justice frames. That is, once the crisis turned into a Eurozone debt crisis, what had been a crisis of economic justice between banks and citizens (the bank guarantee debate) or between different citizen groups (austerity budget debate) became a crisis of supranational economic justice and procedures for determining that justice (bailout debate). Finally, in the election event, the debate again concerned domestic burden-sharing, accompanied with intense debate on domestic political procedure (government reshuffle) whilst the issue of supranational procedures and justice remained on the agenda (renegotiating the bailout).

The general conclusion from the discussion above is that while the agenda of the Irish crisis debate was largely defined by the character of each event, who participated in the debate mattered for how the issues at stake were spoken of. The more non-executive (Irish) actors participated, the more we saw debate over just burden-sharing. Contrariwise, where (non-Irish) executive actors, banks and EU/international actors dominated, we saw more economic and procedural framing. Non-Irish, executive and EU presence was important for the crisis to acquire a polity dimension, that is, to become debated in terms of European and national interest or sovereignty. In essence the Irish debate features two kinds of debates: one type is national, over either burden-sharing (austerity budget) and/or domestic political procedures (election). This type is dominated by Irish actors and non-executives and framed in terms of economic justice. The other type is transnational. Debates of this type handle rules of and justification for international crisis resolution (bank guarantee) and supranational intervention (bailout), and are dominated by banks, EU-actors and national executive actors. These debates are framed more in terms of polity than are debates of the first type. Table 3.18 depicts these dimensions.

Table 3.18: Typology of Debates, IRL

Event	Actor Group	Conflict Type
Bank Guarantee	Executive, Banks	Transnational distributive
Austerity Budget	Non-Executive, Academia	Domestic distributive
Bailout	Executive, EU, CB	Transnational distributive
Election	Non-Executive, CB	Domestic distributive, transnational procedural

A more theoretical conclusion regards the meaning of differences between issue salience among Irish and non-Irish actors. To understand this, it is useful to expand the notion of politicization employed in this thesis thus far. De Wilde et al. (2016) have noted that by now, a widespread consensus exists on the definition of politicization. The politicization of an issue involves: a) its growing salience; b) polarisation of opinion on the issue and; c) expansion of actors and audiences engaged in debating the issue (see also Kriesi et al., 2015). Yet Zürn (2016) provides an interesting alternative approach. Politicization at the most general level means transporting an issue or an institution "into the sphere of politics - making previously unpolitical matters political" (ibid, 167). For Zürn, the political in this context should be understood as the "realm of public choice [presupposing the…] possibility of making a collectively binding decision or interpretations that change the status quo" (ibid). Hence, expanding group of actors debating an issue in mass media, and disagreeing on it, does not as such count as politicization. It only counts if that debate and those actors involved in fact have a *choice* on the matter, such that could transform the situation politically. In this manner, Zürn reminds us that even "some seemingly political debates may remain in the realm of TINA ('there is no alternative')" (ibid), as was often the case in the Eurozone crisis. Keeping this theoretical suggestion in mind, let us now observe more closely the relationship between actor nationality, events and issues in the Irish press debate.

National actors drove the debate in the event of the first austerity budget in October 2008 and during the early general election in February 2011. What weight did these events have for the outcome, in comparison to the two transnationally-debated events, the bank guarantee and the Irish bailout? In what sense did these debates carry previously non-politicized issues into the realm of public *choice*? It could be argued that outcomes in the austerity budget and the election were determined rather by TINA than by significant public choice. In October 2008, the government faced such drastic deterioration in its fiscal balance that significant consolidation was, at that moment, inevitable. In the election, although parties across the spectrum claimed they had a choice as to whether to continue abiding by the terms of the bailout agreement, and the power to renegotiate that agreement, in reality all knowledgeable parties must have realised this was pure election rhetoric. In reality, what the Irish electorate was asked to do was to elect a government that had a strong enough mandate to follow through with the bailout agreement. Public choice, arguably, was constrained. It could, contrariwise, be argued that at the banking crisis stage and in the event of the bailout, policymakers did have a choice. The deterioration of Irish fiscal balance could not have been entirely avoided with an alternative banking rescue strategy, but it could have been lessened. The choice of the government in September 2008 to put in place the guarantee had a decisive impact on the policy outcome, austerity. Evidence exists, and is reflected in the qualitative discussion above, of considerable pressure from EU institutions towards the Irish government in November 2010 to yield to the bailout deal, in the name of Europe's stability. Had the government not caved in, the outcome could have looked different. How, is uncertain: what is certain is that this was a moment of unprecedented public choice. In sum, considering Zürn's definition of politicization, it is less clear that the two national events were, in fact, the most politicised ones, even though these debates featured a broader range of societal actors and concerned issues of redistribution, which are habitually seen to polarise opinions on the left–right scale. Rather, the crisis was *internalized* in the two national Irish debates, which set the stage for domestic adjustment, but not necessarily politicised, as these events did not carry the weight to transform the broad contours of policy. Kriesi and Grande (2015, 273) come to a similar conclusion with the Eurozone crisis in general. They find that the eurocrisis debate was not particularly politicised, as it did not amount to a "transformation of European politics to mass politics" but rather reinforced "the bureaucratic and technocratic deformations of the European integration project." (2015, 273-4)

Chapter 4

FINLAND

"If Greece defaults on its debt, the borrowing costs of other countries increase, as well. That would decrease economic growth and increase unemployment in Finland", said Katainen in Brussels.
(Prime Minister of Finland, Jyrki Katainen (Kokoomus), HS)[46]

This chapter is an inquiry into the politics of the financial and Eurozone crisis in Finland. Together with the previous chapter on Ireland, it sets out to show how the interplay between domestic and international politics in these two different cases contributed to the prevalent crisis response: austerity. In the Finnish case, austerity manifested itself both as fiscal consolidation at home, as well in the demands for tough conditionality for aid for the Eurozone's debtor countries.

The opening quote of the chapter illustrates how, in the time period studied here, 2008-2012, the crisis was mostly perceived in Finland as an *external event*, yet with potentially severe domestic consequences. This is not to say the crisis was without direct economic impact for Finland. While the Finnish financial sector was not particularly exposed to the crisis, as a small, export-oriented economy, Finland felt the external shock via a drastic slowdown in international trade. Hence, Finnish GDP contracted by 8,5 per cent in 2009, in comparison to average of 3-4 per cent in OECD. Yet the economic impact was, at the time, perceived as cyclical and temporary. The international downturn did therefore not, immediately, turn into an domestic economic crisis and did not have a direct politicising impact on Finnish public debate. Rather, the political consequences of the international crisis were connected to the EU's crisis responses, particularly in relation to the Eurozone's financial assistance mechanisms. Finnish political actors, with the lead of Eurosceptic Finns party, explicitly capitalized on the domestic redistributive consequences of the Eurozone crisis management. The tougher political rhetoric that emerged in the crisis led to a transformation of Finland's EU policy and Finnish domestic political landscape. Hence, events in domestic politics, as well as the worsening economic situation, crucially contributed to Finnish policy actions at the EU-level.

If in Ireland powerful *ideas* helped actors to misperceive their short-term interests for long-term interests, and hence endorse an unsustainable growth model, in Finland a similar misperception concerned the scope of redistributive community - polity - and the connection to individual and

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46 All quotes in this chapter are translated from Finnish to English by the author.

national economic well-being. In short, Finnish parties could capitalize on the crisis based on the assumption that extending relations of reciprocity to include, for example, Greece, was against the economic self-interest of the Finns. In fact, given Finland's EMU membership, assisting its weaker parts may well serve the general interest. The Eurozone was forced to expand its notions of solidarity beyond the nation-state in a forced and hasty manner. National publics, therefore, were not prepared to do so. While the political-economic situation craved for a systemic-level solution, the identities and solidarities of people still rested within the national borders. This was, furthermore, exacerbated by the dawning economic crisis in creditor countries, like Finland, as well. The smaller the cake to be sliced, the less room for altruism. As a commentator observed in the Financial Times (date, emphasis added): "If liberals want to win back populists they should start by scaling back the internationalist dogma that threatens, or is *perceived* to threaten, their economic interests." Tweaking the agenda such that economic and political integration was see to hurt, not benefit, Finns' economic interests, was the key move by political entrepreneurs in the Finnish crisis.

The chapter begins with a brief introduction to how the crisis unfolded in Finland, both economically and politically. It will thereafter provide a overall description of the Finnish press debate, focusing on key issues, actors and frames, followed by a detailed analysis of press debates at four key events: The beginning of the crisis in autumn 2008, the Irish and Greek aid packages, and the Finnish general election in April 2011.

4.1 The Politics and Economics of the Crisis in Finland

As a small, open economy in the Northeastern periphery of Europe, Finland's economy is highly sensitive to both up- and downward swings in the international economy. Immediately before the crisis, between 2005 and 2008, exports averaged 43.1 per cent of Finland's GDP, lifted by a favorable tide in the world economy at large. Yet between 2008 and 2009, Finnish exports fell by almost 9 per cent, from 45.1 to 36.3 per cent of GDP. In fact, the share of industrial exports dropped in Finland more than in any other OECD country (Rouvinen & Ylä-Anttila 2010). Two factors helped to smooth out the immediate impact on Finland, however. First, Finland's financial sector was not heavily exposed to the US mortgage or derivatives marker, where the financial crisis started, nor to those Western European markets, that were. In contrast, Finland's financial markets are deeply integrated both to other Scandinavian countries and, more recently, to the Baltic States. The risks that materialized in the 2008-9 financial crisis in Finland were related to this exposure to the Baltics. Luckily for Finnish banks, as Jokela (2015, 32) observes, the Baltics have recovered from the crisis much faster than has the Eurozone. Finland went through its own drastic banking crisis in the early 1990s, together with the rest of Scandinavia. As a result, the Finnish and other Scandinavian banks entered the late 2000s crisis in a stronger shape than most European and US banks. The second mitigating factor was the healthy state of Finnish public finances, entering the crisis. Finland had a surplus of 4.2 per cent and general government debt of 32 per cent in 2008, initially leaving it some fiscal space to respond. Over time, however, the Finnish public finances began to deteriorate, a factor that then strongly influenced the political climate. From 2008 to 2009, debt jumped to 41 per cent of GDP and the surplus turned into a deficit of - 2.5 per cent. By 2015, debt to GDP ratio had risen to 63 per cent, already in violation of the EU's Stability and Growth Pact. At present, winter 2016-2017, growth in Finland lags behind all other Eurozone countries, save Greece.

In autumn 2008, however, the then centre–right coalition government had little perception that the crisis would be anything else than a cyclical downturn, mostly pertaining to financial markets in countries with market exposure to the US mortgages. Thus, the government, led by the Centre Party (Keskusta) Prime Minister, Matti Vanhanen, responded with two stimulus packages, 1.8 per cent of GDP in 2009 and 1,6 percent of GDP in 2010 (Finnish Government, 2010)[47]. 40 per cent of the stimulus was in the form of tax cuts, 20 per cent in the form of public works (construction, for example), 2 per cent was dedicated to labor policy and education, and 3 per cent to spending on benefit

[47] http://valtioneuvosto.fi/ajankohtaista/tiedotteet/tiedote/fi.jsp?oid=252614

increases. In accordance with the perception of the crisis in Finland as an external event, Finland's response was both in line with and guided by the broad international consensus at the time. This consensus perceived the crisis as a cyclical downturn caused by turmoil in financial markets, and the best way to protect real economies was to engage in mild fiscal stimulus. In the International Monetary Fund's 2009 spring meeting, then-Director Dominque Strauss-Kahn called for a coordinated but nationally based fiscal stimulus: "I welcome the emphasis on fiscal stimulus, which I believe is now essential to restore global growth. Each country's fiscal stimulus can be twice as effective in raising domestic output growth if its major trading partners also have a stimulus package".[48]

The political response to this international call for action by the EU Commission was to momentarily shelve the Stability and Growth Pact, to allow Member States to stimulate, even if this meant excessive deficit spending. The EU's response was premised on each Member State acting based on its own fiscal capacity, in a coordinated but independent manner. Hence, countries such as Ireland, whose public finances were immediately affected by the crisis, could not stimulate at all, or did so at the peril of accumulating excessive deficits. A joint fiscal stimulus in the EU was at the time neither feasible (in the absence of a sufficiently large EU budget) nor politically perceived as desirable. As the prevailing interpretation of the emphasized that it was a *cyclical* downturn, there was no need to contemplate increasing coordination or EU competences in fiscal policy. To the extent that enhanced EU-level cooperation was debated, it was to contain the financial crisis by cooperation in *banking* policy, notably by standardizing levels of deposit guarantees. As was discussed in the Irish chapter, a common EU policy in this area would have reduced the burden of those sovereigns most exposed to banking losses, but was opposed by Germany. As shall be discussed below, also Finland showed little appetite for increased cooperation, not to mention any joint liabilities. A Finnish economist at the Department for Finance, commented in an interview that the Department did not, at the time, yet realize they were dealing with "unknown unknowns", but applied the textbook approach - mild stimulus - to the perceived cyclical downturn. "We knew what to do, we just did not know how much", he commented.[49]

Another Finnish economist, a top civil servant in the Finnish Department for Finance, said, by contrast, that economists at the Department had long been aware there was another type of crisis, a domestic structural economic crisis, slowly evolving under the surface in Finland[50], making deficit spending in the crisis a potentially risky endeavour. This crisis started to raise its head in 2010, as Finland began to exit from stimulus and move slowly but steadily towards fiscal consolidation. In September 2010, the Ministry for Finance announced in its budget forecast: "the restoration of public

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[48] http://www.imf.org/external/pubs/ft/survey/so/2008/new111508a.htm.
[49] Interview with an official at the Finnish Department of Finance, May 2014.
[50] Interview with an official at the Finnish Department of Finance, May 2014.

finances will require structural reforms as well as fiscal policy tightening". Finland had entered the crisis with healthy public finances, and two years later, the situation required austerity. The age of austerity began in earnest after the 2011 general election, with the new government determined to combat the structural deficit by implementing structural reforms and fiscal consolidation of 2,5 billion EUR in 2011-2015, to be divided evenly between spending cuts and tax increases.

Why did Finland end up implementing austerity at home? Three types of answers emerged from the interview evidence collected for this chapter. The economists interviewed suggested that economic analysis of the crisis in 2008–9 and forecasts of the future were heterogenous, and politicians chose to believe the most benign ones. In the crisis, Finnish economists formed very divergent views on the unpredictable economic developments. According to the interviewed Department of Finance economists, the contents of forecasts depended on the ideological leanings of the forecaster. According to these interviewees, the forecasts of international organizations (the OECD, the IMF) the Department of Finance, and the Bank of Finland were the most negative, but also the most realistic ones. By contrast, according to the interviewees, the Research Institute of the Finnish Economy, backed by the Confederation of Finnish Industries and Employers, and its counterpart, the Labour Institute for Economic Research, produced falsely benign forecasts - which politicians, depending on their partisan orientation, chose to believe.

When asked why Finland so carelessly engaged in deficit spending in 2008–9, the Department of Finance economist opined that not having done so might have well been wrong policy, and merely exacerbated the cyclical downturn[51]. According to him, nobody - neither economists nor politicians - had a clear vision of neither how deep the cyclical downturn would be, nor how bad the underlying structural problems in the Finnish economy were. Finland moreover had "bad luck". First, the Finnish ICT sector, the flagship of Finland's exports, was facing increased competition from developing economies and fared rather badly in price terms against these competitors. The decline of Finland's ICT sector may be illustrated with the case of Finland's flagship technology company, Nokia. Between 1999 and 2003, Nokia's share of Finnish GDP oscillated between 3.5 and 4 per cent, and the company alone accounted for more than 20 per cent of Finnish exports. In 2003, for example, Nokia paid almost 23 per cent of total corporate tax in Finland. In short – Nokia's meaning for Finland's economy in the pre-crisis decade, 1997-2007, was enormous. But as of 2007– exactly when the financial crisis, too, started – Nokia started to face increasing difficulties, in the form of cost competition, for example. By 2009 its share of Finnish GDP had declined to 1 per cent, and by 2013, to less than 0.5 per cent. (European Commission 2015). Hence, the growing appetite for fiscal austerity both at home and abroad among Finnish publics and policymakers is intimately related to the deteriorating domestic economic situation. With regard to austerity in the GIIPS, we may assume that other-regarding attitudes tend to suffer when problems accumulate at home.

Furthermore, adding to Finland's economic hardship was the deteriorating political-economic situation in Russia. The trade sanctions imposed upon it for the annexation of Crimea, have drastically affected Finnish exports (albeit mostly after 2012). Between 2012 and 2016, the Finnish exports to Russia had decreased by 44 per cent. In the same time, Germany has taken the place of Russia as the most important trading partner of Finland. Exports to Germany are some 14 per cent of all exports from Finland. Together Russia's growing isolation and Finland's increasing dependence on trade with Germany gave Finland had every reason to uphold excellent relations with the EU's economic powerhouse.

The government that came into power and started to implement austerity, in 2011, was a rainbow coalition in which the two biggest, yet ideologically distant, parties came together: the Centre–right Kokoomus (Kok) and Center-Left Sosialidemokraatit (SDP). I interviewed the top advisors to the Mr. Jyrki Katainen (Kok), Prime Minister of the 2011 - coalition government, and to Ms. Jutta Urpilainen (SDP), Minister for Finance in this government. The advisor to Mr. Katainen blamed the Social Democrats for precisely the same kind of naïveté that the Department of Finance economists had attributed to politicians, in general. ”Had Kokoomus had the Minister for Finance, we would have done the necessary structural reforms, and this situation would have never have been allowed to develop”, he argued[52]. Instead, according to him, it took the SDP Finance Minister, Ms. Urpilainen, ”two years to acknowledge the structrural economic crisis even existed”. He attributed Ms. Urpilainen's reluctance to her partisan background, and the general unwillingness of the Labour movement, closely linked to the Social Democratic party, to accept the need for structural reforms that have an adverse effect on labour. The advisors' comments reflect the adversarial internal climate within the rainbow coalition. The Centre–right Kokoomus was frustrated, as it could not unilaterally push through the kinds of structural reforms it would have preferred. Yet, the credibility Kokoomus' rhetoric about itself as a bold reformer is diminished by the fact that prior to the crisis, it had seemingly little idea of any structural problems in the Finnish economy. Rather, it was precisely Kokoomus that in the 2007 General Election campaigned on a pledge to raise public sector pay, particularly that of nurses. Promising to correct the pay discrepancy between the politically powerful, male-dominated Forest Industry and largely female Health Sector Professionals, Kokoomus tried to draw in the educated, but traditionally more left-leaning nurses. As Kokoomus then made it to the Centre–right coalition after the election, the Union of Health and Social Care Professionals managed to bargain a pay increase of nearly 30 per cent over the government's four-year period. Hence, precisely as Finland was entering the

[52] Interview with a special advisor to Prime Minister Jyrki Katainen, June 2014.

crisis, the right-wing Kokoomus had with its electoral promises managed to significantly increase public sector labour costs.

The advisor to SDP Finance Minister Jutta Urpilainen, in turn, attributed austerity policies in Finland to the hegemony of the Centre–right Kokoomus in the coalition government[53]. According to him, tightening fiscal policy was not SDP's preference, but as the minor coalition partner, SDP could not impose its policies the same way Kokoomus could. Hence the SDP interviewee argued that had it had majority position in government, Finland would not have chosen austerity, but more expansionary fiscal policy: the Kokoomus interviewee argued that had they had majority position, Finland would never have entered the recession in the first place. Yet the SDP advisor saw entering the coalition with Kokoomus as a patriotic act, with the purpose of keeping the populist True Finns (later to become the Finns Party), which had come third in the election, out of government. The SDP advisor, however, also voluntarily admitted faults in his own party. The Kokoomus advisor had accused SDP Minister for Finance, Ms. Urpilainen, of having a weak position within her own party, and thus being unable to push through hard decisions (cuts and structural reforms). The SDP advisor, by contrast, saw Ms. Urpilainen as weak vis-à-vis the powerful, ”conservative and monetarist” Department of Finance economists, who were therefore able to influence her economic thinking. The other mistake this advisor admitted to was a general weakness of Leftist analysis about the EMU, in particular the EMU's impact on the social democratic, ”Nordic” model. According to him, the EMU had weakened the preconditions of social democracy, whose core was in the ”continously increasing expectations of wage-earners”. In other words: social democracy, as he saw it, required the possibility to use exchange rate policy to correct for wage inflation. In the EMU, where this possibility no longer existed, Social Democrats were bound to become weak. This was his structural explanation for contractionary fiscal policy stance Finland increasingly adopted from 2010 onwards.

Based on this discussion, it appears that in the pre-crisis good economic times, Finnish policymakers behaved not that differently from policymakers in the EU's to-be-debtor Member States. Regardless of partisan colour, as the example of Kokoomus and the nurses shows, they rode the good economic tide, increasing spending – and, importantly, believed that the tide would not turn in the foreseeable future, at least not drastically. The change in domestic economic context in Finland, which ultimately came, matters because it had a decisive impact on the political climate, both domestically and in the EU context. Finnish policymakers began to perceive the existence of a domestic structural economic crisis at the same time as the Eurozone debt crisis started to unfold, in 2010. The diminishing domestic cake arguably reduced the appetite of Finnish policymakers for international redistribution in the EU context and set the scene for hardening tone in Finnish EU policy.

[53] Interview with former special advisor to Minister for Finance Jutta Urpilainen, Helsinki, June 2014.

For Finnish EU policy, the crisis proved a point of transformation. Traditionally, Finland has been characterized as a ”construtive and integrationist” EU Member, a ”model pupil” (Jokela 2013, 26). Participating actively in all core projects of the Union - the EMU, Schengen - has been central to Finland's EU policy. Finland was the only Nordic EU Member State to unconditionally join the third stage of EMU in 1999 with the core group of 10 countries, that filled the membership requirements. It also ratified the controversial Amsterdam, Nice and Lisbon Treaties and did not subject any of these into referenda, as did many other Member States. A key consideration behind Finland's EU policy and strategy has been security-related. For Finland, fully participating at all stages of European integration has meant a decisive step away from the ”grey area” between the East and West - a position Finland found itself in the post-war years - and anchored the country as a firm member of the Western European sphere of influence. European integration has been seen as ”psychologically and politically” increasing Finland's security (Grand Committee 1997, cited in Jokela 2013, 30). The economic benefits of joining the Euro, by contrast, always seemed much more controversial from the Finnish perspective. A key reason for this was that Sweden, an important reference country and second-most important trading partner (formerly after Russia, now after Germany) for Finland, opted out. Yet, the political benefits of joining the EMU and thus being in the firm core of the EU, seemed to override the controversial economic evidence.

In the crisis, however, Finland has became perceived as an increasingly obstructive, difficult and anti-integrationist EU Member. How did this happen? The root cause was a change in domestic politics, which in turn is related to domestic economic problems described above. As said, Finland's export sector, particularly the ICT cluster, faces increasing challenges from the world economy, including cost competition from developing countries, and some recent geopolitical developments - Russia's economic isolation following the Ukrainian crisis - have left Finland exceptionally exposed. These domestic economic issues have been coupled with Finland's full participation in the highly unpopular EU-level crisis responses. As a Eurozone Member State, Finland has participated in the financial assistance arrangements for Greece, Ireland and Portugal. According to Jokela (2013), Finland had by 2013 paid €6,2 billion to the European Financial Stability Facility (EFSF) and €1,44bn to the EFSF's successor, European Stability Mechanism (ESM). Bilaterally, Finland had lent €1 billion to Greece, and participated in other financial aid programmes via the IMF and EU with €1,6 billion. In addition, Bank of Finland had accepted a significant amount of joint risks, associated with the European Central Bank's money market operations, via its membership in the Eurosystem.

In a context of a diminishing domestic cake to slice, these EU crisis management measures have proven highly unpopular in Finland, and have been subject to heated political debate. A flagcarrier in this debate has been the Finns Party, which rode to an election victory in 2011, with a specifically Eurosceptic election campaign. The Finns party did not mobilize on their traditional anti-immigration agenda, but evoked criticism towards the EMU as their main election theme. They were thus not only eurosceptic - they were EMU-sceptic, as, for example, the Alternative für Deutschland in Germany has been. The Finns party won 19,1 per cent of the vote in 2011, making them the third-largest party in Finland, right after Kokoomus and SDP, who then ended up as main coalition partners in government. As said, Kokoomus and SDP came together in a rainbow coaliton, despite stark ideological differences that cast a shadow on the functionality of the government, with the purpose of containing the populist uprsurge of the Finns party. Given its tough election rhetoric, no mainstream party wanted to enter into coalition with it. Yet the Finns party had a profound impact on Finnish EU-political rhetoric and practice. As e.g. Hooghe and Marks (2009) have argued, European intergation has been advanced first and foremost by centrist, mainstream parties. These have driven the integrationist consensus also in Finland. The Finns party broke this consensus and ”politicized” and ”domesticated” Finland's EU policy (Raunio 2012, cited in Jokela 2013). That is, Finland's EU policy ceased to be a background issue, decided in cabinets, and became subject to controversial debate in parliamentary plenaries and the public. The tone of this debate became tougher, not only among the Finns party but among the parties and the public in general. The tougher rhetoric has also translated into policy actions - hence Finland's increasingly "difficult" reputation in the EU.

The most notable such action was the ultimatum by the Kokoomus-SDP rainbow coalition government for ”collateral” as a safeguard against any further Finnish participation in Eurozone aid packages. Collateral, in this contex, meant explicit, material guarantees that Finland would be paid back its money in the event of a debt default by Greece, or any other country that Finland had assisted. Finland did secure an agreement regarding such collateral, but the issue further fractured the fragile government coalition. Namely, the initiative originated in the centre–left SDP, but the centre–right Kokoomus strongly disliked it. SDP had previously, while in opposition, voted against the Greek and the Irish loan packages. As SDP after 2011 was in government, and its chaiperson, Finance Minister Ms. Jutta Urpilainen was the chief Finnish negotiator of aid packages at the EU level, SDP politically needed the collateral deal to pacify its perceivably sceptic electorates. The advisor to Prime Minister Katainen (Kok) observed in the interview that the whole collateral debacle caused fury within the government circles. In Kokoomus' view, Finland was using its precious political firepower at the EU-level for something completely symbolic, as it seemed obvious that in case Ireland or Greece defaulted on their debts, Finland was never going to get its "money back". However, the changed domestic political climate significantly influenced the framing of the crisis in Finland, and translated into demands for tough conditionality for aid at the EU-level. This, then, was the political-economic context of the crisis in Finland.

Let us now set the scene for the subsequent analysis of the key events, by looking at the main issues, actors and frames in the Finnish press debate. Table 4.1 presents the main issues as a total of all key events. The table confirms the interpretation in the discussion above: the crisis was, for Finland, first and foremost an *EU-policy event*. Banking policy is highly salient, as well. As the reader may recall from the previous chapter, discussing the Irish case, the two events with highest salience of banking and EU-policy, the bank guarantee and the bailout, were also the two events with the highest number of non-national speakers. As Table 4.2 below demonstrates, the Finnish debate is highly transnational. Overall, less than 40 per cent of claims are actually made by Finnish speakers. Moreover, the data for Finland is skewed such that there are more articles in the beginning of the observation period - 2008-9 - than towards the end. The results presented in Table 4.1 are likely to reflect these two factors.

Table 4.1: Issues, FIN

Main Issue	%	Subissues	%
EU Policy	**46.2**	Eurozone Bailouts	**26.7**
		Coordination and Institution-building	19.5
Banking Policy	**25.6**	Banking Rescue Measures	**14.2**
		Regulation and Reform	11.4
Fiscal and Labour Market Policy	11.8	Taxation and Expenditure	10.8
		Labour Market and Employment	1
Procedural Issues	10.9	Coalition and Electoral Politics	1.9
		Democracy and Social Justice	1.7
		Crisis Resolution	7.3
Structural Reforms	5.5	Public Sector Reform	1.5
		Business and Economic Reform	4
Total	100		100
N	1784		1784

Table 4.2: Nationality of Speakers by Event, FIN

	National	Non-National	Total
Irish Bank Guarantee	19.6	**80.4**	100
Irish Austerity Budget	31.7	**68.3**	100
Greek Rescue	**61.8**	38.2	100
Irish Bailout	38.9	**63.1**	100
Election	**50.2**	49.8	100
Total	39.5	**60.5**	100
N	731	1119	1850

NB. While the names of the two first events coincide with the Irish ones this does not mean that Finnish actors actually debated the Irish budget, for example: the same names are used to indicate that the events coincide chronologically, and thus make for interesting comparison.

To overcome the bias in the data towards the beginning, let us observe issues across events. As Table 4.3 demonstrates, the profile of issues in each event differs quite drastically from that observed in the Irish case. The most notable difference is the low salience of fiscal and labor market policy across the debate. Only in the election debate, as would be expected, do issues of employment and *domestic* redistribution gain salience. Even in the election debate, as Table 4.2. demonstrates, however, do non-national actors make half of all claims. This goes some way to explaining why issues of domestic redistribution and jobs are all but absent from the Finnish debate, and it demonstrates that the two kinds of crises, the external crisis of financial markets and the Eurozone, and the internal Finnish economic crisis, were perceived as distinct matters and debated separately. Such perception of separateness is likely to have facilitated accusing the Southern Member States of fiscal laxity: something that was, apparently, completely unheard of in Finland. The table also demonstrates how the crisis, and the debate in Finland proceeded in two stages. The two first key events represent the banking/financial crisis stage, as can be seen in the salience of banking policy issues, and the three latter represent the Eurozone/sovereign debt crisis stage, as the high salience of EU policy issues testify. Hence, while in Ireland the crisis and debate featured four rather different stages or events, in Finland the crisis was more of a two-stage event.

Table 4.3: Issues by Event, FIN

	Irish Bank Guarantee	Irish Austerity Budget I	Greek Rescue	Irish Bailout	Election
EU Policy	23.2	20.3	**70.1**	**66**	**44.9**
Banking Policy	**44.6**	**52.2**	13	7.1	11.1
Fiscal and Labour Market Policy	6.5	5.4	7.7	**14.5**	**32.5**
Procedural Issues	**20.1**	**14.9**	4.3	6.9	8.1
Structural Reforms	5.6	7.3	4.8	5.4	3.9
Total	100	100	100	100	100
N	413	316	415	306	234

Let us then turn to observe more in detail which actor groups voiced claims in the Finnish debate. Again, the profile of actors looks drastically different from that in the Irish debate. It is surprising that the share of foreign governments and executives is higher than that of Finnish government and parties combined. It again strengthens the impression that Finland was, at least for a time, a sorts of bystander in the international uproar, and the Finnish press carefully followed and reported events elsewhere, but Finnish actors did not actively participate in the debate. The debate is also a quite elitist one. The shares of societal interest groups, be they community groups, trade unions or employers, are very low. Banks, central banks, academia and EU/international organizations are more prominent voices in the debate than are societal interests. This speaks to the relatively low level of domestic politicization of the crisis, in the sense of clearly observable domestic redistributive consequences, that would have spurred domestic interest/societal advocacy groups to mobilize.

As the following Table 4.5 shows, however, the composition of actors does vary significantly over events. Overall, the two first events are not highly politicized in Finland. The press reports mostly claims by executives, and foreign executives, in particular. Coming to October 2008, the second event, claims by both national and non-national party actors, as well as civil society groups, are all but absent. The banking crisis spurred a highly technocratic, elite-driven debate in the Finnish media. Yet the share claims by banks (3.8 per cent) does not in this debate come even close to that in the Irish bank guarantee debate (8.5 per cent).

Table 4.4: Speakers, FIN

Speaker Group	%	N
Government and Executive, Other countries	**33.3**	610
Parties, Finland	**15.0**	275
Government and Executive, Finland	**14.5**	265
EU Institutions	9.5	174
Parties, Other countries and Europarties	5.0	91
Central Banks	4.9	89
Academia and Experts	3.9	72
Banks	3.7	68
International Organizations	2.8	52
Business and Employers	2.2	40
Others	1.0	18
Trade Unions	0.9	16
Interest Groups	0.9	17
Total	100	1831

Table 4.5: Speakers by Event, FIN

	Irish Bank Guarantee	Irish Austerity Budget	Greek Rescue	Irish Bailout	Election
Government and Executive, Other countries	**44.2**	**50.5**	16.2	**44.7**	19.6
Parties, Finland	4.6	0.3	**23.2**	17.5	**34.6**
Government and Executive, Finland	11.5	**22.6**	17.4	14.3	4.2
EU Institutions	9.5	3.1	7.3	10.7	20
Parties, Other countries and Europarties	**17.3**	0.3	1.9	1	1.7
Central Banks	5.3	**8.8**	**5.9**	2.2	1.7
Academia and Experts	1.8	2.5	**7.3**	1.2	**8.3**
Banks	1.8	3.8	**9.2**	0.5	2.9
International Organizations	0.9	3.1	1	4.1	7.1
Business and Employers	1.8	3.5	**4.7**	0.2	.
Others	1.1	1.6	0.5	1.5	.
Trade Unions	.	.	3.5	0.2	.
Interest Groups	.	.	2.1	1.9	.
Total	100	100	100	100	100
N	434	319	426	412	240

The politicization of the crisis in Finland only picks up speed in the May 2010 Greek rescue package debate, as discussed above. At this point, the share of Finnish party actors increases, and while their shares are still moderate, trade unions and interest groups do make an appearance. Closer scrutiny reveals, however, that all trade union speakers are, in fact, non-national. The Finnish press cites claims by Greek and Portuguese unionists, but the Finnish unions remain silent. Notably, in this debate banks voice more claims than they do anywhere else in the Irish or Finnish data. A quick glance reveals that banks voice claims against financial market (over)regulation, against the inclusion of private investor responsibility in the EU's financial assistance mechanisms, and allocate responsibility for compliance with the EU budget rules for politicians. It appears that banks in this stage got active trying to present the Greek problem as one of political, not private sector mismanagement. Similarly, business and employers are more active in this debate than the preceding ones. Their claims concern proposals for financial reform, such as the financial transaction tax (FTT). Notably, the debate on financial reform in Ireland, at this point, seemed relatively more muted. Coming to the November 2010 Irish bailout debate – which, on the face of it, would seem a relatively similar debate to that on the Greek rescue – the composition of actors has again changed. The debate remains politicized, in that the share of Finnish party actors remains relatively high, but EU institutions and international organizations now voice more claims. This is related to the institutional reform that was taking place at the EU level at the time of the Irish bailout. Having put in place *ad hoc* solutions to the Greek crisis, policymakers in October 2010 – just before the Irish bailout deal – ratified the European Financial Stability Facility (EFSF), later to become the ESM. Hence, the design of the financial assistance mechanism was topping the agenda at the time. Finally, as the actor profiles in the Finnish Election debate reveal, even this remained a foreign policy debate, much more than a domestic redistributive debate, as are election debates typically. This is related to the selection of keywords: for the purposes of this study, those articles were selected that included a crisis-related aspect.

The two final tables of this section illuminate the frames used by actors in the Finnish debate. The most notable difference to the distribution of frames in Ireland is the relatively lower salience of justice frames and higher salience of polity frames, as would be expected from the discussion above. In the financial crisis, Finland's position was rather an external observer than a active participant. The crisis was seen and debated as an external market event, where measures to increase market confidence in the existing system were key. Hence, economic framing dominates, while justice frames are less used than they were in Ireland. Justice frames were seen in the Irish debate as linked to redistributive debates in particular. But in Finland, when the crisis finally was politicized in 2010, the politicization was carried by the right-wing nationalist Finns party. While social justice frames would seem to be associated more with redistribution within one country (as in Ireland), claims for and against cross-border distribution –

as participation in the Greek assistance package was seen – would seem to be framed more in terms of European interest and national interest, i.e in terms of borders of (distributive) polity. Hence, as Table 4.7 indicates the two first events were dominated by economic frames, while the share of polity frames increases in the Greek and Irish financial assistance debates. Finally, in the election debate, justice frames raise in prominence.

Table 4.6: Frames, FIN

	%		%
Economic Frames	**40.8**	**Market Confidence and Interest**	**17.3**
		Economic Growth and Employment	11
		Financial Stability	6.6
		Competition, Competitiveness	4
		Budget Balance	1.8
Justice Frames	21.3	**Public Confidence and Interest**	**10.3**
		Social Justice and Democracy	7.4
		Morality	3.7
Polity Frames	**18.8**	**National Interest and Sovereignty**	**10.7**
		Eurozone Stability and European Interest	8.1
Procedural Frames	**17.7**	Law, Rules and External Constraints	17.3
		Efficiency, Cost-Effectiveness	0.4
Others	1.5		
Total	100		100
N	272		

Table 4.7: Frames, All Events, FIN

	Irish Bank Guarantee	Irish Austerity Debate	Greek Rescue	Irish Bailout	Election
Economic	**48.8**	**59.6**	29.3	35.2	44.4
Justice	34.9	23.4	13.4	17.8	**29.6**
Polity	9.3	6.4	**25.6**	**27.4**	11.1
Procedural	7	10.6	**29.3**	16.4	14.8
Others	.	.	2.4	2.7	.
Total	100		100	100	100
N	43	47	82	73	27

Let us now delve more in detail to debates in the specific events. The discussion starts in autumn 2008, where the two events, labeled Irish Bank Guarantee and Irish Austerity Budget are dealt with together.

For the Finnish case, these together illuminate the banking sector stage of the crisis and the slow rise in crisis awareness even within the bystander country that Finland at the time was.

4.2 The Financial and Economic Crisis in Finnish Press

4.2.1 The Financial Crisis, Sep-Oct 2008

> "The IMF and World Bank meetings over the weekend made it clear that "we're all in the same boat and united, we shall tackle this crisis", said President Bush." (US President George W. Bush, *Helsingin Sanomat,* 9 October 2008)

This first subsection of the press analysis will focus on the events in the financial part of the international crisis, in September-October 2008. This period corresponds to the two first Irish key events, and the Finnish press data on which the following analysis is based, is coded for the same periods of time.

The debate in Finland was highly international. As Table 4.2 above showed, non-national speakers made more than 70 per cent of claims in this period. Also the press agenda was at this point largely driven by events outside Finland. Broadly speaking, three types of issues dominated the international agenda at the time. First, banking rescue measures. The Finnish data starts on September 23rd, precisely one week after the US government's decision, on September 15th, to let the investment bank Lehman Brothers fail in the "largest bankruptcy in history" (Honohan 2010). The Lehman Brothers bankruptcy had set in motion a domino effect in the financial markets, spurring governments in the US and in Europe to engage in various bank rescue actions to contain the crisis. At the epicentre of events was the US. On September 16th, the US government nationalized the insurance giant AIG, and on September 19th, US Treasury Secretary Henry Paulson put a proposal for the TARP, a programme for buying up toxic assets from the banks, to the US Congress. On September 25th, the 7th-largest US bank Washington Mutual was subject to intervention, and finally divided into parts. On September 28, the US Congress rejected Paulson's plan, which had a highly destabilizing effect on the markets. In Europe, the weekend between 26 and 29 September saw the nationalization of the UK mortgage lender Bradford and Bingley, a joint operation between Luxembourg, the Netherlands and Belgium to partly nationalize the Fortis Bank, a joint federal government-private sector bailout of German bank Hypo RE, and the sale of the 6th-largest US bank Wachovia to Citigroup. Finally, rescue measures for Dexia Bank were announced on 30th September, the day following which the Irish government would, in the end, put in place the fateful blanket guarantee on all domestic Irish banks.

Another prominent issue was reform of the financial sector. The financial crisis did not actually only start in autumn 2008. The first signs of trouble emerged in July–September 2007 in banks such as Sachsen Bank, IKB bank, and Northern Rock (Honohan 2010, 143). As Helleiner (2012) has observed, the international community promptly responded with an ambitious agenda for regulatory reform. By April 2008, the Financial Stability Forum (FSF), created by the G7 in the aftermath of the Asian financial crises of 1997–8, had come up with a substantial list of reform proposals, developed in cooperation with the IMF, the Bank of International Settlements and international regulatory bodies, such as the Basel Committee. The G7 eagerly endorsed the agenda, which included proposals for standardized compensation practices to discourage excessive private sector risk-taking, enhanced the FSF's mandate to include early warning mechanisms of systemic risk, and brought new forms of over-the-counter derivatives trading into the regulatory network. Also, the reform agenda included the negotiation of a new Basel III agreement, including stricter rules for capital standards, liquidity rules as well as enhanced transparency rules.

Finally, fiscal responses were on the agenda. More specifically, they rose in the agenda towards the end of the observation period here, which ends in mid-October 2008. Realizing the crisis would spill over from the financial to the real economy, governments in Europe and the US quickly moved to introduce fiscal stimulus. Also here, the agenda was formulated in international forums, such as G20 and IMF meetings, because leaders recognized the importance of acting in a concerted manner. The US government introduced a stimulus of $787 billion, or five per cent of US GDP, for the years 2009–2010. In Europe, the EU's collective action problems manifested themselves already at this stage. In November 2008, the EU Commission proposed a €200 billion – roughly 1.5 per cent of EU GDP – fiscal stimulus for 2009–2010, and the plan was approved by the European Council in December the same year. As the EU's own fiscal capacity is limited, 85 per cent of the agreed stimulus was to come from Member States' budgets, at the discretion of the respective governments. This meant that in practice, countries with fiscal space stimulated whilst those hardest hit by the financial crisis did not. The divergence of EU Member States' economic destinies thus began already here.

Table 4.8 shows the distribution of issues in the Finnish press debate. Banking policy dominates, whilst fiscal policy issues are not salient. Rather, debate concentrates on the procedure of responding to the crisis. At what level of the multi-level European polity should the response take place: nationally, or coordinated, at the EU-level? And should governments, in the first place, intervene to save private market actors? In autumn 2008, policymakers had not yet pledged to do "whatever it takes" to preserve the stability of the financial markets and the euro. Or, at least, they were still debating what precisely would be required to do so.

Table 4.8: Issues, Financial Crisis, FIN

Main Issue	%	N	*Subissues*	%	N
Banking Policy	**47.9**	349	**Banking Rescue Measures**	**30.5**	222
			Regulation and Reform	17.4	127
EU Policy	**22**	160	**Coordination and Institution-building**	**16.5**	120
			Eurozone Bailouts	5.5	40
Procedural Issues	**17.8**	130	**Crisis Resolution**	**15,8**	115
			Democracy and Social Justice	1.7	12
			Coalition and Electoral Politics	0.4	3
Structural Reforms	6.3	46	Business and Economic Reform	5.6	41
			Public Sector Reform	0.7	5
Fiscal and Labour Market Policy	6	44	Taxation and Expenditure	5.2	38
			Labour Market and Employment	0.8	6
Total	100	729		100	729

Finland was relatively isolated from the worst market turmoil, and policymakers therefore had the space to contemplate the principles of responding to the crisis. Table 4.9 below shows the distribution of these principles in the Finnish press. While economic frames were seen (in Table 4.3) to dominate the debate at large, at this stage, justice frames are almost equally salient. Hence, the debate in autumn 2008 was not fully technocratic: it actually involved consideration of the moral principles that should guide responses to the crisis. Economic framing, particularly with regard to competition rules and financial stability, still dominates, but not self-evidently.

Table 4.9: Frames, Financial Crisis, FIN

	%	N		%	N
Economic Frames	**54.4**	49	**Market Confidence**	**26.7**	24
			Financial Stability	**12.3**	11
			Competition, Competitiveness	6.7	6
			Economic Growth and Employment	6.7	6
			Budget Balance	2.2	2
Justice Frames	**28.9**	26	**Public Confidence and Interest**	**20**	18
			Morality	5.6	5
			Social Justice and Democracy	3.3	3
Procedural Frames	8.9	8	Law, Rules and External Constraints	8.9	8
Polity Frames	7.8	7	National Interest and Sovereignty	6.7	6
			Eurozone Stability and European Interest	1.1	1
	100	90		100	

The discussion below is centered on three themes that emerge both from the international agenda and the Finnish press debate: policies and principles of banking rescues; the impact of the crisis on the real economy; global and EU-coordination; and regulation and reform. The potential impact on the real economy was, however, often discussed in conjunction with banking policy strategies, frequently as a justification for acting promptly to save the banks, lest the economy at large be affected.

4.2.1.1 Policies and Principles of Banking Rescue Measures

On 12 October 2008, *Helsingin Sanomat* reported the IMF director Dominique Strauss-Kahn comparing the situation in the financial markets to a nuclear disaster. "The core of the world's financial system is melting", said Strauss-Kahn.

The gravity of the situation did not lead to an atmosphere of panic in the Finnish press. Yet, Finnish policymakers closely followed international developments and interpreted the crisis in line with the prevalent international consensus at the time - as a liquidity, not solvency problem - precisely as Irish policymakers had done. The Prime Minister Matti Vanhanen, of the Centre Party, commented:

> For now, the main issue in Europe is the lack of liquidity and mutual mistrust between banks, said Vanhanen. (*Helsingin Sanomat,* 10 October 2008)

The Finnish government developed, in cooperation with the Bank of Finland, contingency plans in case also Finnish banks would face runs on their deposits. As said in the introduction to this chapter, Finnish banks are heavily integrated to the Nordic and Baltic markets. It was via Finnish subsidiaries of Icelandic banks, notably Kaupthing, and a Swedish bank called Swedbank, that Finnish depositors were potentially affected. Across Europe, governments were raising the level of deposit guarantees to prevent and contain bank runs. Also in Finland, the local subsidiary of Icelandic Kaupthing called the government for help.

> The amount required would, according to Rosendahl be circa 60 million euro, such that "all private depositors would get their deposits back". The loan would be required for a few weeks and would be gradually repaid, says Rosendahl. (Chairperson Lauri Rosendahl, Kaupthing Finland, *Helsingin Sanomat*, 11 October 2008)

As Table 4.9 shows, the main subframe of justice frames in this debate was "public confidence and interest". In the quote above, Kaupthing's Rosendahl uses precisely this frame to justify asking for government guarantees. The government was reluctant to issue such a loan.

> The State does not yet promise to lend to Kaupthing in order to get Finnish depositors' money back, says Minister for Municipalities and Administration, Mari Kiviniemi (Kesk). (*Helsingin Sanomat*, 11 October 2008)

At this point, Finland's EU policy was, however, unchanged. The government was firmly committed to following and implementing the EU's policy decisions. Hence, following example from Sweden and the rest of Europe, the government raised deposit guarantees from €25,000 to €50,000. Just a day before the decision was reached in the EU, the leader of the main opposition Social Democrats (SDP), Jutta Urpilainen, had proposed a similar measure, which the Centre-party Prime Minister Matti Vanhanen had rejected. Minister for Finance Jyrki Katainen of the conservative party Kokoomus (Kok) participated in the Eurogroup meeting where coordinated action with regard to the deposit guarantees was decided on. The decision came as a surprise for Vanhanen. Vanhanen's comments reflect both Finland's "model pupil" attitude in the EU, as well as the public confidence frame as a popular justification for action, at this point. It is also worth observing how the confidence framing supports the liquidity assumption. Only if the problem is one of liquidity, not solvency, will an injection of confidence work as a cure.

> He (Vanhanen) heard about the decision by phone from Minister for Finance Jyrki Kataiselta (Kok). The proposal was precisely what Urpilainen had suggested. "The decision

> has been made and Finland will, of course, follow the commonly agreed lines of action", he then commented. (*Helsingin Sanomat*, 9 October 2008)

> He said he believes the decision will increase citizens' trust. (*Helsingin Sanomat*, 9 October 2008)

The Finnish press followed and commented on international debate on the design of banking rescue policies. The G7 and IMF meetings attempted to establish international standards for rescue operations, based on the "British model".

> (…) the G7 press release (…) endorses the British model of banking rescue operations. The two key principles of this model are a very substantial government guarantee for the banks and a partial nationalization, that is, governments buying banks' shares with taxpayers' money. The IMF prescribes the same medicine. It recommends a combination of capital injections and bad banks, state guarantees and broad-based international cooperation. (*Helsingin Sanomat*, 12 October 2008)

The European/British model was based on the liquidity assumption, and consisted chiefly of state guarantees and capital injections, as well as public shareholding and nationalizations, where needed. The Finnish government endorsed this interpretation and policy response. It also, as the quote below illustrates, advocated a case-by-case approach rather than a coordinated European response.

> The second chief pillar (in the European model) should consist of capitalizations, which the British are using, said Vanhanen. He emphasized, however, that capital injections would not be required in all EU Member States, but depends on the solvency of each Member State's banks. (*Helsingin Sanomat*, 10 October 2008)

Finnish policymakers appeared to hope that prompt action in the US would be enough to contain the crisis, such that no major policy responses would be needed on this side of the Atlantic. Indeed, Minister for Finance, Jyrki Katainen of the Centre-Right Kokoomus showed little appetite for using public money to shoulder private losses.

> A clear view exists that the US must do something (pass legislation) to enable the establishment of a bad bank. Now, the risk is that the world economy will end up in

> extreme turmoil because of the lack of trust. (Minister for Finance Jyrki Katainen (Kok), *Helsingin Sanomat,* 1 October 2008)

> Private enterprises that have got themselves into trouble should be saved at any cost. Such behaviour is mismanagement of taxpayers' money. We should, rather, keep a cool head here. (Minister for Finance Jyrki Katainen (Kok), *Helsingin Sanomat*, 9 October 2008).

The United States was certainly at the epicentre of the financial stage of the crisis, and hence, the international community relied on the US to act. The US president George W. Bush thus acted as the ECB President Mario Draghi would in 2012, as he plegded the US would do "whatever it took" to contain the crisis.

> Bush assured that policymakers have control of the situation but the positive impact of several measures, such as the establishment of a huge bad bank, would come with a lag. "Our plan is aggressive. It is the right plan. It will take time for us to feel its full impact. It is flexible enough for the rapidly changing situation. And it's big enough to work." (*Helsingin Sanomat,* 11 October 2008)

The reason such reassurances were needed was that the Congress did not buy Treasury Secretary Henry Paulsen's first proposal, but required and pushed through significant changes. Bush's comment were hence directed towards reassuring the markets that the "political risk" involved in implementation of the plan would be contained.

US policymakers across partisan lines fervently employed the moral hazard frame to argue against Paulsen's plan. For Republicans, it represented a "step towards socialism" (US Republicans in Congress, HS 27 September 2008). The Democrat speaker Nancy Pelosi argued that

> We're not just going to hand Wall Street a blank cheque of 700 billion dollars and hope they'll use it wisely (…) The demands of Finance Committee chairperson Barney Frank and others include, inter alia, restrictions on bankers' pay, measures to protect regular homeowners from default, and tight surveillance for the whole rescue operation. (*Helsingin Sanomat*, 23 September 2008)

President Bush had two types of responses to the critique from Congress. TINA – there is no alternative – and preserving democratic capitalism as we know it. The below quote illustrates how the initial response to the financial crisis was thoroughly conservative, aiming at regaining status quo, not transforming it. In other words, policymakers did not yet perceive any fundamental flaws in the existing system, but regarded the crisis as a mere malfunction of an otherwise sustainable system.

> If it were possible to let every irresponsibe Wall Street company fall without that affecting you, and your families, I would let that happen. But it is not possible, said Bush. (*Helsingin Sanomat,* 29 September 2008)

> Bush rejected claims of socialization when presenting the bank package in Congress. The goal is not to socialize free market capitalism, but to preserve it, said Bush. (*Helsingin Sanomat*, 27 September 2008)

The EU finally reached an agreement for a coordinated strategy for banking rescues, at the heart of which was capital injections in exchange for shares. The expressed reasoning was re-establishing activity and securing stability in the financial markets. Both in the US and in Europe the response was aimed at returning to the pre-crisis *status quo*, in the sense of getting credit flowing again.

> He was content to recapitalize banks - give them taxpayers' money in exchange for shares - in order to revitalize credit markets. Liikanen argued that recapitalization is clearly the fastest solution to tame the present crisis, and the US is reaching the same conclusion. (Governor of Bank of Finland, Erkki Liikanen, *Helsingin Sanomat*, 14 October 2008)

Hence, the consensus among policymakers slowly changed, from initial reluctance to use public money to rescue the banks to acknowledging that this might be necessary. Yet, arguing that public money be used to capitalize private institutions required justification. The argument here was that taxpayers needed protection, but the best way to protect them was to guarantee financial stability:

> We have saved Fortis and Dexia, but in addition, we have backed up the whole financial system, said Luxembourg's Minister for Finance, Luc Frieden. (*Helsingin Sanomat*, 1 October 2008)

> German Chancellor Angela Merkel presented in Berlin a banking rescue operation, which involves €80 billion recapitalization funds for banks that need it. According to Merkel, this represents a measure to increase confidence. Its purpose is not to protect banks, but ordinary citizens, said Merkel. (*Helsingin Sanomat*, 14 October 2008)

As rescuing private banks with public money was against the immediate interest of the taxpayer, however, the transparency of such rescue operations was underlined. Assuming the financial crisis was a cyclical problem, policymakers also expressed hopes that once the share prices of banks would start rising again, states and taxpayers might, in fact, benefit (as they did in some countries, such as Denmark).

> When we start using state money to guarantee the functioning of banks, it is necessary to make sure that decisions are transparent and both parliaments and taxpayers know exactly where we are. (Governor of Bank of Finland, Erkki Liikanen, *Helsingin Sanomat*, 14 October 2008)

> This is a good solution, because I believe it will open up the wholesale money markets.(…) States might also be able to benefit from the long-term rise in banks shareprice. (Sixten Korkman, Chairperson of the Research Institute of the Finnish Economy (Etla), *Helsingin Sanomat*, 13 October 2010)

4.2.1.2 Financial Crisis and the Real Economy

It did not take long for policymakers to realize that the financial crisis was, one way or the other, going to impact real economies. In fact, containing the damage and preventing spillover to the real economy was their key expressed justification for engaging in costly bank rescue measures.

> In case of a complete banking sector meltdown, the United States would succumb to depression. (*Helsingin Sanomat,* 27 September 2008)

> EU Economics Commissioner Joaquin Almunia says that the financial crisis must be tackled now in order to prevent problems spilling over to the real economy. Yet, this cannot be completely prevented. (*Helsingin Sanomat*, 28 September 2008)

Several avenues for such spillover were debated. Banks and businesses, in particular, emphasized the problems that the credit crunch posed on businesses access to finance. As can be recalled from the previous chapter, business in Ireland had used exactly the same type of arguments to back up the liquidity assumption, hence pushing the government toward measures aiming at restoring financial stability, such as banking rescues.

> The interbank market is totally paralyzed at present. Money does not flow from investors via banks to companies. Discussion among financial directors of big companies is no longer about the cost of finance, but about access to finance, says Nordea's Finnish branch manager, Pekka Nuuttila. (*Helsingin Sanomat*, 8 October 2008)

> Europe's biggest software company, German SAP, announced a decline in orders. According to the company, this is partially because their clients cannot get loans from the dried-up credit markets. (*Helsingin Sanomat*, 9 October 2008)

> We are the first real victim. There are no new orders for this year, on an annual basis output will decline by half, says the Construction Industry chief, Tarmo Pipatti, with a sigh. (*Helsingin Sanomat*, 18 October 2008)

Businesses and banks got busy calling governments for help, with pleas for actions oriented at specific industries. The conservative Finance Minister, Jyrki Katainen was not enthusiastic:

> To smooth the economic decline, firms have called the government for help. Minister for Finance Jyrki Katainen (Kok) did not promise additional measures, because the budget for next year is "in any case one of the most stimulating budgets in Europe". (*Helsigin Sanomat*, 18 October 2008)

The French President Nicolas Sarkozy, by contrast, proposed a major aid package for Europe's auto industry. Over 2008 and 2009, both France and Germany enacted major stimulus packages as well as specific support measures for the auto industry in the own countries:

> European states should think about supporting the continent's auto industry, the French president Nicolas Sarkozy proposed, surprisingly, at the end of the EU-summit in Brussels. "Can we ask the European auto industry to produce emission-free cars, to change the face

> of the entire industry, without a helping hand?", he asked. According to Sarkozy, Europe is faced with a real economic crisis in addition to the financial crisis. Also the real-economic crisis requires European-wide coordinated action- such as possible public support for enterprises. (*Helsingin Sanomat*, 17 October, 2008)

In Finland, policymakers correctly saw that the credit crunch would mostly affect Finland via a fall in global demand, and thus a decline in Finnish exports:

> Minister for Finance Jyrki Katainen (Kok) argues that the financial crisis will affect Finland primarily via the real economy. "When economic growth, both globally and in Europe, declines significantly, this will decrease demand for Finnish exports, and most likely cause a decrease in Finnish GDP growth", forecast Katainen. (*Helsingin Sanomat*, 1 October 2008)

As was observed above, however, the centre–right government had agreed before the 2007 election to a generous wage round – Katainen's centre–right Kokoomus party took the lead on this – and enacted major tax cuts. In the face of declining external demand, Katainen was convinced that these policy actions were correct, as they stimulated domestic demand. Curiously, during this "short winter of Keynesianism" in 2008–9 (Farrell & Quiggin 2012), policymakers did identify supporting domestic demand as a key policy tool for tackling the crisis. In a remarkable manner, this consideration faded into the background as the turn to austerity came in 2010.

> Yet the decline in growth is not likely to have a significant impact on ordinary citizens, because their purchasing power is forecast to improve in the coming year. Main reasons for this improvement are, according to Katainen, sizeable wage increases, decrease of income tax, and increases in social benefits. (*Helsingin Sanomat*, 1 October 2008)

In the pre-crisis years, the world economy was characterized by expectionally strong growth and an accompanying consensus belief in the strong fundamentals of that growth – what we noted in the previous chapter is refered to in policy terms as "the great moderation". The strong belief in the economy's sound fundamentals characterized the early responses in Ireland, and in Finland as well. Apparently also in an attempt to restore public confidence, policymakers voiced reassuring statements about the size of the real-economic effect on Finland. As was observed in the beginning of this chapter, the late hour at which policymakers finally gave up the belief in "sound fundamentals" was unfortunate as it, arguably, prolonged the recession that was to come:

> The impact of the financial crisis on the Finnish economy would seem to be the size of a slump, said the chairperson of the parliament's Budget Committee, Hannes Manninen (Kesk). The Committee heard on Tuesday presentations from six economic forecasters. Manninen says that their messages were "almost surprisingly positive". Lack of trust in interbank markets restricts access to credit, but "no immediate, significant impact on Finland is forecast", said Manninen. The speaker of the parliament, Sauli Niinistö (Kok) forecast on Monday that in 2-3 years we will face public expenditure cuts. "I am not saying that it's impossible", said Manninen, but added that this is not what current forecasts imply. (*Helsingin Sanomat,* 1 October 2008)

> I am mentally prepared for 2-3 years of slower growth, forecast Katainen (…) But nobody can know for sure where we are headed in this crisis. (*Helsingin Sanomat*, 1 October 2008)

> Presenting the Bank's forecast in a press conference in Helsinki yesterday, Erkki Liikanen thought the economic forecast looked "comforting". "Growth will be slower, but there will still be growth. Employment will remain rather good", said Liikanen. (Erkki Liikanen, Governor of Bank of Finland, *Helsingin Sanomat,* 24 September 2008)

The benign expcetations and late responses by policymakers were connected to difficulties in correctly forecasting the economic future. The economy did not, in the end, behave as economists believed it would: it was a question of "unknown unknowns". The major mistake, stemming from false analysis, may have been the ease with which policymakers at the time increased the level of sovereign debt, to fund banking rescue operations and fiscal stimulus. On the one hand, policymakers did acknowledge the impact of these measures on the public economy:

> To cover the costs (of bank recapitalizations) Steinbrück has been authorized to take more sovereign debt. At the same time Steinbrück and Merkel admitted that the bank rescues are likely to destroy their goal of having a balanced budget by 2011. (*Helsingin Sanomat*, 14 October 2008)

> "I hope that the Prime Minister and the Minister for Finance now believe that the crisis will impact also Finland", said Urpilainen in the opening of SDP's municipal election campaign (…) Urpilainen argued that the government has not paid enough attention to Finland's public finances. (Chairperson of the Social Democrats [SDP], Jutta Urpilainen, *Helsingin Sanomat*, 1 October 2008)

On the other hand, policymakers reasoned that the more costly alternative would be to do nothing, and risk the potentially massive impact of complete financial sector meltdown on the real economy. The consensus was that fiscal policy was only to be employed in a moderate manner and temporarily. It was momentarily accepted, but it never regained the legitimacy it had in the Keynesian era. Rather, policymakers would see monetary policy do the trick.

> Jyrki Katainen (Kok) argued that the coordinated decision by major Central Banks to lower interest rates was an "excellent operation". "This is great news for mortgage owners and those contemplating major investments", he said." (*Helsingin Sanomat,* 9 October 2008)

To sum up, the Finnish government was not immediately worried about the impact of the crisis on public finances, for three main reasons. First, Finland did not have sick banks and therefore, no bailouts were envisaged. Secondly, it reasoned that the cost of inaction would be disastrous. Third, because the consensus view interpreted the problem as lack of liquidity, monetary rather than fiscal policy was deemed the correct policy tool to use. Later, in the Eurozone phase of the crisis, filling the gap left by the cost of the Eurozone's rescue operations by taking more debt was important to ensure that the parliament did not veto the Finnish participation:

> The Finns will not have to give up anything because of the Greek loan, according to [Minister for Finance] Katainen. The amount of our sovereign debt will increase with a sum that equals our share of the aid package. (*Helsingin Sanomat*, 3 May 2010)

4.2.1.3 EU Coordination in Crisis

As Table 4.8 indicates, procedural issues concerning the adequate level of crisis response were a major topic of debate. A top civil servant in the Finnish Ministry for Finance observed in an interview that the willingness of EU Member States to increase the level of cooperation in the crisis varied according to the cost of inaction for those countries.[54] Finland's position to coordinated action was pragmatic:

> Vanhanen argues that EU countries should now coordinate their actions, so that the situation does not get out of hand, as happened with the deposit guarantee issue. He emphasized, however, that countries face divergent problems and the medicine prescribed should therefore vary, too. (*Helsingin Sanomat*, 10 October 2008)

The process where countries responded to (the threat of) bank runs by individually raising, or maintaining, levels of deposit guarantees was the first instance, where the diverging views of Member States on how to tackle the financial market turmoil manifested themselves. At times, the controversies led to stark acrimony between countries. One such instance was the Icesave case, where Iceland declined to guarantee deposits in the failing Icelandic online savings bank, Icesave. This infuriated the British Prime Minister Gordon Brown, who threatened Iceland with legal action, should it not guarantee British savings.

> We will take legal action against the Icelandic authorities. Thereby we show that we stand behind savers, said Brown on Wednesday. (*Helsingin Sanomat*, 9 October 2008)

Another instance was the Irish case, where the Commission accused Ireland of violating the EU's competition law with its unilateral bank guarantee. Hence, the Commission acted.

> The EU Commission proposed on Wednesday that the guarantee for bank deposits be raised to 100000 euros. The goal is to protect depositors and to strengthen trust in the faltering financial markets. (*Helsingin Sanomat*, 16 October 2008)

In other words, the institutional unpreparedness of the EU to respond in a coordinated, even unified, manner, was one key reason why states ended up turning against each other. At this point the crisis was not about international redistribution, which became an issue only after 2010. Rather, the institutional

[54] Interview with an official at the Finnish Department for Finance, June 2014.

incapacity of the EU to respond in a unified manner, brought about a beggar-thy-neighbor situation, where governments, in trying to protect themselves, inflicted harm on others. Such was the case, from the British government's point of view, when Ireland put in place such a vast guarantee as to draw deposits from Britain to Ireland. Member States reluctant to increased EU coordination, such as Finland, yielded when persuaded that letting everybody act individually breached the EU's competition rules. Finland, as Germany, is a very rule-oriented country, and policy can be justified almost simply by saiying "these are the rules".

> According to Kiviniemi, the key for Finland is that all countries share the same, level playing field. It prevents international shopping around after the best guarantees. "The decision reached on Sunday was good. It will calm the financial markets and strengthen their stability", said Katainen." (*Helsingin Sanomat*, 14 October, 2008)

> The Under-Secretary-General of the Ministry for Finance, Martti Hetemäki, said on Saturday that the rescue package must be designed to avoid distortions of competition. "Banks in different countries must share a level playing field", said Hetemäki." (*Helsingin Sanomat,* 12 October 2008)

The real test for the EU's ability for coordinated action came when common guidelines for banking rescues had to be decided on. Now the acrimonious French–German leadership pair, referred to colloquially as Merkozy, made an appearance. Disagreeing in public was deemed poisonous for credibility, and hence for financial stability. Therefore, the EU made a conscious effort to show a united front in public.

> The Franco-German disagreement about the required measures has distracted coordination among the Eurozone. A week ago the rumour was that France wanted an €300 billion banking rescue fund. According to French press, the proposal died under severe opposition from Germany. On Saturday the German chancellor, Angela Merkel and Nicolas Sarkozy said they would from now on work together and publish their plans simultaneously. (*Helsingin Sanomat*, 13 October 2008)

> "It is very important that we find a shared, European approach", said the Dutch Prime Minister Wouter Bos before the start of the meeting. "Of course we need a common European strategy", echoed the Austrian Minister for Finance, Wilhem Boes. "I want the EU countries to have a common strategy in order to handle this difficult situation", demanded Spain's representative, Pedro Solbes. (*Helsingin Sanomat*, 7 October 2008)

The difficulty of finding common ground led Germany and France to lead bilateral negotiations before the general EU meetings, which caused resentment in small Member States, such as Finland.

> "Big Member States and EU institutions having meetings and making decisions among themselves is not a proper way to act", said Katainen. (*Helsingin Sanomat*, 5 October 2008)

The differences between France and Germany are well known. France advocated more coordination and supranational compentences, Germany was firmly against, to the extent that the German Finance Minister Steinbrück was absent from key meetings where common measures were debated.

> The French Minister for Finance, Christine Lagarde, proposed earlier this week a €300 billion rescue fund for European banks. Only a day later, however, Sarkozy's cabinet rushed to assure the public the proposal had been a misunderstanding. (*Helsingin Sanomat*, 5 October 2008)

> There is no plan for a European rescue fund, said the French president Nicolas Sarkozy and the German chancellor Angela Merkel, who met on Thursday in France. (*Helsingin Sanomat*, 12 October 2008)

For Finland, coordinated action was fine as long as it came with no cost. Finland again based its national position on a close reading of the EU rules, which clearly said that every Member State shall be responsible for its liabilities, including those of its banks.

> According to Hetemäki the Finnish negotiating position is that the Finns will under no circumstances act as paymasters. "The EU has a unitary monetary policy and a differentiated, nationally based fiscal policy. Losses are always national", said Hetemäki. (*Helsingin Sanomat*, 12 October 2008)

> Also Prime Minister Vanhanen assured on Wednesday that the Finns will not have to pay for banking crises in other countries. (*Helsingin Sanomat*, 12 October 2008)

> Nobody can order us to put euros in line to save a bank. At the last instance, such action would have to be authorized by the parliament, he says. (Minister for Finance Jyrki Katainen (Kok), *Helsingin Sanomat,* October 1, 2008)

A form of international cooperation that was unconditionally endorsed in the Finnish press was that between central banks. Still on 28 September, the

> (…) representatives of the ECB said that cooperation between central banks in interest rate policy is unlikely. Such cooperation seemed more likely ever since the world's most important central banks had decided to jointly pump liquidity into the frail financial markets. (*Helsingin Sanomat,* 28 September 2008).

The press debate observed that Eurozone rules prevented another form of collective action which was possible in the US – the central bank directly financing private banks.

> In the Eurozone, this is because of legislation, which does not allow the ECB to do such radical tricks as the Fed has done. Therefore, in Europe, central banks money must circulate to the private economy via States' balance sheets. (…) Europe has no Paulson or a lender-of-last-resort to come and rescue it. (*Helsingin Sanomat*, 30 September 2008)

Little did policymakers at the time know of the firepower the ECB would eventually use to save the Euro. Yet, central bank activism started already in October 2008.

> "The Central Bank has all the required liquidity", said [ECB President] Trichet in Luxebourg. According to Trichet, the Central Bank will continue to operate to guarantee the functioning of the markets. (*Helsingin Sanomat,* 7 October 2008)

In the end, the world's major central banks decreased head interest rates by 0.5 per cent in a coordinated manner and extended unlimited loans to European banks, essentially providing the Eurosystem with unlimited liquidity.

> According to Liikanen, the banks' actions relieve the interest rate crisis and liquidity risk. This is believed to lead to a proliferation of credit markets, which will have a downward effect on interest rates and also a positive effect on the real economy. (*Helsingin Sanomat*, 10 October 2008)'

4.2.1.4 Financial Regulation and Reform

As Helleiner (2012) has observed, the financial crisis initially spurred an ambitious reform agenda. Note of the early enthusiasm for reforming the world economy, particularly finance, was taken in Finnish press. The most enthusiastic advocates of reform included the British Prime Minister, Gordon Brown, and the French President Nicolas Sarkozy.

> Brown wants – no more and no less than – to reform the global economy. The list of reforms is long, if still lacking in detail. Brown wants, among other things, to reform the IMF and the other big, international economic organizations; increase transparency in financial markets, remove conflicts of interest in credit rating agencies; create new banking rules; and a global early warning mechanism, which would ring when risks were increasing. (*Helsingin Sanomat*, 15 October 2008)

> "What we are facing now is the first truly global financial crisis, and we have to therefore realize that cross-border financial flows cannot be nationally regulated", says Brown. (*Helsingin Sanomat*, 15 October 2008)

> The French president Nicolas Sarkozy demanded the reform of the entire financial system and encouraged the world's leaders to contemplate the lessons of this crisis by the end of the year. President of Brazil, Luiz Inacio da Silva, accused speculators for bringing misery to entire nations. (*Helsingin Sanomat*, 24 September 2008)

In a sense, reviving liquidity flows was supposed to be the immediate, short-term response, while the long-term response would have to include reforms. That such reform would eventually take place was presented as a matter of fact. Yet, as we now know particularly in Europe, the Eurozone's sovereign debt crisis soon stole attention from market reforms. Whilst a banking union has been established, arguably more effort has been put on new rules and mechanisms for the surveillance of state spending.

> Once we're out of this (crisis), it is clear that transparency and regulation, starting from remuneration arrangements, will be increased. (*Helsingin Sanomat,* 14 October 2008)

> The EU Commission wants limits of interbank lending. The goal is to make sure banks have adequate capital buffers. The Commission proposes new capital requirements. There shall be a roof on how much banks can lend to each other. The EU bureaucrats also push for other, tighter rules. A new supervisory body will be established to supervise banks that operate in more than one EU country. The main responsibility for supervision will still lay with authorities in the bank's home country. (*Helsingin Sanomat*, 2 October 2008)

Indeed, Helleiner has pointed out that the ambition of the initial reform agenda was diluted somewhere on the way. Hence, instead of a more stringent and unitary regulatory framework Helleiner (2012, 82, emphasis added) notes that the "legacy of the 2007 to 2009 crisis is likely to be a more *decentralized* international order." He argues that the failure is due to the unprecedented politicization of financial regulatory issues in the crisis, where "previously obscure topics such as the regulation of credit default swaps suddenly became the topic of legislative debates and a lively public discourse" (ibid). In this context, policymakers faced greater constraints, notably from domestic interest groups, to push through regulatory incentives. In other words, Helleiner posits that the institutions affected by the new rules were more able than before to voice their opposition, as policymaking on the issue was no longer confined to cabinets or outsourced to international regulatory bodies. Thus, Helleiner observes fragmentation along national lines, such that some countries have gone forward with more ambitious reforms – the US Dodd-Frank legislation is a case in point – than have others. This rings true in the Finnish press debate:

> Formulating the package has been slow, because Member States traditionally disagree about financial regulation. "Yet the reform package has much more support now than it had 10 days ago", (Internal Market Commissioner) McCreevy described the negotiations. (*Helsingin Sanomat*, 2 October 2008)

Comments from the world of finance, in the Finnish debate, certainly emphasized continued reliance on self-regulation:

> Advisor to the board of the Bank of Finland and an IMF Member of the Board, Olli-Pekka Lehmussaari, argued that the laws of economics do not require complete rewriting. There are elements in the Washington Consensus that one can still underwrite: high inflation is bad, free trade is good, a state should live within its means, deficits are bad, he said in an interview by Helsingin Sanomat. (*Helsingin Sanomat*, 14 October 2008)

> "The financial industry must be trusted to mend its own problems. This is too important to be left in the hands of regulators", said the head of KPMG's British operations, Jeremy Anderson. (*Helsingin Sanomat*, 27 September 2008)

The debate on financial regulation continued through 2009 and 2010. Coming to the second part of the crisis – the sovereign debt and Eurozone crisis of 2010 – the debate took new forms. Demanding market regulation was soon coupled, particularly for European Social Democratic parties, with an attempt to decrease the burden of Eurozone's financial assistance packages on the taxpayer and get the private sector to shoulder part of the bill.

4.2.2 The Eurozone Crisis, May–November 2010

> Public opinion both in Germany and in Greece is firmly against the EU-IMF loan to Greece, according to a poll published on Tuesday. (*Helsingin Sanomat*, 28 April 2010)

> The Irish, EU and IMF leaders joined forces in rejecting rumours that Ireland would be applying for a bailout loan (…) [IMF Director] Stauss-Kahn said that Ireland will manage on its own, and that Ireland's position is completely different from Greece. (*Helsingin Sanomat*, 14 November 2010)

Nobody really wanted the multi-billion financial assistance packages from the EU-ECB-IMF *troika* to Greece, Ireland and Portugal in 2010–2011. As the first quote above indicates, public opinion both at the giving and the receiving end was firmly against it. Policymakers hesitated to admit the depth of Eurozone's problems, and therefore engaged in weeks of denial, attempting to avoid the inevitable outcome. This second part of the chapter explores the politics around two prominent loan decisions in Finland: the first Greek rescue package in May 2010 and the Irish bailout in November of that same year. Arguably, the institutional failures and collective action problems experienced by the Eurozone states in 2008-9 contributed to the second stage of the crisis. Notably, the institutional incapacity to respond in a collective manner left Member States to respond on their own, dependent on their fiscal capacities. At this stage, Eurozone members, such as Finland, could not perceive it in their interests to engage in risk-sharing or mutualization of liabilities. After 2010, however, the systemic nature of the crisis became evident.

The Eurozone stage of the crisis had actually begun in late 2009, when the newly elected PASOK government was forced to admit that Greece's budget deficit was much higher than previously disclosed, and therefore in severe breach of the Stability and Growth Pact. Markets immediately reacted by downgrading Greece's credit rating, and Greek bond spreads sprang up. The Greek government responded by first announcing tax increases and budget cuts in February and March 2010, including public sector pay cut of 10 per cent, increases in VAT rates and in taxes on petrol, cigarettes, as well as some "moderate cuts in expenditures (including in public investment) and central government operating costs." (Monastiriotis 2013). The Greek austerity plan failed to calm the markets, and Greece soon had to ask for outside help. In May 2010, EU leaders approved a financial assistance program, where Eurozone Member States together with the IMF would provide Greece with financial assistance in return for fiscal austerity and structural reforms. The savings and reforms demanded from Greece in the May 2010 deal were at a whole different level than those initially put forward by the Greek government as Monastiriotis (2013, 5) notes:

> Wages in public utilities were cut initially by 3 per cent; the so-called 13th and 14th salaries (bonuses for Christmas, Easter and annual leave) were capped at €500 for public sector employees, €400 for pensioners and completely abolished for high-wage earners; VAT rates increased further (to 23 per cent) and additional tax hikes were imposed on luxury consumption (e.g. an additional 10 per cent tax on imported cars), on so-called inelastic expenditures (alcohol, cigarettes and fuel) and on property; additional levies were imposed on high pension earners and business profits; and further savings were envisaged through controls on public expenditure and investment.

The Irish crisis, and the events leading up to its bailout agreement in November 2010, have been described in detail in the previous chapter, and shall not be repeated here. Suffice it to recall that facing an apparent contagion effect from Greece, markets showed increasing mistrust in Ireland's ability to service its debt towards late 2010, causing Irish bond spreads to hike. As had been done by its Greek counterpart, the Irish government initially responded with a domestic austerity plan, the National Recovery Plan (NRP) for 2011–2014 (see Chapter 3). The NRP was designed to be harsh enough to convince the markets that Ireland meant business. It contained proposals for €15 billion of austerity measures on top of the €30 billion already implemented. Indeed, when the Irish government after weeks of denial finally had to admit that negotiations with the *troika* were going on, the NRP was acknowledged by the *troika* as a good basis for the ensuing bailout programme. The loan finally agreed was circa €85 billion in size and came, as in the case of Greece, with strict conditionality. Yet in the Irish case, the conditions were perhaps easier to "own" at the domestic level than was the case in Greece, as the Memorandum of Understanding between the *troika* and the Irish government was almost a replication of the Irish NRP.

Institutionally, the EU's first response to the Greek crisis was to set up an ad hoc-facility, the Greek Loan Facility (GLF), on 2 May 2010. The GLF's capacity was composed of a total of "€80 billion in bilateral loans from 14 Member States of the EA and an additional €30 million from the IMF" (Verdun 2015, 225-6). It was via the GLF that an initial €110 billion was made available for Greece in May 2010. Yet, the GLF's firepower was not sufficient to contain the crisis, which was feared might spread to other Member States. The EU leaders therefore set up a larger structure, the European Financial Stability Facility (EFSF), agreed upon in the Council of the EU Economic and Financial Affairs on 9 May 2010. The EFSF was a "special purpose vehicle that serves as a temporary rescue mechanism" (ibid), with a mandate to "safeguard financial stability in the EU by providing financial assistance to EA Member States" (ibid). Its main stakeholders were the Member States and its lending capacity was €440 billion. The EFSF was designed to offer conditional support, based on the receiving countries accepting a macroeconomic adjustment programme. The Greek and Irish financial assistance programmes both originally came from the EFSF framework, but the management of both programmes was later moved to a similar but more permanent structure, the European Stability Mechanism (ESM), with an initial lending capacity of €500 billion, later increased to €700 billion. Hence, starting from the €100 billion GLF, the EU's financial assistance firepower grew seven-fold within the space of two years. This was the EU's political attempt to show it was going to do "whatever it took" to safeguard the stability of the Euro. National participation in the EFSF was politicized, because EU-level decisions to extend loans from the facility were made unanimously. This meant that failure of any one Member State to pass the necessary legislation through its parliament could have compromised the whole rescue operation in question. Policymakers were therefore under severe pressure to push the decision through at the MS level, and did not hesitate to frame the issue in such apocalyptic terms as was necessary to convince national MPs that there really was *no alternative.*

This, then, was the context for the Finnish press debate, subject of the following analysis. Tables 4.10 and 4.11 depict that main issues and frames in this debate. The tables show a drastic change in both issues and frames, compared to the financial crisis. In terms of issues, the main change concerns the replacement of banking policy with EU policy as the most salient issue category. As shall be discussed below, banking policy nevertheless remained on the agenda. In fact, debate on financial reform was in a sense livelier at this stage than in 2008-9. Yet, it was debated in the context of EU's crisis management. Stricter rules for banks were demanded regarding the Irish case, for example, to ensure that Finland would not in the future have to engage in rescuing countries with overblown banking sectors. The debate on financial regulation changed during events, such that the emphasis turned increasingly from private sector mismanagement to public sector mismanagement. That the issue of financial regulation and reform was coupled with political mismanagement in Greece and Ireland was not an inevitable outcome, but it was a highly consequential one. It helped to turn the framing of the crisis into one underlining the need to reform states, not markets. Banks pushed for this interpretation in the Finnish debate, but politicians actively endorsed it. Even social democrats, who were the most eager to demand financial regulation, coupled their demands increasingly with expressions of resentment over the fact that Finnish taxpayers would now suffer for political failures in Greece and Ireland.

Table 4.10: Issues, Eurozone Crisis, FIN

Main Issue	%	N	Subissues	%	N
EU Policy	**68.1**	559	**Eurozone Bailouts**	**45.3**	**372**
			Coordination and Institution-building	**22.8**	187
Fiscal and Labour Market Policy	11.1	91	Taxation and Expenditure	9.9	81
			Labour Market and Employment	1.2	10
Banking Policy	10.1	83	Regulation and Reform	7.1	58
			Banking Rescue Measures	3.1	25
Procedural Issues	5.6	46	Coalition and Electoral Politics	2.3	19
			Crisis Resolution	1.7	14
			Democracy and Social Justice	1.6	13
Structural Reforms	6.3	42	Business and Economic Reform	3.3	27
			Public Sector Reform	1.8	15
Total	100	821		100	821

The overarching change in frames is, indeed, the dominance of *polity* frames, national and/or European interest. The main strategy of Finnish policymakers to justify participation in the Greek and Irish financial assistance was to argue that assisting these countries, as unpleasant as it was, was necessary to safeguard the stability of the Euro, which in turn was in the Finnish national interest. In other words, policymakers regretted they were forced to agree to the assistance packages (rules and external constraints-frame) but doing so was in the European (European interest frame) and in the Finnish interest (national interest frame). The dominant framing here is thus a combination of polity framing with procedural framing. Nobody liked the assistance programmes: everybody argued that there was no alternative to them.

As the discussion above already indicates, the crisis at this stage was domesticated and politicized in Finland. Although it was debated as an EU-policy issue, the focus was on distributive consequences of EU policy decisions on Finland and the Finnish taxpayer. Finnish parties now figure much more prominently than they did in the financial crisis, and by contrast the proportions of non-national parties and executives have decreased. Yet the debate is still highly transnational, as non-national speakers make 50.5 per cent of claims. Note the relatively high proportion of banks as claims-makers, compared to the earlier event. Banks got active guarding their interest in the design of the EFSF. They argued against inclusion of private sector responsibility in the assistance mechanism, and against overregulation of the sector in general. Let us now turn to observe the debate in detail. The discussion will start where the last subsection left off: financial reform and regulation.

Table 4.11: Frames, Eurozone Crisis, FIN

	%	N		%	N
Economic Frames	**33.1**	50	**Market Confidence**	**13.3**	25
			Economic Growth and Employment	9.9	15
			Financial Stability	4.6	7
			Competition	3.3	5
			Budget Balance	2	3
Polity Frames	**27.2**	41	**National Interest and Sovereignty**	**13.9**	**21**
			Eurozone Stability and European Interest	13.3	20
Procedural Frames	23.8	36	**Law, Rules and External Constraints**	**23.8**	36
Justice Frames	15.9	24	Social Justice and Democracy	8	12
			Public Confidence and Interest	6	9
			Morality	2	3
	100	151		100	151

Table 4.12:

Speakers, Financial & Eurozone Crisis, FIN

	Financial Crisis	**Eurozone Crisis**
Government and Executive, Other	**46.9**	30.2
Government and Executive, Finland	16.2	15.9
Parties, Finland	2.8	**20.4**
EU Institutions	6.8	9
Parties, Other countries and Europarties	**10.1**	1.4
Central Banks	6.8	4
Academia and Experts	2.1	4.3
Banks	2.7	**4.9**
International Organizations	1.9	2.5
Business and Employers	2.5	2.5
Others	1.3	1
Trade Unions	.	1.9
Interest Groups	.	2
Total	100	100
N	743	830

4.2.2.1 Financial Regulation and Reform, Vol II

The international regulatory and reform agenda was in 2010 dominated by negotiations for the new Basel III accord for "[i]nternational convergence of capital measurement and capital standards" (Quaglia 2012, 8). Indeed, the Basel III rules "almost triple the regulatory capital for banks, even though they will be phased in gradually from January 2013 until 2019" (ibid). Quaglia observes that the stricter rules adopted in Basel III were pushed particularly by the US and UK, whereas the continental European countries, particularly Germany and France, pushed for a "broader definition of capital and lower capital requirements." They did so based on the argument that European banks engage less in risky lending and trading than their Anglo-Saxon counterparts. Quaglia notes that European policymakers were particularly worried about the effects of regulation to the real economy, given the strong industry-banking links in the continent.

Finland is a case in point where links between industry and banks have traditionally been strong. Moreover, given that Finnish banks had not been exposed to risky lending and trading in the 2008–9 crisis, we could expect there to be significant resistance towards the new regulations within the Finnish banking sector. Such was the case. Indeed, Reijo Karhinen, director of one of the main Finnish banks, OP-Pohjola, did not hesitate to argue that overregulating banks could prove worse for the Finnish economy than the financial and economic crisis combined:

> General Director of OP-Pohjola-group, Reijo Karhinen, fears that the financial and economic crisis may be followed by a a regulatory crisis, due to the excessive constraints being imposed on the banking sector. Karhinen said he was truly worried of overregulation. (*Helsingin Sanomat*, 6 May 2010)

> Karhinen estimated that the consequences of overregulation for Finland may yet prove greater than the financial and economic crisis just experienced. The regulatory measures may weaken banks' ability to extend credit to recovering businesses, and hence prevent economic growth. (*Helsingin Sanomat*, 6 May 2010)

Karhinen's colleagues from another major Nordic bank, Nordea, followed with similar arguments:

> Stricter capital requirements and other forms of regulation may significantly increase the price of housing loans, for example. "If the proposed changes [Basel III] will be implemented as such, this would mean a significant change in [loan] marginals and the amount of loans", says Vice Director Ari Kaperi of Nordea. (*Helsingin Sanomat*, 29 April 2010)

> Nordea's General Director, Christian Clausen, demands alterations to the [Basel III] propositions. "We must beware of overregulation, which will weaken the position of our clients as well as the general economic development,", said Clausen in a press conference. (*Helsingin Sanomat*, 29 April 2010)

Governor of the Bank of Finland, Erkki Liikanen, expressed a moderately similar attitude:

> "We should also make sure that banks retain the ability to finance demand, which is essential for economic recovery", said Liikanen. (*Helsingin Sanomat*, 26 April 2010)

Another regulatory proposal favored by politicians – over the highly technical issues on the Basel agenda that figured in the debate – was the Financial Transaction Tax (FTT). This was put forward in the Finnish debate particularly by the biggest opposition party Social Democrats, and their leader, Ms. Jutta Urpilainen.

> The SDP's Party Council demanded from the government a firm commitment and proactivity with regard to financial regulation. In their statement, the party demanded a financial transaction tax as well as bank and investor responsibility [in rescue operations]. (*Helsingin Sanomat*, 21 November 2010)

Lauri Rosendahl, who had appeared in the financial crisis- part of debate as the director of the Icelandic Kaupthing Bank's Finnish branch, had now changed position to managing the Helsinki Stock Exchange. He undermined demands for a FTT, regretting that

> (…) legislators face hard pressures [for reform] in the aftermath of the financial crisis. (Lauri Rosendahl, Nasdaq OMX Helsinki, *Helsingin Sanomat*, 28 April 2010).

Also Rosendahl argued that additional constraints on finance would weaken its ability to finance growth. Moreover, unilateral introduction of a FTT in the EU would only result financial activity moving to another jurisdiction:

> An additional tax would decrease all investors' willingness to trade and would make it more difficult for enterprises to acquire capital. This would weaken the chances for Finnish enterprises to invest, grow, and create jobs. (Lauri Rosendahl, Nasdaq OMX Helsinki, *Helsingin Sanomat*, 28 April 2010)

> If the EU would, as Urpilainen hopes, act as a world leader in the FTT issue, trade in liquid Finnish stocks would easily slide beyond the reach of Finnish small investors, Finnish regulator, and the Finnish tax system. (Lauri Rosendahl, Nasdaq OMX Helsinki, *Helsingin Sanomat*, 28 April 2010)

Yet, most debate on financial reform and regulation was associated to the Eurozone crisis. Faced with inevitable participation in the EU's rescue mechanisms, demanding private sector participation in sharing the costs of rescues quickly became the mantra for Finnish opposition politicians, particularly the social democratic SDP. For SDP, this was an intermediary stage before a shift in focus from private markets to public sector mismanagement. Later, the argument would become that private investors should bear the burden such that Finnish taxpayers would not have to pay for the lax bookkeeping of other European states.

> Banks and speculators must shoulder their responsibility for assisting the countries in crisis. A bank levy must be adopted in the Eurozone, and Finland must be proactive in pushing forward a global FTT, says Urpilainen. (*Helsingin Sanomat*, 21 November 2010)
>
> Also Paavo Arhinmäki, leader of the other opposition party Left Alliance, demanded that banks pay for their own risks. (*Helsingin Sanomat*, 21 November 2010)

Similarly, the minor coalition partner, the Greens, advocated stricter regulation, while defending the government's official line of action:

> The Green leader Anni Sinnemäki defended the government's Greek aid package, but emphasized that banks must pay their share of the bill. She proposed a bank levy and a financial transaction tax. (Helsingin Sanomat, 9 May 2010)

The right-wing Finns Party did not adopt the demand for private sector participation, because it rejected the rescue packages altogether, as shall be seen below. Hence, as was the case in Ireland, the line between mainstream parties and challenger parties ran between accepting the inevitable rescue mechanisms, but with harsh conditions, and rejecting these completely.

The Finnish centre–left was accompanied by its German counterpart, the SPD, in demanding private sector responsibility in exchange for parliamentary approval of the Greek rescue package. Also Chancellor Merkel initially voiced public demands or both stricter financial regulation and private sector involvement in the EFSF. As is discussed more in detail below, however, these public statements caused strong reactions in the markets and, consequently, resentment in countries at which the market reactions were aimed. Moreover, as Quaglia (2012) observed, in the Basel III negotiations Germany was among those pushing for less strict regulations. It appears to be the case that Merkel directed her public commentary to aggrieved electorates:

> "The society will ultimately pay for it", judged [the German SPD leader] the rescue package Gabriel in a press conference at the Willy-Brandt-Haus, where [EU Commissioner] Olli Rehn also spoke. The German Social Democrats want private banks to be involved in paying for the assistance package, as well as a FTT. (*Helsingin Sanomat*, 4 May 2010)

> At Brussels, the severe-looking German Chancellor Angela Merkel demanded the quick implementation of financial regulation, as well as the strengthening of the Stability and Growth Pact. (Helsingin Sanomat, 8 May 2010)

In Finland, the Left Alliance and SDP parliamentary opposition criticized the centre–right government for not being tough enough to insist that banks join in the EFSF. Yet, for core policymakers this was not an option, as shall be discussed below. For fear of market reactions, government attempts to bring banks along in the EFSF remained somewhat weak. The Finnish government thus advocated bank's participation on a voluntary basis, in line with the consensus view of EU institutions. Policymakers tried to convey the appearance that they were pushing the banks to get involved, but the message comes across rather diluted. I short, policymakers could only *hope for* private sector participation based on complete voluntarity.

> Jyrki Katainen (Kok) rejects opposition claims about the Finnish government not trying to pressure for banks' involvement in the Greek rescue effort, as other European governments have done. Katainen says that the Finnish government has acted precisely as the Germand and French governments: also here, ministers have met with the banks' management, discussed and got these to publish a joint statement, pledging for support for the measures adopted by Eurozone governments. "Not much more can be done right now, but I would like to emphasize that banks elsewhere have not made greater commitments, either", said Katainen. (*Helsingin Sanomat*, 8 May 2010)

> He [Katainen] hopes that those who have in the last weeks invested, in the hope of high yields, would in some way participate in the arrangements, alongside Eurozone taxpayers. (*Helsingin Sanomat*, 8 May 2010)

> According to [Olli] Rehn, banks shall participate on a voluntary basis. "I have noted that private banks have already move to this direction", formulated Rehn. (*Helsingin Sanomat*, 4 May 2010)

In other words, the anticipation of market reactions to demands of responsibility was such that the Finnish Minister for Finance Jyrki Katainen dared barely to "hope" banks would join in. This was a sign of weakness of governments vis-à-vis markets, to say the least. As the Irish economist Morgan Kelly, who anticipated the housing bubble, observed in an interview with the journal Vanity Fair:

> Senior people have forgotten that the government has certain powers (…) You can conscript people. You can send them off to certain death. You can *change the law*. (*Vanity Fair* 2011, emphasis added)

Let us now turn to observe in more detail the Finnish debate on participation in the Greek and Irish rescue packages. Particular attention will be paid to three issues. First, the presentation of the crisis as either public or private sector mismanagement; secondly, the rationale for, content of and conditions to the response measures; and, third, differences in how the Greek and Irish cases were presented.

4.2.2.2 Presentation and Reasons of the Crisis

As background for the discussion below it is useful to distinguish between two basic approaches to the question of origins of the crisis. The first perspective was to blame the financial sector for misjugding credit risk:

> "Financial markets made an error of judgement when they lent Greece so much money. The markets are lazy in reacting to visible problems. When they do react, the reaction is extremely strong and comes too late", says Korkman. (Director of the Research Institute for the Finnish Economy [Etla], Sixten Korkman, *Helsingin Sanomat*, May 4 2010)

> "In continuously investing in Greek bonds, market showed blind faith in the Euro. It describes well their level of knowledge. Maybe they've studied a wrong economic doctrine", Tuomala says. (Professor of Economics, Matti Tuomala [University of Tampere], *Helsingin Sanomat*, May 4 2010)

> The main culprits of the Greek crisis are banks and investors and speculators. They – and the owners – must be held responsible. Neither the EU nor Finland are to blame, and yet, they are taking the full responsibility in a situation where what is being rescued is not Greece, but Greece's creditors. (*Helsingin Sanomat*, May 4 2010)

This shows that the prevalent framing of the Greek crisis – bad public sector management – was not without friction. In a framing familiar from the Irish debate, the leader of the Left Alliance, Paavo Arhinmäki, coupled the financial elite together with the Greek political elite. Arhinmäki's argumentation thus already frames the crisis as *also* political mismanagement, but keeps the private sector in the picture.

> According to Paavo Arhinmäki, it is no use blaming the Greek people, on low salaries, when the real culprit is Greece's political elite, together with banks and financial institutions. (*Helsingin Sanomat*, 5 May 2010)

Taking a somewhat more technocratic point of view, the Bank of Finland emphasized, instead, the adverse external conditions in the world economy:

> According to the Governor of the Bank of Finland, Erkki Liikanen, the Greek crisis is partly caused by the global economic situation. "A big, global financial recession always leads to problems in the real economy, and after that to fiscal problems, when revenue falls." Liikanen thinks that the problems also partly stem from [Greece's] history. (*Helsingin Sanomat*, May 4 2010)

Yet representatives from centre–right Kokoomus, quoted below, crystallize what became the official Finnish narrative on the reasons for the Greek crisis. Public sector inefficiency and mismanagement was, ultimately, created for and by the Greek people, as voters, pensioners and workers.

> The Minister for Finance Jyrki Katainen (Kok) announced right away that culprits can only be found are amongst the Greek people. He searched for culprits amongst irresponsible politicians of various partisan colours. (*Helsingin Sanomat*, 5 May 2010)

> Germany and Finland are raising pension ages, whereas in Greece, workers can get a pension at an exceptionally low age. (MP Marjo Matikainen-Kallström [Kok], *Helsingin Sanomat*, 4 May 2010)

> According to Arto Satonen (Kok) we should remember, however, that Greece has lived beyond its means. In other words, ordinary voters should have demanded budgetary discipline from their politicians. (*Helsingin Sanomat*, 5 May 2010)

Timo Soini, leader of the Finns Party, accused the EU as a whole:

> The European Union gets what it has deserved. Despite years of rhetoric about transparency, it has endorsed and covered up lying and deception. (Timo Soini, Chairperson of the Finns Party, *Helsingin Sanomat*, 27 November 2010)

Finally, some searched for culprits at home. For the highly Eurosceptic Centre Party Minister, Paavo Väyrynen, the crisis offered the chance to criticize the Finnish decision to join the EU/EMU in the first place. Väyrynen subsequently left the Centre Party – after having been at the core of the party, serving as its chairman and a minister at several occasions over three decades – to establish his own Eurosceptic party. As said in the introduction to this chapter, the crisis marked a break in the EU-policy consensus among the Finnish mainstream parties. Väyrynen targeted his criticism precisely towards the long tradition of Finnish EU politics to strive towards the core of the Union:

> Minister for Trade and Development Paavo Väyrynen (Kesk) argues that the culprits of the Eurozone crisis are the former Finnish Prime Minister Paavo Lipponen (SD) ja and former Minister for Finance, Sauli Niinistö (Kok) (…) with their lead, the Finnish government wanted to take Finland to the core of the EU. Old Member States could not conceive being left out (of EMU) if the new Nordic Members were in. Hence, according to Väyrynen, the EMU accession criteria were cast aside. (*Helsingin Sanomat,* 3 May 2010)

> Pentti Oinonen found culprits also in Finland. “Why did you just silently watch when they (the Greeks) were lying”, he said, looking at the Ministers. “The truth is that Finland cannot save the whole world”, he said. (MP Pentti Oinonen, Finns Party, *Helsingin Sanomat*, 5 May 2010)

The remarks of MP Pentti Oinonen from the far-right Finns Party, above, seem to echo the campaign slogan of the Austrian FPÖ, “Our money for our people” (Unser Geld für unsere Leute) (Kriesi & Grande 2015, 276).

The Greek and the Irish crises ultimately became perceived quite distinctly in the Finnish public debate, and for some reason, the tone towards the Greek crisis and the Greek people was always more negative. The comment below from a Centre-party MP Mika Lintilä from the November 2010 debate on the Irish rescue package, crystallizes how the Greek and Irish crises ultimately became perceived, and the difference between the two:

> In Greece the problem was the public sector, mismanagement and outright corruption. In Ireland, it's a banking crisis. (MP Mika Lintilä (Kesk), *Helsingin Sanomat*, 17 November, 2010)

Finally, with regard to the presentation of the crisis, a further strand of debate that was only emerging in the period under observation here deserves some attention. As was discussed in the introduction, one reason for the severity of public opinion in Finland towards the EU's assistance mechanism is likely to have been the deteriorating economic situation at home. In conditions of perceived scarcity, we could assume altruistic attitudes to decline. The public attitude is likely to have been bolstered with the perception of difference between the economic problems at home and in the countries under assistance. As in Germany, in Finland the attitude towards debt is moralistic and highly negative. Debt is a sin. Hence, the fact that although Finland suffered from the decline in global trade, its public finances were still in 2010–11 relatively healthy, may have helped to frame the Greek crisis in particular as something that could not happen in Finland, and hence something that needs to be corrected with harsh discipline. Yet, alarms about mounting levels of debt also up in the north, were sounding in the press already in spring 2010.

> Mustonen (economist at the Finnish employers' organization) argues that debt could cause a crisis also in Finland, if corrective action is not taken in time. "Increasing the pension age would be the easiest and most painless. In addition, public sector spending should be cut and better administered, and public service production should be thought over", Mustonen said. (*Helsingin Sanomat*, 7 May 2010)

> The Danish economics professor Hans-Jörgen Whitta-Jacobsen estimates that Denmark could be the EU's next economic problem. According to the professor, this will be the case if nothing is done and politicians allow debt growth to continue." (*Helsingin Sanomat,* 27 November 2011)

The point is that an alternative framing, more á la Bush who in 2008 said that "we're all in this together" would have been available also in 2010, where Finnish policymakers would have looked themselves in the mirror, when discussing the treatment of Member States with excessive deficits. At the same time, it must be acknowledged that actors such as the Finnish employers leveraged on the Greek crisis precisely to make a comparison between Greece and Finland, in order to argue that also the Finnish public sector requires cutbacks.

4.2.2.3 Crisis Resolution: Contents and Conditions

To explain why EU leaders acted in May 2010, against their own wishes and particularly against those of their electorates, one word says it all: contagion. Market distrust, which had affected Greece was like a pandemic, which needed to be contained or more lives would be lost. Market actors themselves advocated a sizeable, prompt response that would credibly demonstrate the EU's commitment to back up its constituent parts:

> He also sees the danger that the mistrust of financial markets in Greece will spread and affect other countries' ability to service their debts. "If the Greek problem is properly addressed, the effects will be limited", said Kaperi on Wednesday. If the solution fails, the risk is a domino effect, of the sort that started with the Lehman Brothers, in autumn 2008. (Director Ari Kaperi, Nordea Bank, *Helsingin Sanomat*, 29 April 2010)

> "The risk of a Greek default has significantly increased in the eyes of financial markets. One way of calming down the markets would be to secure Greece's ability to service its debts for a much longer time than the 45 billion aid package will do", says the Pohjola Bank analyst, Robert Liljequist. (*Helsingin Sanomat*, 29 April 2010)

Policymakers tried to verbally calm the markets with assurances that Greece was *sui generis*, and similar problems did not exist in other Member States.

> Leaders have attempted to calm down markets. ECB chairman Jean-Claude Trichet said in Washington on Monday that there is no fear of contagion. "Spain is not Greece", said Trichet (*Helsingin Sanomat*, 27 April 2010)

> "We have a stable financial system. I would like to remind people that it was precisely the financial sector, which caused Ireland's problems", said Spain's Finance Minister Elena Salgado to radio Punto. (*Helsingin Sanomat*, 25 November 2011)

> "No other country has relied so much on lying and wishful thinking in its economic policy, as has Greece", says Korkman. (Helsingin Sanomat, May 4 2010)

The show of firepower by the EU was setting up the rescue mechanism, EFSF. The quote below from thr Minister for Finance Jyrki Katainen (Kok) shows how he still appears to believe the main responsibility for adjustment to rest on the shoulders of individual Member State governments.

> "This situation is different from the Lehman Brothers case, because we now act preventively, to avoid chaos (…) What we now need is extremely strong political leadership in all Member States", says Minister for Finance Jyrki Katainen. (*Helsingin Sanomat*, 9 May 2010)

> Figuratively speaking, the EU will put to the table enough money to make the markets calm down, and believe that Europe will handle this crisis without any further damage. (*Helsingin Sanomat*, 9 May 2010)

Assisting Greece was the preference of neither policymakers nor the public. Options for avoiding this outcome were therefore also debated in the press. First, the Finnish parliament could simply have voted against the measure. There were essentially two alternative ways of looking at the issue. One was from the point of view of national interest. Here, hindering EU policy because of domestic inability to reach consensus, was seen to cost Finland precious political capital. Too much public debate – as the Irish Taioseach Brian Cowen had put it – could be interpreted by markets as "political risk", preventing effective response.

> First, a national parliament can decide to reject the Greek loan. Such decision would have big consequences. The Eurogroup would not look kindly towards a Member State that leaves others to pay for its share. (*Helsingin Sanomat*, 4 May 2010)

> Uncertainty among investors about the possible popular resistance to the Greek aid package in Germany and other Member States pushed the Euro down on Monday. Uncertainty also pushes up Greek bond yields. (*Helsingin Sanomat*, 27 April 2010)

The Finnish government saw the issue precisely in these terms. The parliamentary opposition, by contrast, and in some instances backbencher MPs from government parties, judged the issue more as a moral one, based on individual or partisan perception of right and wrong:

> Markku Uusipaavalniemi said that "this Greek loan is just about buying time before the ultimate collapse, but it does not really help". "I will definitely vote against the motion", he said. (MP Markku Uusipaavalniemi [Kesk], *Helsingin Sanomat*, 6 May 2010)

Mapping possibilities to avoid having to assist Greece, policymakers particularly on the left advocated the option of debt restructuring or an outright default. They saw debt restructuring as a justice issue from two perspectives: a default would force a haircut on private creditors, as well as let the innocent (that is, the Finnish taxpayers) off the hook:

> We must reduce Greece's debts and not only move the debts around to new payers, us. (Former MEP Esko Seppänen [Left Alliance], *Helsingin Sanomat*, 4 May 2010)

> That way [by restructuring debt] we can also reduce problems caused by an "internal devaulation": increase in unemployment, wage cuts and major social security cuts. (Former MEP Esko Seppänen [Left Alliance], *Helsingin Sanomat*, 4 May 2010)

> Erkki Tuomioja spoke about debt restructuring as a consequence of states' own recklessness. Restructuring would for him be an alternative solution to a crisis in a single state. Tuomioja saw this solution as advocating justice. (MP Erkki Tuomioja [SDP], *Helsingin Sanomat*, 19 November 2011)

The Finnish opposition was not alone in advocating debt restructuring as an alternative to the financial assistance packages. As was discussed above in the Irish chapter, including debt haircuts for private investors to the EFSF was a key issue in the larger European debate. The core actor here was chancellor Angela Merkel of Germany, who, facing loud domestic opposition to the Greek package, invoked the idea of including private sector responsibility in the EFSF.

> "We need to change the EU Treaty to allow for an orderly default of a Member State, such that creditor banks be included in sharing the burden", said Merkel on Monday evening in a televised interview on the ARD-channel. (*Helsingin Sanomat*, 5 May 2010)

> The demand, originating from the German opposition, to get private banks involved in the Greek rescue bore fruit on Tuesday, as the director of the country's biggest private bank, Josef Ackermann, announced that his bank would shoulder part of the €22,4 billion promised by Germany to Greece. "It is very important that we put out this fire now", said Ackermann in Berlin. (*Helsingin Sanomat*, 5 May 2010)

Banks rejected the demands in the Finnish press. Representatives of Nordea Bank suggested, rather, that the political system was ultimately responsible for failing to regulate the private system, which may then have caused imbalances:

> The economists at Nordea reject as "strange, to say the least" the demand, voiced by many politicians, that banks bear partial responsibility for the reckless lending to Greece. (*Helsingin Sanomat*, 5 May 2010)

> The Research Director of Nordea, Roger Wessman, argues that regulation is the job of politicians, and banks operate within the framework put in place by the political system. (*Helsingin Sanomat*, 5 May 2010)

For the government, the question was not what was right, but what was possible. For fear of market reactions and consequences for the whole Eurozone, default or debt haircut was not perceived as an option:

> Katainen thought that restructuring was a good idea as such, if only it were possible in real life. (Finance Minister Jyrki Katainen [Kok], *Helsingin Sanomat*, 19 November 2011)

> Hence, according to him [Katainen] debt restructuring may be spoken of in conjunction with future assistance loans. Right now, it is impossible to negotiate with the markets about current problems, according to him. (*Helsingin Sanomat*, 19 November 2011)

> Schäuble warned that the consequences of a Greek default for all of the Eurozone would be severe. (*Helsingin Sanomat*, 27 April 2010)

Hence, the general conclusion was TINA: there was no alternative, but to assist Greece:

> The economists believe that there are no alternatives to the Greek rescue package, because a Greek default would represent a greater disaster than the Lehman Brothers bankruptcy a couple of years ago. (*Helsingin Sanomat*, 5 May 2010)

> The leader of the Centre party parliamentary group, Timo Kalli, said the matter was clear. "There is no option but to unanimously support the loan", he said. (*Helsingin Sanomat*, 6 May 2010)

> Pekka Ravi (Kok) thinks we face the same choice as Odysseus when he met the sea monsters Skylla ja Kharybdris: the options are complete disaster or a partial rescue. "Plague or Cholera", echoed Hannes Manninen of the Centre party." (*Helsingin Sanomat*, 5 May 2010)

> Katainen assured that the government had carefully weighed the interest of the Finnish taxpayer. The worry is that a Greek default would increase the risk of a new recession in Europe. "It's either rescue or recession", Katainen quoted a highly esteemed official from the Ministry for Finance. (*Helsingin Sanomat*, 4 May 2010)

The Greek package was defended by reference to two things in particular: the Finnish and, relatedly, the European interest. In fact, the two interests were increasingly seen as one. Stability in Europe meant stability in Member States, and vice versa.

> The leader of the Social Democrat parliamentary party, Eero Heinäluoma, argues that stabilizing Greece is in the European interest. But it cannot be done naïvely, at any cost, he writes in his blog. (*Helsingin Sanomat*, 3 May 2010)

> Katainen says he would not recommend that the Parliament ratify the Greek assistance package, if the alternative were not even worse for the Finnish economy. (*Helsingin Sanomat*, 3 May 2010)

> It can be difficult for the Finnish taxpayer to understand why we should lend half a million euros to Greece. Helping Greece is worthwhile. An uncontrolled default would pose too big of a risk for whole Europe. (*Helsingin Sanomat*, 29 April 2010)

Similar framing –assisting the countries in need was in the European, and hence national interest - was also used in Germany, the biggest creditor state:

> Merkel said that Germany has a great responsibility for the stability of the Euro, and that a strong Euro is also in the German interest. (*Helsingin Sanomat,* 27 April 2010)

> "It is in our interest", too, said Horst Köhler, the president of Germany - EU's economic engine - in Munich on Thursday. (*Helsingin Sanomat,* 30 April 2010)

Finland found itself was in the front line, arguing for harsh conditionality in exchange for the rescue loans. The debate on policy conditionality truly cemented the perception of the crisis as one of lax public spending in the Finnish public discourse. At this point, at the latest, attention had shifted from regulating markets to regulating – and sanctioning – states.

> Finland represented the strictest approach in Europe in the loan negotiations, according to Katainen. "We got what we wanted", said Katainen. (*Helsingin Sanomat*, 4 May 2010)

> The essential thing is to make Eurozone countries commit to a stricter budget discipline. "Public deficits are the key issue now", said the Prime Minister of Finland, Matti Vanhanen before the meeting. (*Helsingin Sanomat*, 8 May 2010)

> Finland advocates cuts to EU-funds for the spendthrift countries, in order to put political pressure on governments. This threat would not necessarily require changes in the Treaty. Finland is, however, ready for Treaty changes, even if this would take years. (*Helsingin Sanomat*, 8 May 2010)

Demands for policy conditionality were echoed by the EU institutions and the German chancellor, Angela Merkel:

> Greece will have to save more than has been agreed so far, and accept austerity for several years, said German chancellor Angela Merkel. If these conditions are fulfilled, then Germany is ready to help. (*Helsingin Sanomat*, 27 April 2010)

> The financial assistance loans from the IMF and the EU to Greece shall be strictly conditional, according to the EU Economics Commissioner Olli Rehn. The conditions will include significant measures from Greece to restore health to public finances and structural reforms of the economy. (Helsingin Sanomat, 30 April 2010)

> The Eurogroup will carefully follow Greece's commitment to economic reform. The basic rule is that there will be no money, if it fails to deliver the austerity measures. (*Helsingin Sanomat*, 4 May 2010)

The toughest comments, which came from both the centre–left and the far–right Finns party, did not content themselves with demanding conditionality or debt restructuring, but rejected the deal altogether and/or advocated Greece's exit from the Eurozone:

> Chairpersons of the Left Alliance and Finns Party criticize the proposal to help Greece. According to Paavo Arhinmäki [Chairperson of Left Alliance], the Left Alliance does not accept the Greek aid package and does not believe the package will necessarily pass in Parliament. Arhinmäki thinks that former Greek governments have deliberately deceived their peers and this deception must be brought fully out in the open before such aid can even be thought of. (*Helsingin Sanomat,* 3 May 2010)

> According to Timo Soini [Chairman of the Finns Party], the Finns party will not accept the Greek aid package either in the Finnish Parliament or at the EU-level. He thinks Greek should be led from the Eurozone, the future drakma should be devalued by 30-40 per cent, and the EU be turned into an economic and free trade alliance. (*Helsingin Sanomat*, 3 May 2010)

> According to Kari Rajamäki [SD] the alternative for Greece would be to devalue its currency, that is, in practice leaving the Eurozone. (*Helsingin Sanomat*, 5 May 2010)

As observed in the introduction to this chapter, Finland's long tradition of EU policy was breached in this crisis. From a "model pupil in the EU's classroom" (Jokela 2013), Finland acquired a reputation as an increasingly difficult Member State, with peculiar demands and conditions. One such condition was the Finnish demand for collateral for the rescue loans. The idea apparently originated in the Social Democratic party, who voted against the first Greek loan package in the parliament, and demanded that the government negotiate collateral for any future assistance loans, as a condition for SDP's backing such legislation. Politicians from other parties eagerly adopted the rhetoric. It became commonplace to contemplate Greece giving up its national assets, such as islands or ports, in exchange for help.

> Judging by assets, Greece is by no means poor – it is just unwilling and unable to organise its possessions, just like a relative in need of money, asking for a loan while simultaneously holding on to significant wealth. (MP Marjo Matikainen-Kallström (Kok), *Helsingin Sanomat,* 4 May 2010)

The collateral issue truly saw the politicization of the Finnish national interest in the press debate. The model pupil Finland, and the Finnish government, became perceived as naïve, unable to stand up for itself and defend its national interest at the EU-level:

> Just like Germany, Finland should wake up to defend its own interests – otherwise we will end up naïvely paying for the recklessness of others. (MP Marjo Matikainen-Kallström (Kok), *Helsingin Sanomat*, 4 May 2010)

> Finland should not be shy. New ideas and procedures [the collateral, specifically] should be presented in such simple form that these can be debated in Europe also amongst non-specialists. (*Helsingin Sanomat*, 4 May 2010)

Moving towards the Irish rescue deal, the debate over the collateral issue intensified. The collateral came to symbolize the Finnish national interest in the political debate. If we secured a deal on collateral, then we would have gotten something out of the negotiations, instead of just giving – so ran the argument, particularly dear to the SDP.

> The chairperson of the Grand Committee [which leads EU-affairs in the Finnish Parliament] Erkki Tuomioja [SD] was interested in the transparency and conditonality of the Irish assistance package. (*Helsingin Sanomat*, 19 November 2010)

> And like all Social Democrats, she [Ms. Urpilainen] asked [the Minister] about conditionality. She claimed the government had in the spring been deaf to the demands by

> SDP for collateral. She asked the Minister for Finance to be persistent now, that he had finally taken the SD's position in the issue. (*Helsingin Sanomat*, 19 November 2010)

The SDP was not entirely alone in demanding collateral. Experts and civil servants, particularly from the Department of Finance, are traditionally highly respected in Finland. Here, a high civil servant from the Department argued that the collateral was, in fact, a realistic idea and also in both the debtor's and the creditor's interest.

> Demanding collateral in exchange for emergency assistance is a feasible and realistic idea, says Pekka Moren from the Ministry for Finance. (Helsingin Sanomat, 17 November 2011)

> Collateral could be an imporant way of restricting liabilities for the creditor state, but it would also benefit the receiving state. It would bring credibility and decrease the cost of assistance, Moren says. (Helsingin Sanomat, 17 November 2011)

It became another instance where the contradiction between the constraints of domestic and EU-level policymaking became apparent. For the government, in particular Finance Minister Katainen, who had to negotiate with the EU partners, the issue was awkward. As can be recalled, the interviews conducted for this chapter indicated that Katainen never liked the idea, and was reluctant to bring it up at the EU level.

> I haven't yet got neither a thumbs up, nor a thumbs down, said Katainen. Other countries have thought the idea is "interesting". (*Helsingin Sanomat*, 16 November 2011)

> Katainen said he had demanded collateral already last spring in the Greek negotiations (…) Katainen said Finland ultimately had to decide on the Greek loan on a "take it or leave it" basis. And leaving it would have led to a recession and mass unemployment. (*Helsingin Sanomat*, 19 November 2010)

> He [Katainen] said he had fiercely and persistently demanded collateral from Ireland, but was left alone. "I did not get support from anyone in Europe". (*Helsingin Sanomat*, 19 November 2010)

Despite the reluctance of Katainen to use political capital for demands he perceived were unfeasible, domestic political constraints – the requirement to get SDP to vote for the rescue packages in parliament – forced the government to voice tough demands in negotiations at the EU level. This is not to say that Katainen or the rest of the government did not believe aid should be conditional. Rather, the government would have preferred to stick with demands for austerity and public sector reform, instead of asking for national Irish or Greek assets in exchange.

The collateral debate also spurred other kinds of demands, which broke the line between domestic and international affairs in the Finnish press debate in an unprecedented manner. Now, Finnish policymakers demanded changes to Irish taxation, as a condition for Finnish assistance. The Social Democrats were again in the front line voicing such demands. Ireland's low rate of company tax, in particular, was perceived as a problem. Indeed, Ireland keeping such a low tax was deemed as unjust for taxpayers in assisting Ireland, as they would essentially be subsiding Ireland's low-tax regime through higher taxation at home. This, however, was a non-negotiable item for the Irish, as was observed in the previous chapter:

> Negotiations are complicated by a quarrel over corporate taxation. Many EU countries and the Commission would like Ireland to raise its low corporate tax rate of 12,5 per cent. Irish politicians fiercely defended the tax rate. Minister for Finance Brian Lenihan announced that the tax rate shall not under any circumstances be touched. (*Helsingin Sanomat*, 20 November 2010)

> Social Democrats see Ireland continuing, on European taxpayers' money, as a country of low corporate taxation, as unsustainable: this would only sustain tax competition that is hazardous for welfare states. (*Helsingin Sanomat*, 23 November 2010)

> The [SD] parliamentary group leader Eero Heinäluoma cut corners and said that Finland has to maintain high taxation to compensate for Ireland's 12,5 per cent corporate tax rate. According to him Finland, and the EU, should demand that Ireland raise the rate in exchange for help. Now, Ireland just makes its competitors to raise taxes. (*Helsingin Sanomat*, 19 November 2010)

At this point, then, the Finnish debate had come a long way from the "we're all in this together" framing that US president Bush advocated in the financial crisis. Now, it was no more states against financial markets, but states against each other. A new vigilance over the protection of national interest was the order of the day. There was one group of Finnish actors, however, who explicitly rejected the increasingly nationalistic and harsh tone of the debate: Finnish MEPs, across partisan lines.

The Social Democrats MEP Liisa Jaakonsaari argued:

> If I were the leader of SDP, I would not take Ireland as a weapon in domestic politics. We have to remember that the Social Democrats advocated both Finland's EU and EMU membership from the opposition. Jaakonsaari regrets particularly the Finnish demands that Ireland raise its corporate tax rate. This would be poison for Ireland. There is now an atmosphere of punishment in Finland (MEP Liisa Jaakonsaari [SDP], *Helsingin Sanomat*, 24 November 2010)

A MEP for the centre–right Kokoomus, Sirpa Pietikäinen, on the other hand, tried to turn raise the issue of financial regulation onto the agenda:

> She [Pietikäinen] thinks that we should be talking more about financial regulation. "With proper regulation, the Greek and Irish crises could have been avoided." (MEP Sirpa Pietikäinen [Kok], *Helsingin Sanomat*, 24 November 2010)

> The demands for collateral are shadow-boxing, and should hardly be sustained, Pietikäinen said on Tuesday. (MEP Sirpa Pietikäinen [Kok], *Helsingin Sanomat,* 24 November 2010)

> That Ireland should survive is also in the Finnish interest. Humiliating Ireland only weakens its ability to pay back, said Jäätteenmäki. (MEP Anneli Jäätteenmäki [Kesk], *Helsingin Sanomat*, 24 November 2010)

Controversies over the German-led demands for private investor responsibility heightened in the run-up to the Irish bailout. As was discussed in the Irish chapter, the controversy was sparked by President Nicholas Sarkozy of France and Chancellor Angela Merkel of Germany who had made a joint statement in the French town of Deauville in October 2010 demanding such private sector responsibility be included in any permanent EMU rescue mechanism. Debtor country policymakers were aggrieved by the statement, which they saw as the last straw to break the figurative camel's back, pushing the markets' distrust over the edge and Ireland into bailout.

> The Prime Minister of Greece, [a country] living on emergency assistance, accused Germany for the ordeal of Eurozone debtor countries in the last days. Germany has demanded that in the future, also bond investors suffer losses in case a Eurozone country cannot pay its debts. (*Helsingin Sanomat*, 16 November 2010)

> Germany's demands can "drive national economies to bankruptcy", said [Prime Minister of Greece] Papandreou. (*Helsingin Sanomat*, 16 November 2010)

> (…) Ireland's collapse onto the arms of the EU and ECB could have been avoided, had Germany not scared the markets. "I was one of those who warned the Council not to take any action without proper preparation and a communication strategy", said the EU Commission chief, José Manuel Barroso, in Strasbourg. (*Helsingin Sanomat*, 27 November 2011)

Ireland ultimately did collapse to the arms of the *troika,* however, forcing Finnish policymakers again to persuade the electorate that participating in the rescue loan was worthwhile. Finland's preferred option would have been to avoid the bailout, and Finland therefore endorsed the Irish hesitation to ask for help, which continued for weeks.

> Finland was well served with the fact that Ireland did not ask for tens of billions of euros from the rest of the Union. (*Helsingin Sanomat*, 17 November 2011)

Yet, Finance Minister Katainen prepared the ground for an eventual bailout, by arguing that participation would again serve also the Finnish national interest. The prevalence of polity frames was highest in the Irish negotiations. It seems the only justification policymakers used was either European, or Finnish national interest.

> "The Finns have to be prepared to take a stance towards using the European facilities to stabilize Ireland". At the same time, according to Katainen, they have to think what not helping Ireland would mean for the Finnish and European economy, jobs, debt levels, and taxation. (*Helsingin Sanomat,* 18 November 2011)

> Katainen asked the Finns to think about helping Ireland on the basis that the crisis could spread to whole Europe. Down that road could be mass unemployment, for example in Finland. (*Helsingin Sanomat*, 21 November 2010)

> According to [Prime Minister] Kiviniemi, Europe could end up as Finland in the 1990s, if Ireland was not helped. "Banks are not saved for the sake of saving them; rather, if they would fall, there would be great damage. Businesses would go down, and many would lose their homes", said Kiviniemi. (*Helsingin Sanomat*, 26 November 2010)

No more naïveté from the part of Finnish government: now, the government unabashedly announced that it only negotiated to safeguard the national interest.

> According to [Prime Minister] Kiviniemi, Finland only considers one question in the negotiations: what's in it for Finland. (*Helsingin Sanomat*, 26 November 2010)

> In Finland, Prime Minister Mari Kiviniemi defended the loan package by saying that helping Ireland sustains the development of the Finnish economy and Finnish jobs. (*Helsingin Sanomat*, 23 November 2010)

In sum, one thing that crystallized in the Greek and Irish crises was the quasi-veto power of national parliaments to block the rescue measures, deemed necessary for the stability of Europe as a whole. Yet because parliaments in practice perceived the situation as did governments – that there was no alternative to agreeing to assist the GIIPS – they used their veto power rather to politicize the issue, and thus crucially affected the tone of the debate. In Finland, politicians acknowledged this power:

> In few cases can a small country use power such as this, as the decision requires unanimity. Without Finland, there's no decision. I am not afraid that we won't get what we want, said Kallis [MP, Christian Democrats[. (*Helsingin Sanomat*, 26 November 2010)

The EU–ECB–IMF *troika* went to great lengths to persuade parliaments to back up the EU's official line:

> A prestigious delegation paved the way for German politicians' acceptance of the aid package on Wednesday, when the ECB chairman Jean-Claude Trichet and IMF director Dominique Strauss-Kahn were questioned by parties in the Bundestag. (*Helsingin Sanomat*, 30 April 2010)

> Parliaments make the decision on the rescue package, and the German parliament is in a key position, justified Rehn his surprise visit [to the Bundestag]. (*Helsingin Sanomat,* 4 May 2010)

The Finnish opposition tried to leverage on its position by asking that the government negotiate with it about the terms and conditions regarding the Finnish assistance. Yet, the request was denied.

> Matti Vanhanen (Kesk) rejected SDP's request to negotiate. Vanhanen says it is too late for debate now, that the rescue package is already under consideration in Greece and in the biggest Eurozone country, Germany. (*Helsingin Sanomat*, 7 May 2010)

> Urpilainen said that also in Germany chancellor Merkel negotiates with the opposition. According to (Prime Minister) Vanhanen, the government debates with the opposition via the parliamentary committees. He is, for example, going to visit the Grand Committee before Friday's EU summit. (*Helsingin Sanomat*, 7 May 2010

In conclusion, let Chairperson Timo Soini have the last word, for the below quote summarizes nicely the outcome of the whole Greek/Irish aid debate for Finnish domestic politics, and paves the way for the final part of this chapter, discussion of the Finnish general election in spring 2011:

> Critics of the EU and the Euro have been ridiculed, also in Finland. Nobody laughs anymore. The next step, I am sure, is that those who warned [of the EU/euro], will be labeled irresponsible besserwissers. The ordinary folks only hear one thing: that there is no alternartive but to guarantee and ultimately pay the debts of Eurozone countries. No wonder some people speak of a "coalition government of old [mainstream) parties". (Timo Soini, Chairperson of the Finns Party, *Helsingin Sanomat*, 27 November 2010)

4.2.3 Finnish General Election, April–May 2011

One can be responsive both to the Finnish citizens and enterprises and the EU partners. This is the kind of responsiveness the Social Democrats pledge to continue even after the election.

– Reijo Paananen (SDP), *Helsingin Sanomat*, 12 April 2011

If all countries became like Germany, the European economy would paralyze, says Bengt Holmström.

– Professor Bengt Holmström (MIT), *Helsingin Sanomat*, 20 April 2011

The above quotes capture two themes that were new in the debate in the lead up to the Finnish general election in April 2011. First, domestic policymakers increasingly acknowledged the dischord between EU-level and to domestic demands. The Social Democratic candidate Reijo Paananen claims, in the first quote, to be able to overcome the contradictory situation precisely because it was difficult. What electorates wanted and what was deemed right, or necessary, at the EU level were two different things. What policymakers needed to do was to make decisions appear like they benefitted both ends. This was, after all, a core reason for debate on conditionality and collateral, in particular, in the debate analyzed above. Especially the collateral deal was largely a symbolic gesture, making it appear as if the government had been able to protect the Finnish interests in the negotiation.

The second quote captures increased criticism towards the EU's crisis responses in the election debate. The ability of the structural adjustment programmes, demanded from the GIIPS countries, to cure recessions by delivering growth and decreasing debt loads was increasingly questioned especially by academia and experts. Yet, perhaps unfortunately, key policymakers moved forward with exactly the same austerity-oriented agenda. Greece and Ireland were already firmly in the EU–ECB–IMF programmes, but now also Portugal was asking for help. Inconveniently, the Finnish elecetion threatened the Portuguese deal as the decision was supposed to be made unanimously and Finland did not officially have a government at the time. In the previous chapter, we saw how in Ireland the outgoing Fianna Fáil-Greens government was under extreme pressure to pass necessary legislation to enact the *troika* MoU, before the coalition could be allowed to fall apart and a new election called. Finland was now under similar pressure. The outgoing centre–right government led by Prime Minister Mari Kiviniemi refused to sign the deal as it no longer had official mandate. Yet the election outcome made forming a new government exceptionally difficult.

The election result – a "eurosceptic Big Bang" (Jokela 2013) – sent shock waves across both Finland and Europe. The key outcome was the surprisingly large victory of the eurosceptic Finns Party, which Jokela (ibid) characerizes as "one of the historical events in Finnish politics." The Finns Party had been founded in 1995 on the basis of the collapsed Finnish Rural Party. Since then, its success had been modest. In 1999 it won one seat, three seats in 2003 and five seats in 2007. Everybody thought that the Finns Party would remain a marginal force in the Finnish political system. In the general election of 2011, held on 17 April, the party won 19.05 per cent of the vote, which translated into 39 out of 200 seats in the Finnish parliament. The Centre Party, which had been the major coalition party in 2007–2011, thus holding the position of Prime Minister, got 15.8 per cent of the vote, a decline of 7.5 per cent and 16 seats compared to 2007. Other government parties lost too but less drastically. The centre–right Kokoomus, whose leader Jyrki Katainen had served as Minister for Finance in the 2007–2011 government, got 20.4 per cent of the vote, a decrease of nearly two per cent compared to the last election. It remained, however, the largest party in parliament. The Social Democrats, who had profiled themselves as increasingly Eurosceptic and were at the forefront of demanding tought conditionality for the rescue deals, came second with 19.1 of the vote. The difference between SDP and the Finns Party was thus marginal. The Greens, the Left Alliance and all other small parties also suffered losses. In essence, all "old" parties lost seats to the Finns Party in the 2011 election. Looking at the top three parties – the centre–right Kokoomus, whose leader Mr. Katainen had been Finland's key negotiator in the rescue package deals, the Social Democrats, at the forefront of pushing forward tough conditionality and the Finns Party – Finland's tough positioning in the EU does not seem surprising.

Official Finland was, however, shocked by the election result. Mr. Katainen, as leader of the largest party, had the task of forming a new government, one that proved unprecedently difficult. The Finns Party was obviously in a strong position to be included in the coalition. Yet, its leader Timo Soini announced that the party would remain in opposition as its positions in EU policy prevented cooperation with the pro-European mainstream parties. Also the Social Democrats did remain a pro-European party, although both their rhetoric and policy actions – the SDP voted against both the Greek and Irish deals in the parliament, but as it was in opposition, the deals passed anyway – had increasingly acquired Eurosceptic tones. Hence, the big challenge for Mr. Katainen was to form a government with only old parties in it. Yet Kokoomus and the SDP were ideologically distant, and SDP's recent manoeuvres in EU policy had distanced the parties and their leaders even further. Katainen negotiated with five parties: the SDP, the Greens, Left Alliance, the Swedish Party and the Christian Democrats. The negotiations were difficult and took more than two months, but in the end, a rainbow coalition government – Six-Pack, as it was called – was formed. Jyrki Katainen of Kokoomus became Prime Minister and Jutta Urpilainen of SDP the Minister for Finance. The advisor to Katainen said in an interview that giving Ms. Urpilainen the post of Finance Minister was a way for Kokoomus to "contain" the increasing Euroscepticism within the Social Democratic party, allowing Finland to stay, albeit reluctantly, in the EU fold.

Tables 4.13 and 4.14 show the main issues and frames in this debate. Unsurprisingly, EU policy still dominates the agenda. As Jokela (2013, 35) has also noted, EU policy especially with regard to the unpopular rescue packages was a key issue in the 2011 elections. As Table 4.13 shows, however, issues of fiscal and labour-market policy now, for the first time, gain prominence, as would be expected from an election debate. The selection of keywords for the data collection implies, however, that the articles selected always contain a reference to the Eurozone crisis. Hence, also fiscal policy issues in this debate are mostly debated in the European context. Although domestic economic problems – the worsening state of public finances, persistently slow economic growth and the failure of trade to pick up – were already on the agenda, the domestic redistributive debate only picked up pace after 2012.

Table 4.13: Issues, General Election, FIN

Main Issue	%	N	Subissues	%	N
EU Policy	**44.9**	105	**Eurozone Bailouts**	**27.8**	**65**
			Coordination and Institution-building	17.1	40
Fiscal and Labour Market Policy	**32.1**	75	**Taxation and Expenditure**	**31.2**	**73**
			Labour Market and Employment	1	2
Banking Policy	11.1	26	Regulation and Reform	8.1	19
			Banking Rescue Measures	3.1	7
Procedural Issues	8.1	19	Coalition and Electoral Politics	4.7	11
			Democracy and Social Justice	2.6	6
			Crisis Resolution	0.9	2
Structural Reforms	3.9	9	Public Sector Reform	2.6	6
			Business and Economic Reform	1.3	3
Total	100	234		100	234

Yet the debate shows some features that were, in the Irish chapter above, associated with redistributive debates in particular. First, as Table 4.14 shows, justice frames gain salience, and polity frames decline. However, economic and procedural frames remain prominent. Procedural frames in this debate are used mostly to highlight the necessity of Finland promptly forming a government, such that the Portuguese aid package could be passed at the EU-level.

Table 4.14: Frames, General Election, FIN

	%	N		%	N
Economic Frames	**44.4**	12	**Economic Growth and Employment**	**33.3**	9
			Market Confidence	11.1	3
Justice Frames	**29.6**	8	**Social Justice and Democracy**	**18.5**	5
			Morality	7.4	2
			Public Confidence and Interest	3.7	1
Procedural Frames	23.2	4	Law, Rules and External Constraints	11.1	3
			Efficiency	3.7	1
Polity Frames	11.1	3	National Interest and Sovereignty	7.4	2
			Eurozone Stability and European Interest	3.7	1
	100	27		100	27

Table 4.15: Speakers, All events, FIN

	Financial Crisis	**Eurozone Crisis**	**General Election**
Government and Executive, Other	**46.9**	30.2	19.6
Government and Executive, Finland	16.2	15.9	4.2
Parties, Finland	2.8	**20.4**	**34.6**
EU Institutions	6.8	9	**20**
Parties, Other countries and Europarties	**10.1**	1.4	1.7
Central Banks	6.8	4	1.7
Academia and Experts	2.1	4.3	8.3
Banks	2.7	**4.9**	2.9
International Organizations	1.9	2.5	**7.1**
Business and Employers	2.5	2.5	.
Others	1.3	1	.
Trade Unions	.	1.9	.
Interest Groups	.	2	.
Total	100	100	100
N	743	830	240

Secondly, as a sign of increasing domestic politicization, the share of domestic parties as speakers still grows in this debate. As Table 4.16 above shows, the share of domestic parties grew chronologically throughout the debate, whereas the share of executive actors – be they domestic or foreign – declined. Notably, too, the share of international organizations and EU actors grows chronologically. This shows how the crisis in Finland was not politicized as a domestic distributive debate – as in Ireland, where the shares of these transnational actors alternated with domestic parties and interest groups – but as an EU-political issue. Parties increasingly made claims in a debate that also featured a high number of claims from external actors. These, as the first quote of this section showed, were the two constraints that policymakers were compelled to weigh upon: the external and domestic "principals" (Mair 2011), EU actors and domestic electorares, whose positions and demands more often than not were in stark contrast.

Let us observe the debate in more detail. In EU policy, speakers were now in a position to take some distance to the measures taken and mechanisms set up in a hasty manner in the previous year. Hence, they reflected on the potential problems associated with the rescue measures and ways to avoid these problems in the future. The debate on a longer-term reform of the EU and EMU had thus begun. Yet, while the procedural side of the EU's economic governance framework wasup for debate, it seems the broad policy parameters of that framework were not. In other words, the definition of the problem as lax fiscal policy and the prescribed medicine, austerity, remained. Mechanisms to impose the prescription on Member States in a foolproof manner were debated. These policy packages later became known as the 6- and 2-packs of economic governance. Finnish policymakers broadly endorsed the proposals for stricter surveillance.

> Stricter surveillance of EU Member States' economic policy took a step forward on Tuesday night, as the EP's [European Parliament's] Economic Committee voted on the six new legislative proposals. (*Helsingin Sanomat*, 20 April 2011)

> This legislation does not solve the current crisis, but it brings confidence for the future to the markets, said Haglund. (MEP Carl Haglund [RKP], *Helsingin Sanomat*, 20 April 2011)

One of the problems identified with earlier rescue operations was the loss of time, when countries in trouble hesitated (sometimes for weeks) to ask for help. The comments below by the Finnish EU Economic Commissioner Rehn illustrate how justice was here debated as transnational justice*,* not domestic distributive justice in the typical sence. Member States, in the new situation brought about by the crisis, had obligations towards each other, and it was the nature of these obligations and mechanisms for enforcing them that was at stake in the negotiations over the EU Economic Governance framework.

> The EU Economics Commissioner Olli Rehn proposes that the Eurozone countries could in the future make it obligatory for a Member State in severe economic trouble to ask other

> countries for help. "This should be seriously considered, when desigining the European Stability Mechanism", Rehn said after the ECOFIN meeting on Saturday in Gödöllö, Hungary. (*Helsingin Sanomat*, 10 April 2011)
>
> According to Rehn, the obligatory programme would be about the responsibility of one Member State towards others. If a Member State cannot stand own its own, something has to be done as quickly as possible. (*Helsingin Sanomat*, 10 April 2011)

With regard to how the EU should be developed, were few opposing voices in the debate. The Finnish Christian Democrat MEP Sari Essayah was one:

> I believe Beres and other proponents of a federal EU are wrong. The scale of the EU's budget should not rise above the approximately one per cent of GDP it is now. I am worried about the fact that in Finland there is no debate and not even knowledge of the plans in the EP for a more federalist EU. (MEP Sari Essayah [KD], *Helsingin Sanomat*, 18 April 2011)

As said, in this debate criticism towards the EU's crisis response measures picked up speed. At the core of this criticism was the question of Greece's debt sustainability. An authoritative voice, Finnish economics professor Bengt Holmström of the Massachusetts Institute of Technology (MIT), made the case for restructuring Greece's debts:

> This is not a question of liquidity but one of solvency. Greece's financial situation is unsustainable. It cannot, with any reasonable tax rates, acquire enough revenue to service its debts. It is once again about who suffers losses: the Eurozone creditor states or banks. Moreover, with current interest rates [for the EFSF loans], Ireland and Portugal are ending up in a similar situation [as Greece]. (Bengt Holmström [MIT], *Helsingin Sanomat,* 20 April 2011)

Holmström's comments represent the first instance of a more thorough academic analysis of the crisis in the Finnish press – and certainly the first instance when somebody says "it is not about liquidity, it is about solvency". That is, the commentaries from policymakers, as seen in the Eurozone crisis debate analyzed above, represented two broad types: government and EU policymakers defended the measures they had to take as being without alternative, and opposition politicians weighed these measures based on their perception of justice – more often than not voiced in nationalist terms. A more balanced analysis was all but absent from the debate:

> Prudence is a virtue for an individual, but a vice for a national economy. If nobody is willing to go into deficit, all economic activity and business transactions will stop. (Bengt Holmström [MIT], *Helsingin Sanomat*, 20 April 2011)

> It is absolutely unreasonable that the crisis countries should do all the adjustment and the chance for economic growth is taken from them. Torturing countries until they are dead makes no sense. If the crisis countries are made to kill their own economies with these massive cuts, then their solvency will only keep deteriorating. (Bengt Holmström [MIT], *Helsingin Sanomat*, 20 April 2011)

Several similar commentaries particularly from experts and academics were quoted in the press:

> A severe recession and slow growth in revenue point towards Greece being in a vicious spiral, because of an excessively tight fiscal policy and weak economic growth. A debt haircut may be the only way put of the crisis, wrote an analyst for the US Citigroup, Giada Giani, according to Reuters. (*Helsingin Sanomat*, 15 April 2011)

> Expenditure cuts and tax increases alone will not necessarily bring credibility. According to Arola, a long-term policy to enhance economic growth, is required. "Strict austerity is not credible, if it does not bring economic growth that simultaneously increases revenue, while decreasing expenditure", says Arola. (*Helsingin Sanomat*, 11 April 2011)

Finnish politicians, with SDP again at the forefront, endorsed the option of debt restructuring.

> The SDP leader Jutta Urpilainen has proposed in the YLE (Finnish National Broadcaster) channel) election debate, that some traits of debt restructuring, such as interest rate cuts and longer payback time, be included in the Portuguese rescue package. (*Helsingin Sanomat,* 10 April 2011)

At the EU level, again, conflicting communications strategies from core policymakers caused confusion.

> The Finance Minister of Germany, Wolfgang Schäuble and Prime Minister of Greece, Georgios Papandreou, have caused friction to the [EU's] communications policy in the last days. Schäuble said that a [Greek] debt restructuring may be inevitable. Papandreou, on the other hand, publicly voiced worries about Greece not being ready for private financial markets by 2012. (*Helsingin Sanomat*, 16 April 2016)

> The media has published rumours about German plans for a Greek debt restructuring. These rumours have no base in reality, said Schäuble, via a communications officer. (*Helsingin Sanomat*, 17 April 2011)

Yet the official line was firmly against any debt restructuring.

> The EU, IMF and the Greek government firmly reject the idea of a debt restructuring. (*Helsingin Sanomat*, 14 April 2011)

> Despite the current high rates, Papakonstantinou rejects debt restructuring."The associated loss of trust would prevent us from accessing the markets for a very long time", he says." (*Helsingin Sanomat,* 14 April 2011)

Policymakers once again invoked the apocalyptic scenario of another financial crisis that would surely follow debt restructuring:

> Debt restructuring [for Portugal] would have amounted to us opening the gates for a Lehman Brothers-type disaster in Europe, said Rehn. (*Helsingin Sanomat*, 10 April 2011)

> Officials at the ECB and EU warn that debt restructring would lead to an economic disaster. (*Helsingin Sanomat*, 15 April 2011)

At this point, let us momentarily return to fall 2010, and observe some commentaries from Greece that were quoted in the Finnish press at the time. In the quote above, professor Bengt Holmström argued that massive cuts demanded from Greece rob the country of the possibility of economic growth. Curiously, the Greek Prime Minister Papandreou made precisely the opposite argument, saying that the adjustment programme represented a chance for Greece to *create* economic growth. Arguably, professor

Holmström judged possibilities for growth in terms of economic theory. For the government of Greece, by contrast, market distrust was the key concern, and if austerity would help Greece regain that confidence, then that would lead to growth. This was the expansionary fiscal contractions idea in action.

> According to the Prime Minister of Greece, Giorgios Papandreou, the agreed measures will safeguard the economy for the Greek citizens and create an opportunity for growth. (*Helsingin Sanomat*, 1 May 2010)

Later in the fall, the Greek premiere still endorsed the agreed austerity measures.

> There is no time to postpone the agreed measures. We must stick firmly to our goals, so that we can remain in the programme, emphasized the Minister (…) (*Helsingin Sanomat*, 19 November, 2010)

> According to the Greek Minister for Social Affairs, Andreas Loverdos, Greece had very little room for maneuver in the negotiations. "This is about rescuing the country from economic collapse", he said. (*Helsingin Sanomat*, 1 May 2010)

The Greek official opinion was quite contradictory to that on the streets.

> Many influential Greeks were, on Thursday, still completely unyielding in front of the government's austerity proposals. Labour, in particular, sees no reason why their wages, already low in comparison to the [rest of the] EU, should be cut. (*Helsingin Sanomat*, 7 May 2010)

> Stathis Anestis, vice secretary-general of the trade union confederation, representing 750 000 Greeks, says that the citizens should not yield to any wage or pension cuts (…) "I know many telecommunications engineers from your country, Finland. At Nokia, they earn triple the amount that I do as an engineer", says Anestis. (*Helsingin Sanomat*, 7 May 2010)

> Anestis admits that Greece has no choice but to take the aid package. "The three-year adjustment period is too short, however", he says. (*Helsingin Sanomat,* 7 May 2010)

Much anger was directed at the Finnish EU Commisioner, Olli Rehn.

> Some aggrieved protesters asked about Olli Rehn's salary. Compared to that of Greek professors, for example, it must be tenfold. (*Helsingin Sanomat*, 6 May 2010)

> Professor of Political Science, Michalis Spourdalakis said that Olli Rehn "only has respect for the EU's cause. He advocates the cause of capital and forgets about humanism", condemned the professor. (*Helsingin Sanomat*, 6 May 2010)

There were at least three different conceptions of justice in this debate. Finnish policymakers and representatives of EU institutions appeared to understand justice, in this context, as rules that define reciprocal obligations. As according to the existing EU rules every country should be responsible for its own liabilities, this was the headstrong position of also Finnish politicians. The boundaries of polity define the boundaries for reciprocity. The Greek people quoted above, by contrast, clearly perceive the policy outcomes in the crisis as unjust, and appeal to notions of solidarity, humanism and fairness. For the Finns, fairness ends when you stop playing by the rules. In this sense, the Greeks and only the Greeks were deemed responsible for their own woes.

Respect for rules and responsibility to EU partners were the guiding principles for Finnish policymakers in the last key issue of the election debate: the impact of the potential or realized "Eurosceptic Big Bang" for EU-level crisis management. As was noted above, Finnish politicians became, in course of the Eurozone crisis, aware of the pivotal position of national parliaments for the execution of EU's financial assistance packages. Executives needed parliamentary approval: MPs leveraged on this and asked for concessions and conditions that made them look better in the eyes of suspicious electorates. During spring 2011, opinion polls began to indicate the the Finns Party was going to do well in the forthcoming elections. Hence, given the Portuguese aid package required unanimous approval, worries were expressed about the turn Finland's EU policy might take after the election, especially given the fact that Finland's "model pupil" reputation had already gone through a transformation.

> Finland has, for weeks, been called a "bully" and a"difficult Member State". The reason is that Finland has pushed for stricter conditions for the crisis countries' aid packages than have other countries. (*Helsingin Sanomat*, 21 April 2011)

> The *Financial Times*, among others, has commented on the threat the Finnish election result may pose for the Portuguese loan programme. In a comment to the international media last week, [Olli] Rehn said he trusted that Finland has a responsible approach to the European debt problem. (*Helsingin Sanomat,* 16 April 2011)

Before the election, the EU institutions – Commissioner Olli Rehn as their main representative, playing a rather similar mediating role as the former IMF staff member, professor Donal Donovan had in Ireland – were reluctant to participate in the domestic Finnish debate.

> I do not want to participate in the Finnish domestic debate, he [Rehn] said to reporters. (*Helsingin Sanomat*, 10 April 2011)

> Rehn said he trusted that responsibility will win in Finland, and that the new parliament will accept the conditional €80 billion aid package for Portugal. (*Helsingin Sanomat*, 10 April 2011)

Yet after the election result was clear, EU policymakers did not hesitate to appeal to Finnish policymakers, drawing parallels between a defense of European value and interest and the decision to help – or not help – Portugal.

> I am deeply convinced that Finland is committed to European and Nordic values both now and in the future, said Wilfried Martens, leader of the European People's Party [EPP] on Monday, after first regretting the success of the Finns Party. (*Helsingin Sanomat*, 19 April 2011)

> We must respect democracy and the outcome of the elections. They are deep European values, Rehn says. "But at the same time, the Eurogroup must be able to make decisions that prevent Portugal from sliding into insolvency." (*Helsingin Sanomat,* 21 April 2011)

> He [Rehn] hopes that the new Finnish parliament will consider the effects of "yes" and "no" for the Finnish general interest. "And maybe think a bit about Europe, too", adds Rehn. (*Helsingin Sanomat*, 21 April 2011)

Internally, the Portuguese question posed a dilemma. Who was going to take the rescue package Bill to the parliament, given that negotiations before forming a new government were bound to take long?

> The Prime Minister of the outgoing government, Mari Kiviniemi (Kesk) and the Minister for Finance, Jyrki Katainen (Kok) are in complete disagreement about how Finland should proceed with the Portuguese aid package. (*Helsingin Sanomat*, 20 April 2011)

> Kiviniemi argues that the outgoing government cannot present the legislation to the Parliament. "The task belongs to the new government. It is too big an issue for an interim government". (*Helsingin Sanomat*, 20 April 2011)

And what about the role of Social Democrats? The party was second-largest in the country. It sat in government, but it had shown a highly critical and almost populist attitude to the rescue packages in the past, voting against both the Greek and Irish loans in 2010.

> SDP leader Jutta Urpilainen does not yet know what the SDP will do, when the decision regarding the Portuguese aid package will have to be made in May. For the past four years SDP has been in opposition and opposed helping the countries in crisis, but now it looks likely that the SDP, as second-largest party, will be in the new government. (Helsingin Sanomat, 20 April 2011)

> Urpilainen says, however, that SDP's position is the same, whether in opposition or in government. That is: the party will not support the Portuguese package if it does not include bank and investor responsibility. So far, these are not included. (Helsingin Sanomat,20 April 2011)

Faced with the election results, the tone of EU officials hardened.

> Rehn does not perceive the possibility of Finland opting out and the other Eurozone countries agreeing to an alternative package. "Helping Portugal requires the present mechanism, which can go to the markets immediately. To use it requires unanimity." (*Helsingin Sanomat*, 21 April 2011)

> The EU Commission reminded on Monday that Finland is already commited to helping Portugal. Finland gave its political commitment one week ago in the ECOFIN meeting in Gödöllö, Hungary (…) The Commission has full trust in Finland to follow through with its commitments. (*Helsingin Sanomat*, 19 April 2011)

The involvement of the Commission in Finnish domestic politics invoked criticism at home.

> The EU Commissioner Rehn has, again, began to guide the Finns from the outside. Now, Rehn appears to be advising Finland from Hungary on how to vote and what to decide (…) The Commissioner has to accept that the Finnish voters will make their own decisions and freely choose their own government. (Eero Heinäluoma [SDP parliamentary party leader], Helsingin Sanomat, 10 April 2011)

As with the collateral issue, Finland, as a small Member State, had to carefully weigh how to use its – arguably limited – political power in Brussels.

> It is not exaggerated to say that rejecting the Portuguese package would cost Finland a great deal of its political capital in Brussels. (HS 21 April 2011)

The Portuguese episode illustrates how the relationship between domestic and EU-level politics was complicated in the crisis. Suddenly, the situation required supranational redistributive decisions with profound implications for the EU as a whole. In the absence of a supranational political union, however, these collective decisions were subject to domestic political constraints. Usually, at the level of actual policy decisions, these constraints were overcome. So, too, in this case. The Finnish parliament accepted the Portuguese aid package in May 2011, but tough conditions were included in it. The politicization of the supranational distributional conflict could not find expression via an outright rejection of the aid mechanism, but it found expression in a tougher political rhetoric, which paved the way for a new political reality in Finland.

The Finns Party remained in opposition in 2011–2015. In 2015, after having secured 17.7 per cent of the vote, the party became the second-largest in Finland, and formed a right-wing government with the Centre Party and the centre–right Kokoomus. Timo Soini, the charismatic leader of the Finns Party, became the Minister for Foreign Affairs of the coalition. In the Eurozone crisis, right-wing euroscepticism had thus established itself as a stable and permanent force in the Finnish political landscape.

4.3 Conclusion

This chapter has traced the Finnish policy debate in the 2008–2012 financial and Eurozone crisis in the most important Finnish national newspaper, *Helsingin Sanomat*. The chapter has illuminated the path of politicization of not only the crisis, but with it, of the long Finnish line of EU policy. The path to politicization was characterized by an increase of party actors in the debate, and a toughening, increasingly nationalistic rhetoric among them. Finnish parties, lead by the Social Democrats and Finns Party, politicized the EU's policy responses in the domestic debate by demanding strict conditions in exchange for financial assistance for the debtor countries. EU policy became debated as a conflict over supranational distribution. The position of domestic executives was peculiar, as they were caught in between a toughened political rhetoric at home and apparently unsurmountable constraints from their EU partners. A fear of market chaos made leaders respond with often hastily conceived measures to safeguard the stability of the Eurozone and its constituent parts, the Member States. In the concluding section, below, I will further explore the relationship between actors, issues and frames with more quantitative evidence from the press data, as was done in the Irish case. The purpose is to see whether some issues or frames can systematically be connected to certain actors. That is, based on the quantitative evidence, does the agenda-setting hypothesis appear to hold: did certain actors push the agenda to a particular direction?

Let us first observe potential variation in issue salience and framing by the nationality of actors. Did Finnish and non-Finnish speakers emphasize different issues, or speak of issues in different ways? The main observation from Table 4.16 is that there appears to be very little difference between what national and non-national actors spoke about in the Finnish press. This is in stark contrast to Ireland, where national actors spoke much more about fiscal policy than did non-national, and vice versa for EU policy (Table 3.9). In Finland, everybody spoke chiefly about EU and banking policy.

Table 4.16: Issues by Actor Nationality, FIN

	Non-National	**National**
Fiscal and Labour Market	12.9	10.1
Structural Reforms	4	7.7
EU Policy	**42.7**	**51.6**
Banking Policy	**28.5**	**21.4**
Procedural Issues	12	9.3
Total	100	100

In the Irish case, we found that the variation of national and non-national actors' participation in different events explained the differences in issue saliences for them. That is: domestic Irish actors spoke more of fiscal and labour market policy than did non-Irish, because the latter group hardly entered the two debates (austerity budget and election) where such issues were most prominently on the agenda. Hence, it appeared that the agenda of each event by and large drove issue salience, not deliberate issue entrepreneurship. Table 4.17 first depicts the distribution of sentences by national and non-national actors across the aggregated events in the Finnish case. Table 4.18 thereafter explores issue salience by actor nationality and event.

Table 4.17 Nationality of Actors by Event, FIN

	National	Non-national	Total	N
Financial Crisis	24.7	**75.3**	100	753
Eurozone Crisis	49.5	50.5	100	842
Election	50.2	49.8	100	255
Total	**60.5**	**39.5**	100	
N	731	1119		1850

Table 4.18 Issues by Event and Actor Nationality, FIN

		Fiscal and Labour Market	Struct. Reforms	EU Policy	Banking Policy	Proced. Issues	Total	N
Financial Crisis	National	**11.4**	**17.8**	17.3	40	13.5	100	185
	Non-national	4.2	2.4	**23.5**	**50.6**	19.3	100	544
Eurozone Crisis	National	7.8	4.2	**67.2**	**15.2**	5.6	100	408
	Non-national	**14.3**	6.1	**69**	5.1	**5.6**	100	413
Election	National	16.5	3.7	**51.4**	**12.8**	**15.6**	100	**109**
	Non-national	**45.6**	4	39.2	9.6	1.6	100	125

In Table 4.3 we see that the two stages of the crisis featured rather different compositions of issues. The financial crisis was characterized by dominance of banking and procedural issues, whereas particularly EU issues, but also fiscal and labour market policy, increased in salience in the Eurozone crisis. Table 4.17 in turn shows that the whole Finnish debate is highly transnational, and particularly the financial crisis stage is characterized by the dominance of non-Finnish actors. Taking the two dimensions – actor nationality and issue salience – together, Table 4.18 then shows that in contrast to what we might expect based on the Irish case, the increasing salience of fiscal and labour market issues towards the end of the observation period is *not* primarily carried by Finnish national actors. Rather, it appears that whilst Finnish actors have more to say about fiscal policy in the financial crisis (at this stage, the picture that emerges from Table 4.18 resembles that we would expect based on the Irish case), in the Eurozone crisis, and even in the election debate, it is *non-Finnish* actors that carry debate on fiscal and labour market policy. Domestic Finnish actors politicized the crsis as an *EU policy* issue, and the looming domestic fiscal crisis was kept as quite separate from the Eurocrisis debate. Notably, national Finnish actors speak more of banking policy at the Eurozone crisis stage than earlier. As said earlier in this chapter, the politicization in Finland involved considerations of the interconnections between private (banking) debt and sovereign debt, and the justice of (Finnish) taxpayers paying for the fruits of this private greed, as well as debate on the involvement of private investor responsibility in the Eurozone bailouts. The salience of fiscal policy among Finnish actors declines towards the end of debate and increases among non-Finnish actors. It is hence foreign actors – foreign parties especially – who in the Finnish debate voice concerns about the effect of the crisis on public spending programmes and employment in their countries. An example of such voices, as seen above, were the Greek public sector unions, whose concerns were covered by Helsingin Sanomat in 2010.

In sum, what the discussion indicates is that in Finland, more than in Ireland, deliberate issue entrepreneurship did play a role in how the crisis was politicized. The agenda of debate in the Eurozone crisis phase looks different than it does in the Irish case because of the way Finnish actors – first parties, but increasingly also the government – coupled banking and EU policy together in arguing about the justice of the rescue operations from the perspective of the Finnish taxpayer.

How about variation in issue salience among different functional actor groups? Table 4.19 depicts the participation of actor groups in the three aggregate events and Table 4.20 shows issue salience for different actor groups.

Table 4.19: Actor Groups by Event, FIN

	Executive	Non-Executive	Banks and CB	Academia	EU/Int.Org	Total	N
Financial Crisis	**63.9**	15.6	**9.6**	2.2	8.8	100	743
Eurozone Crisis	46.5	**28.6**	9	4.3	**11.6**	100	830
Election	23.8	**36.3**	4.6	8.3	**27.1**	100	240
Total	50.6	24.3	8.7	4	12.5	100	
N	918	440	157	72	226		1813

Table 4.19 tells us that as the crisis proceeds, non-executive presence in the Finnish press debate increases. This is as observed in the qualitative discussion above: as the crisis was politicized, Finnish, but also non-Finnish, parties had more to say about it. At the same time, the presence of EU actors

increases. In contrast, executive actors and banks and central banks decline in prominence. Again, we see a contrary trend to that observed in the Irish case. There, politicization – understood as broadening of participation beyond the executive domain – happened in two events: the austerity budget (high presence of interest groups) and the election (high presence of parties). These events pitted Irish domestic groups against each other in a conflict over burden-sharing of adjustment costs. In Finland, no such type of event can be detected. Rather, politicization that picked up speed in the Eurozone crisis stage concerned *international redistribution.* Issue-wise, it combined EU and banking policy with redistribution. In terms of actors, this politicization path pitted Finnish parties *against EU actors* who defended external constraints and responsibilities brought along with EMU membership, *instead of contrasting domestic group*s, as in Ireland. The Finnish government joggled between the two ends of the pole. Hence, as Table 4.20 shows, the distribution of issues for EU actors/international organizations and non-executive actors is similar: both emphasise EU policy and fiscal and labour market issues, but speak slightly less of banking policy than do executives and banks. Academia and experts, too, have similar emphases.

Table 4.20: Issues by Actor Group, FIN

	Execu tive	Non-Executive	Banks and CB	Academia	EU/Int. Org	N
Fiscal and Labour Market	9.9	**14.5**	7.1	**20**	**13.8**	203
Structural Reforms	4.6	6.9	4.6	11.4	4.6	94
EU	**45.7**	**46.1**	**40.3**	**48.6**	**55.8**	816
Banking	**29.8**	17.9	**41.6**	17.1	17.1	454
Procedural	10.1	**14.7**	6.5	2.9	8.8	182
Total	100	100	100	100	100	
N	900	408	154	70	217	1749

Table 4.21 moreover offers evidence of the particular path to politicization in Finland. In the financial crisis, the profile of issue salience for non-executive actors looks distinctly different from executive and EU actors. The first are much less inclined to speak of the crisis as an EU issue, and even as a banking policy issue, than in terms of procedures or fiscal and labour market policy. Yet as the crisis proceeds, issue salience among non-executive actors comes to resemble more that of EU actors and executives. In the Eurozone crisis, everybody speaks of EU policy and banking policy first, and fiscal policy second. Non-executives speak more about banking policy than do executives, something that was never true in the Irish case. In the election event, things have turned around from the financial crisis, in that now executives and even EU/international organizations speak more of fiscal policy and jobs than do

non-executives, among whom EU policy dominates. Again, the path to politicization in Finland combined EU-issues, banking issues and redistribution in a new combination.

Table 4.21: Issues by Actor Group and Event, FIN

		Exec utive	Non-Executive	Banks and CB	Academia	EU/ Int.Org	N
Financial Crisis	Fiscal and Labour Market	4.1	**16.4**	5,7	13,3	0	43
	Structural Reforms	5.2	**16.4**	2,9	6,7	1,7	46
	EU	**24.5**	5.5	20	**26,7**	**30,5**	156
	Banking	**50.1**	30.9	**64,3**	**46,7**	**45,8**	346
	Procedural	16.1	**30.9**	7,1	6,7	**22**	128
Total		100	100	100	100	100	719
Eurozone Crisis							
	Fiscal and Labour Market	10.6	11.4	4.1	**22.9**	**11.9**	88
	Structural Reforms	4	4.4	4.1	8.6	8.6	39
	EU	**74.1**	**61**	**63.5**	**62.9**	**71**	555
	Banking	7.1	**14.5**	**21.6**	5.7	4.3	82
	Procedural	4.2	8.8	6.8	0	4.3	45
Total		100	100	100	100	100	809
Election							
	Fiscal and Labour Market	**53.6**	21.4	40	20	**29.2**	72
	Structural Reforms	3.6	0	20	20	1.5	9
	EU	28.6	**61.4**	10	40	**56.9**	105
	Banking	14.3	8.6	30	15	9.2	4.1
	Procedural	0	8.6	0	5	3.1	9
Total		100	100	100	100	100	221

Let use then turn to frames. Tables 4.6 and 4.7 above showed that whilst economic frames dominated the Finnish debate, their hegemony was contested by polity frames, particularly at the moment of politicization of the crisis in Finland. In the financial crisis econonomic and justice frames together made up over 80 per cent of all frames, but in the Eurozone crisis, their combined share had dropped below 50 per cent. Instead, polity frames now made up nearly 30 per cent of frames. The above analysis has revealed that non-executive actors politicized the crisis as an EU policy issue at the second stage of the crisis, and few differences could be observed between national and non-national speakers in issue salience. Table 4.22 observes variation in framing between national and non-national speakers.

Table 4.22: Frames by Actor Nationality, FIN

	National	Non-national	Total	N
Economic	**42**	39.7	41.4	111
Justice	17.7	**26.5**	21.6	58
Procedural	19.7	15.7	17.9	48
Polity	19.7	18.2	19	51
Total	100	100	100	
N	147	121		268

The table 3.12 in the Irish chapter depicted a rather different picture than the one arising from Table 4.22, above. In the Irish case, national actors were more likely to frame the crisis in justice terms, where as non-Irish actors used more economic and polity frames. In the Finnish case, quite the reverse seems to be true. Whereas polity and procedural frames are used by non-national and national speakers to an almost equal measure, *foreign* speakers are more likely to use justice frames in Finland than are Finnish ones, and vice versa – although only very slightly – for economic frames. Again, economic/distributive justice in the typical sense was not the key consideration in the Finnish debate, but rather cross-border distributive justice and procedures for allocating such justice, which is why we see relatively many procedural and polity frames, compared to Ireland.

Table 4.23: Issues by Actor Nationality and Event, FIN

		National	Non-national	Total	N
Financial Crisis	Economic	**56.1**	53.1	**54.4**	49
	Justice	24.4	**32.7**	**28.9**	26
	Procedural	7.3	10.2	8.9	8
	Polity	**12.2**	4.1	7.8	7
Total		100	100	100	90
Eurozone Crisis					
	Economic	**37.4**	26.7	**33.1**	50
	Justice	11	**23.3**	15.9	24
	Procedural	**26.4**	20	23.8	36
	Polity	25.3	30	**27.2**	41
Total		100	100	100	151
Election					
	Economic	40	50	44.4	12
	Justice	**40**	17	29.6	8
	Procedural	13.3	**16.7**	14.8	4
	Polity	6.7	**16.7**	11.1	3
Total		100	100	100	27

Table 4.23 shows that in all events except for the Finnish general election, non-Finnish actors were actually more likely to use justice framing than were Finnish actors. Again, in Ireland completely the reverse was true. This is to say that in Finland, as has been observed above, the crisis was not politicized as a domestic distributive debate at any point. Framing in the election debate has similar features to the two Irish distributive debates - higher proportions of justice frames by national actors, less prominence of polity frames - and it is likely that were the observarion period extended to, say, post-2015, we would observe much more debate along these lines. This is because around and after 2015, the connections between the overall crisis and the dire Finnish fiscal and economie situation became more apparent.

Let us finally observe variation in the framing of issues across functional actor groups. Table 4.24 depicts the use of frames by actor groups in the Finnish debate.

Table 4.24: Frames by Actor Group, FIN

	Executive	Non-Executive	Banks and CB	Academia	EU/ Int.Org	N
Economic	**41.1**	33.3	**66.7**	47.1	31.8	109
Justice	19.4	**33.3**	7.4	5.9	**31.8**	58
Procedural	14.7	21.7	18.5	**29.4**	13.6	47
Polity	**24.8**	12	7.4	17.7	**22.7**	50
Total	100	100	100	100	100	
N	129	69	27	17	22	264

This appears to be the one table, where the picture we get resembles that in the Irish case. Banks and executives appear most likely to use economic framing, and non-executives and also EU/international organizations, by contrast, use relatively many justice frames. Polity framing is carried by executives and EU/international organizations. Hence: when non-executives debated the crisis as an issue in EU politics, they framed it in terms of justice, whereas when executives did, they were more likely to frame it in terms of economic rationality or national/European interest. This finding would appear to reflect both the qualitative discussion above, as well as hypotheses laid out in chapter two. Let us finally observe whether the picture changes when we control for events. As may be recalled, in the Irish case it did not change. To facilitate interpretation, the election event has here been merged to the Eurozone crisis event.[55]

[55] Given the rather small amount of data for the election event, cell freqencies would otherwise have been too low.

Table 4.25: Frames by Actor Group and Event, FIN

		Executive	Non-Executive	Banks and CB	Academia	EU/ Int.Org	N
Financial Crisis	Economic	**54.2**	42.9	**75**	**66.7**	0	49
	Justice	27.1	**42.9**	16.7	0	100	26
	Procedural	10.2	7.1	8.3	0	0	8.9
	Polity	8.5	7.1	0	33.3	0	7
Total		100	100	100	100	100	90
Eurozone Crisis							
	Economic	30	30.9	**60**	**42.9**	35	60
	Justice	12.9	**30.9**	0	7.1	25	32
	Procedural	**18.6**	**25.5**	**26.7**	**35.7**	15	39
	Polity	**38.6**	12.7	13.3	14.3	25	43
Total		100	100	100	100	100	174

Overall, the picture that emerges from this table confirms the conclusion: in each event, non-executive actors are more likely to use justice frames than are executives. Executive actors and banks are particularly likely to use economic framing. Procedural and polity framing increases towards the end of observation period, and executives and EU/international organizations are particularly likely to use these types of frames.

Table 4.26, finally, depicts types of debate in the Finnish case. In contrast to the Irish case, we do not observe the type of domestic redistributive debate at all. Instead, we find that the banking crisis event could be described as a transnational debate over the justification of banking rescue measures and policies, hence of the type *tranasnational justice.* Here, transnational justice refers less to distribution, but to procedure: the desirable extent of public intervention in the private sector. The Eurozone crisis on the other hand could be described as a *transnational polity* debate. Here, what was at stake was, indeed, distribution, but because no genuine European polity exists, such debate involved a new type of conflict over the borders of the community within which relations of reciprocity apply. In short, this was a debate about who is to be included in the community of those that have a right to redistribution, and on what procedural basis.

Table 4.26: Types of Debate, FIN

Event	Actor Group	Conflict Type
Financial Crisis	Executive, Banks	Transnational Justice
Eurozone Crisis	Non-Executive (parties, FIN and non-FIN), EU/int. Org, Executive	Transnational Polity

In terms of Zürn's (2016) alternative formulation of politicization, as transporting a previously non-political matter to the realm of public choice, we can conclude that in Finland, *politicization was thick*. Finland, and the Finnish parliament, as creditor country, had effective veto power over the execution of the Eurozone's crisis resolution mechanisms. The Finnish parliament did not use this veto, but domestic Finnish politicization on the collateral issue, for example, served as a real threat to the assistance packages. Finnish policymakers and the public had a real political choice in this crisis. They had a choice on what to do (policy), how to think about it (ideas) and what to say about it (debate, rhetoric). They chose to participate, but reluctantly, thinking about the core problem in terms of political failures and public trustworthiness in their fellow EU countries, and to say this out loud. Such path to politicization may have initially been carried by few political entrepreneurs (Finns Party, SDP) but its message was quickly endorsed across the political establishement and the broad public. The conflict over crisis resolution has proved transformative for the Finnish political landscape and discussion climate for years to come, at any rate.

5. Conclusion

This thesis set out to explore why, and in what political process, did austerity become the uniformly accepted policy response of Eurozone governments in the financial and economic crisis of 2008–2012. It traced the path to austerity in two distinct Eurozone Member States, Ireland and Finland. Ireland, in this crisis, became a debtor country that had to do heavy domestic adjustment; Finland, by contrast, ended up in the group of Eurozone creditor countries, imposing structural adjustment programmes on the debtor countries.

The thesis argues that two types of politicization of the crisis, observed in public debates in these two countries, were necessary for the outcome of interest, the prevalence of austerity, to happen. In Ireland, the crisis was internalized in two stages. Two of the Irish key events analyzed in this thesis were characterized by transnational political contestation, and two were typical domestic redistributive events. It appears that the two transnational events were more structurally powerful than were the domestic events. In other words, while core policy decisions regarding crisis management were made in in a trans- and suprannational policy process, the effects of these decisions were internalized and politicized in a domestic redistributive process. Had either of these elements been absent, the outcome would have looked different. In autumn 2008, facing a collapsing banking system and intense pressure to act, the Fianna Fáil–Greens government moved to put in place the extensive bank guarantee. Public debate at this stage was crisis was characterized by a relatively high number of non-Irish speakers, relatively high presence of banks as claims-makers, and low level of domestic politicization. The Irish government interpreted the crisis in line with the international consensus, as a liquidity crisis. Domestic banks actively endorsed this intepretation. This spurred the government to respond as it did. The budget debate of October 2008 represented a domestic redistributive conflict over sharing the costs of adjustment. At this stage, the politics of crisis management became politicized domestically. Yet this politicization concerned allocation of blame and burden-sharing, and had little structural power over the broad contours of policy: austerity quickly became the shared frame of reference. The debate on the Irish bailout deal in November 2010 again was a transnational debate, with a low level of domestic politicization. That is: while the event certainly provoked heated debate at home, public argumentation was dominated by both Irish and non-Irish executives as well as EU-actors and international organizations. Domestic forces had little power over outcomes. Finally, the election debate in February 2011 again represents a domestic debate centered around adjustment, this time political adjustment to an external and internal crisis of confidence in the FF–Greens coalition. Both transnational events were characterized by the dominance of executive actors and by economic framing, both domestic events by a relatively higher share of non-executive actors as well as a higher share of justice frames. Domestic, non-executive actors spoke more about fiscal and labour market policy than did non-Irish, executive actors. These issues dominated the two national events. External, executive actors preferred to debate banking policy and EU-issues. These topics dominated the two transnational events.

In sum, the Irish case demonstrates a two-stage process of politicization and internalization of the crisis, where the significant policy decisions were reached in a transnational, fairly technocratic policy process but were debated and internalized in domestic, redistributive and politicized process. The transnational stage is characterized by economic and practical reasoning, whereas the domestic stage represents a conflict about distributive justice.

The Finnish path to politicization looked rather different. It took place at one stage only. For Finland, the 2008–9 financial crisis was not domestically politicized at all. Debates on banking policy and procedural issues regarding banking rescue operations at this stage were dominated by non-Finnish executive speakers, with Finnish parties all but absent. Curiously, in the Finnish case, justice frames were more salient at this stage of the crisis than they were in the Eurozone crisis of 2010–12. The Finnish press covered debate on the justice and morality of saving private banks with public money in autumn 2008. This was possible, because Finnish banks were relatively sheltered from the crisis and the government faced no immediate need to intervene. There was room for justice debate. Yet, such debate did not imply domestic politicization: rather, the issue was debated as something external, with few implications for Finland. This only changed in 2010–12, when the crisis became re-interpreted as a sovereign debt crisis of the GIIPS countries. At this stage, the presence of Finnish parties in the debate increased significantly. Participating in the EU's financial assistance mechanisms became a highly politicized issue in Finland, as the distributive effects of doing so for the Finnish taxpayers became evident. Yet the politicization in Finland did not come about as a typical domestic redistributive debate, but as a new type of *supranational conflict over distributive justice.* Such conflict was not primarily framed in terms of just burden-sharing, but in terms of national and European interest. It, hence, was simultaneously a debate on borders and boundaries – polity and identity – as it was about distributive justice. These two issue became intertwined. The change in interpretation was spearheaded by the Eurosceptic Finns Party and the Social Democratic SDP, but it quickly was endorsed by Finnish parties and the government regardless of partisan colour. Hence, alongside rhetoric, the official line of Finnish EU policy became tougher and Finland became perceived as an increasingly difficult and selfish member of the EU community.

The theoretical framework of this dissertation predicted that austerity be debated in terms of supranational redistribution. In short, the discussion in chapter 2 revealed a gap in earlier literature on the politicization of European integration, where hypotheses on political conflict on distributive issues, fought in the international arena, were scarce. Existing theories mostly predicted a sharp division between domestic-level distributive conflict, unfolding along the left–right axis, or conflict on EU integration as an issue of international and intergovernmental politics, along the lines of pro or against more integration. The Irish case seems to fit more neatly into these predictions. Once the crisis was politicized in Ireland, in the sense of growing participation in the debate by domestic parties and/or interest groups, the left–right dimension did appear to take over and the crisis became domesticated as a distributive conflict. Yet the Finnish cases poses a question mark on predictions from earlier theory. The crisis was politicized among domestic electorates in Finland, but the conflict did not assume the normal Left-Right dimension, but as said, the centre–left Social Democrats, the Left Alliance and the extreme right Finns Party came together, demanding tough conditionality in exchange for the EU's financial assistance loans. They framed this demand with a hybrid of polity and justice framing. In one sense, the Finnish case comes close what the post-functional theory of integration by Liesbet Hooghe and Gary Marks (2009) predicts: convergence of the left- and right-poles of the party spectrum, opposing integration, and the mainstream parties together remaining pro-integration. Yet, two of the findings of this study stand in contrast to this theory. First, as this study has shown, the Center-Left Social Democrats, *the* pro-integration party of Finland, was at the vanguard of demanding conditionality for Finnish participation in the EFSF and other rescue mechanisms. Secondly, the ways parties politicized the issue did not simply revolve around the question of identity, as Hooghe and Marks (2009) and, more recently, Bechtel et al. (2015) have found. Rather, the new type of supranational redistributive conflict that the crisis was, was politicized with a combination of considerations stemming from economic self-interest, one the one hand, and from territorially bounded interest – distributive polity – on the other. The crisis was politicized as much as a crisis of redistribution as it was as a crisis of boundaries for reciprocity, and who should be included within those boundaries.

Chapter 2 also put forward a schematic model of ideational change, which, it argued, characterized events in this crisis better than does the hierarchical model, associated with Peter Hall's (1993) concept of paradigm change. The schematic model predicts change when actors recombine elements of ideas that exist within a paradigm. Hence, no overarching paradigm change, such as would be predicted by the hierarchical model, is required to bring about significant ideational change in times of crises. The empirical chapters have shown this prediction to be true in the Eurozone crisis. The key juncture in this crisis was the shift from an interpretation of the crisis as one of the financial system to a sovereign debt crisis in the Eurozone. This shift in interpretation was driven by what Chapter 3 labeled a transnational alliance of governments both in debtor and in creditor countries, the EU-IMF *troika*, but also parties in the creditor countries. In Ireland, this shift was characterized by the government ceasing to understand Ireland's banking and fiscal crisis as one of domestic redistribution only, and adopting in late 2010 a frame where solving the crisis with external intervention would be in the national interest. That is, as the Irish government started to present external intervention in the country's fiscal and economic policymaking as an act in the national interest, it also gave way to interpretation of the main problem as fiscal laxity in Ireland. Banking issues faded into the background, as the issue was reframed. In Finland, such ideational *bricolage* took place at the same juncture, towards end-2010. Finnish parties, such as the SDP, whose main demand had thus far been responding to the crisis with better and stricter regulation of finance – e.g. financial transaction tax – now reframed their demands. They now wanted to regulate finance in the GIIPS countries such that *Finnish taxpayers would not have to pay* for what became perceived as the failure of the GIIPS' political systems to regulate their banks or their inflation. Whereas in the beginning of the crisis the US president George W. Bush had argued that "we´re all in this together, and united, we will get out of it", the problem now became narrowed down to concern the GIIPS only. With this interpretation, it became easier for Finnish parties to argue for conditionality that punish these culprits, while relieving the burden of the innocent (Finns). Hence, incremental ideational change brought about the kind of third-order ideational change as predicted by Peter Hall (1993), where what constituted a primary political concern changed from the regulation of private finance to regulation of state finances.

Hall's theory would further predict that the third-order ideational change be characterized by a shift in the locus of authority. The theoretical framework of this thesis predicted that in ideational terms, the outcome would be "ordoliberal federalism", where the locus of authority regarding Member State's public finances would move to the EU level, and the core policy principle guiding the supranational ordo, would be neo-liberal: lean states, small deficits. The thesis concludes that the two-type process of politicization of the crisis that we have observe reflects the predicted outcome, ordoliberal federalism, where the structurally powerful policy decisions are reached in a trans- and supranational process, and internalized within a domestic distributive process. Keynesianism, the other major economic idea identified in Chapter 2, is little reflected in the outcome. Traces of Keynesianism were most visible in the 2008–9 debates on banking regulation and rescues, when actors were genuinely debating whether (and for what purposes) governments ought to intervene in the economy. Yet as the turn in the prevalent interpretation occurred in 2010, Finnish SDP and the Finns Party combined a Keynesian demand for market regulation with a nationalistic demand for the protection of Finnish taxpayers. Hence Keynesian transnational solidarity never materialized, and this preference was driven by electorates in creditor countries.

In conclusion, this thesis has contributed to our understanding of battle lines in distributive conflicts that cross borders. We are likely to see many more such debates – not only among countries, but between countries, international organizations and large corporations, for example. The conflict over taxation between Apple, Ireland, and the EU Commission is a case in point. This poses a dual challenge for political science trying to understand such conflicts. First, there is the question of scope. How should we perceive the impact of the level at which political conflicts take place on the outcome? How do our predictions regarding distributive justice conflicts change, for example, if battle lines do not run between interest groups, but between countries and peoples? Secondly, as constituencies are changing - within countries and across borders - so should our institutions. Regarding partisan theory, Häusermann et al. (2013) have argued that a "traditional approach should be applied to a more limited set of empirical cases only, i.e. to countries with class-related electoral constituencies that correspond to the social structure of the industrial era, bipolar party systems, and a programmatic mode of party competition." Such cases hardly exist outside political scientists' imaginations. Hence, even in cases where distributive conflict unfolds along domestic party lines, we need a far better understanding of the contemporary drivers of such conflict.

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APPENDIX A

Newspaper Analysis of Key Events

Ireland

1) *Irish Bank Guarantee, 30 September 2008*
Timeframe: 23 September – 7 October 2008
Keywords: Ireland AND ("bank guarantee" OR "banking crisis" OR "guarantee scheme" OR bailout)
Source: Lexis Nexis

2) *First Austerity Budget***,** *14 October 2008*
Timeframe: 8 – 21 October 2008
Keywords: Ireland AND (budget* OR "public finance*" OR "welfare state") AND (spend* OR tax* OR cut* OR increas* OR consolid* OR reduc* OR auster* OR adjust*) OR (employm* OR growth OR stimul*)
Source: Lexis Nexis

3) *Irish general election, 25 February 2011* (coded for POLCON project)
Timeframe: 25 December 2010 – 25 February 2011
Keywords:(Dáil Éireann OR Dail Eireann OR Fine Gael OR Labour Party OR Labour OR Fianna Fáil OR Fianna Fail OR Sinn Féin OR Sinn Fein OR Socialist Party OR "People before profit" OR Green Party OR WUAG OR "Workers and Unemployment Action Group" OR United Left Alliance OR Workers Party OR Christian Solidarity OR New Vision OR Independent Party OR Fís Nua OR Peoples Convention OR Democracy Now OR (Enda and Kenny) OR (Eamon and Gilmore) OR (Micheál and Martin) OR (Micheal and Martin) OR (Gerry and Adams) OR (Séamus and Healy) OR (Seamus and Healy) OR (John and Gormley) OR (Michael and Gleeson) OR (Mick and Finnegan) OR (Richard and Greene) OR (Pat and Kavanagh) OR (Declan and Bree)) AND NOT SECTION(SPORTS OR OBITUARIES OR FASHION OR LETTERS OR BUSINESS OR ARTS)
Source: Lexis Nexis

4) *Irish Bailout, 21 November 2010*
Timeframe: 14-28 November 2010
Keywords: Ireland AND (bailout OR "EU IMF deal" OR "emergency loan" OR "emergency assistance" OR "ELA" OR "rescue deal" OR troika)
Source: Lexis Nexis

Finland

1) Irish Bank Guarantee, 30 September 2008
Timeframe: 23 September – 7 October 2008
Keywords: finans* OR finanssikrii* OR pankkikriis* OR talouskriis*
Not sections: Cars, Life, Science, People, Home, Travel, Sports, Culture, Food, Radio & Television
Source: Electronic archive of Helsingin Sanomat

2) First Austerity Budget (In Ireland), 14 October 2008
Timeframe: 7 – 21 October 2008
Keywords: finans* OR finanssikrii* OR pankkikriis* OR talouskriis*

Not sections: Cars, Life, Science, People, Home, Travel, Sports, Culture, Food, Radio & Television
Source: Electronic archive of Helsingin Sanomat

3) Greek Rescue Package, 2 May 2010
Timeframe: 25 April – 9 May 2010
Keywords: kreik* OR talouskriis* OR velkakriis* OR eurokriis* OR finans*
Not sections: Cars, Life, Science, People, Home, Travel, Sports, Culture, Food, Radio & Television
Source: Electronic archive of Helsingin Sanomat

4) Irish Bailout, 21 November 2010
Timeframe: 14 November – 28 November 2010
Keywords: irlan* OR finans* OR talouskriis* OR velkakriis* OR pankkikriis* OR eurokriis*
Not sections: Cars, Life, Science, People, Home, Travel, Sports, Culture, Food, Radio & Television
Source: Electronic archive of Helsingin Sanomat

3) Finnish General Election, 17 April 2011
Timeframe: 10-24 April 2011
Keywords: velka* OR talous* OR finans* OR eurokriis* OR euroal* OR pankkikriis*
Source: Electronic archive of Helsingin Sanomat
Not sections: Cars, Life, Science, People, Home, Travel, Sports, Culture, Food, Radio & Television

List of interviews

Ireland

- Ciaran Cuffe, Greens: State Minister in the 2007-2011 Fianna Fail-Greens Coalition government
- Donal Geoghegan, Greens: Secretary-general for the Green parliamentary group in 2007-2011
- Michael Taft, Economist, TASC think thank
- Jack O'Connor, President, SIPTU (Services, Industrial, Professional and Technical Union)
- David Begg, Irish Congress of Trade Unions
- Dan O'Brien, journalist, the Irish Times
- Rory O'Donnell, Economist, National Economic and Social Council
- Mr John Howlin, Central Section, Department of Public Expenditure & Reform
- Ms Jessica Lawless, Central Section, Department of Public Expenditure & Reform
- Ms Denise O'Connell, Central Budget Office, Department of Finance
- Jennifer Carroll Mac Neill, advisor to Fine Gael, 2007 -- >

Finland

- Juhana Vartiainen, Director General, Government Institute for Economic Research
- Sixten Korkman, Professor of Economics, Aalto University (Helsinki)
- Martti Hetemäki, Permanent Secretary (most senior civil servant), Ministry for Finance
- Tuomas Saarenheimo, Permanent Under-Secretary, Ministry for Finance

- Kaisa Korhonen, advisor to Minister for Finance Jutta Urpilainen (until 6/2014)
- Matti Hirvola, advisor to Minister for Finance Jutta Urpilainen (2011-2013)
- Pasi Rajala, advisor to Prime Minister Jyrki Katainen (until 6/2014)