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The literature on the Eurozone crisis overlooks two defining features of the crisis, namely the initial attempt to rely on Private Sector Involvement and financial repression in order to deal with liquidity crises in member states. This paper argues that these gaps stem from the neglect of the concept of corporate power by the literature and offers an analysis of how the crisis emerged and was ultimately resolved in 2010-2012 that instead revolves on an account of how corporate structural power determined the outcome of the crisis.

Le pouvoir des entreprises et la résolution de la crise de la zone Euro

La littérature sur la crise de la zone euro néglige deux caractéristiques déterminantes de la crise, à savoir la tentative initiale de s'appuyer sur l'implication du secteur privé et la répression financière pour faire face aux crises de liquidité dans les États membres. Cet article affirme que ces lacunes découlent du fait que la littérature néglige le concept de pouvoir des entreprises. Il propose une analyse de la manière dont la crise a émergé et a finalement été résolue en 2010-2012, qui s'articule autour d'un compte rendu de la manière dont le pouvoir structurel des entreprises a déterminé l'issue de la crise.

Corporate power and the resolution of the Eurozone crisis

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> *Deauville is the moment when the ontological integrity of the Eurozone is called into question [...] Sarkozy and Merkel made a historic mistake.*
> *Emmanuel Macron, deputy secretary general to French president François Hollande in 2012-14 and French president since 2017, in 2013.*

> *Trichet had seen the pattern: Elected leaders were inclined to act on behalf of a united Europe only when the markets forced them to. So the ECB was going to sit back and let the markets do their job.*
> *Neil Irwin, The Alchemists: Inside the Secret World of Central Bankers, London, Headline, 2013, 305.*

> *[Financial markets] forced Europe to do what ha[d to be done] [...] what has happened in the last five years is tremendous [...] in terms of political integration [...] And that [...] only has been triggered via the financial markets and by no one else. There's no politician who stood up and said we have to change that. Not one.*
> *Josef Ackermann, Deutsche Bank CEO and International Institute of Finance president, 2002-12, in June 2012.*

Introduction

The Eurozone crisis constitutes a major event in the European Union's history. Its fallout has continued to make waves and since the election of Emmanuel Macron as French president, the issue of Eurozone reform is again the top item on the European policy agenda.

1 I wish to thank Jeffry Frieden, Jérémie Gautier Poltier, Jonas Pontusson, Andy Smith and the two anonymous reviewers for comments and criticism and Mary O'Sullivan for help in identifying data sources. The usual disclaimer applies.

Shortcomings in the literature

The consensus view among social scientists is that the crisis exposed the faulty design of the Eurozone. The lack of fiscal and banking federalism destabilised sovereign bond markets and European banks and gave rise to a "doom loop" between banks and member states. All of a sudden, much of the Eurozone's stock of hitherto risk-free assets and the banks holding them came to be seen as risky. Consequently, expert opinion points to the need for fiscal federalism and a common banking policy in order to cushion asymmetric shocks, guarantee the provision of a "safe asset" and relieve fiscally overburdened member states from the liability for bailing out domestic banks that have grown far too big for them to safely backstop.

Most scholarship views the Eurozone crisis as a typical balance of payments crisis. The political science literature builds on this insight and can be divided into two main strands, namely comparative and international political economy (Iversen, Soskice and Hope, 2016; Frieden and Walter, 2017 respectively). CPE is mainly concerned with how the variety of national political economic institutions fueled macroeconomic imbalances and prevented their swift resorption. The authors in this tradition generally find it difficult to answer questions about political and institutional development as their approach tends to see national institutions as immutable, not as constantly evolving political-economic equilibria that reflect, at least partly, conflicts between actors.

The IPE literature attempts to understand the Eurozone crisis in terms of the international politics of balance of payments crises and macroeconomic adjustment. It therefore tends to focus almost exclusively on intergovernmental dynamics (e.g. Copelovitch *et al.*, 2016) and distributional questions about the balance between austerity and reflation in, respectively, the deficit and surplus member states.

Both strands gloss over instances of conflict between the corporate community and political leaders, in particular among actors from the same member state. They therefore evacuate the possibility such conflict may have been a defining feature of the crisis. This stems from the fact that the established EU integration and CPE/IPE theories they rely upon fail to incorporate the dimension of corporate power in their accounts.

Consequently, the literature ignores two fundamental conflicts, namely corporate opposition to the German government's insistence on private sector involvement (PSI, i.e. debt restructuring) and the refusal by banking corporations to go along with the parallel solution of reinforcing financial repression and the link between banks and their home member states. My claim, instead, is that these were the defining features of the crisis.

Indeed, accounting for these features resolves the two riddles that Jeffry Frieden and Stefanie Walter identify in their authoritative application of IPE balance of payments crisis theory, which they see as setting the Eurozone apart from previous crises. The first riddle is that the resolution of the crisis has not entailed any substantial amount of PSI. The second is that it has given rise to new federal institutions. I argue that both of these distinctive characteristics are down to the role played by Europe's major corporations, in particular Europe's biggest banks and insurers.

The two aforementioned conflicts are of crucial importance because they crystallised the major political-economic and institutional issues thrown up by the crisis. The first was whether sovereign risk would become a feature of the Eurozone's financial system and materialise (through losses for bondholders) as a solution to sovereign debt crises. Given the Eurozone's institutional setup, eliminating sovereign risk entailed partial mutualisation of member states' fiscal liability through institutional innovations.

The second issue was whether the Eurozone's financial system would be renationalised and cross-border finance scaled back, thus eliminating one of the most tangible benefits and a key objective of monetary union. During the crisis, it gradually emerged that the only way to avoid the throwback to the pre-euro financial configuration was to create a centralised system for banking policy (known as banking union).

Key decision makers share this assessment. Former European Council president Herman van Rompuy admitted that the October 2010 Deauville agreement (which adopted PSI as a general principle) was the "biggest mistake of th[e] crisis," thus sharing Macron's assessment with which this article opens (Leparmentier, 2013, 10). This is a view shared by former ECB president, Jean-Claude Trichet.[2] Xavier Musca (economic adviser to French president Nicolas Sarkozy in 2009-12) told me that allowing sovereign risk to emerge by questioning the

2 Remarks at the conference "L'avenir de la zone", held at the University of Geneva on 8th March 2019 and interview in Paris, 23 January 2020.

creditworthiness of deficit member states was a "catastrophe".[3] ECB president Mario Draghi has claimed that the June 2012 European Council (which launched banking union) was the "game-changer" that allowed the ECB to intervene through the Outright Monetary Transactions (OMT) programme (Véron, 2015, 18). Other major actors such as Mario Monti (Italian premier in 2011-13) and Lorenzo Bini Smaghi (ECB executive in 2005-11) also agree with this assessment.[4] A very senior Commission official closely involved in the handling of the crisis spelled out the broader implications by saying that the crux of the matter was the "safe character of sovereign debt" that is "the foundation of the financial system" (Telephone interview with an anonymous Commission official, 25 April 2019).

Had those two policies not been reversed, the Eurozone crisis would not have led to deeper integration.[5] Had the Deauville decision been implemented, the need for fiscal liability mutualisation would have much diminished. When Merkel pushed for PSI at Deauville, she saw it as a way to avoid extending beyond 2013 the facility (the EFSF) set up earlier in 2010 to bail out member states (Bastasin, 2012, 222). This was a German attempt to row back from the commitment to fiscal liability mutualisation and to restore the "no bailout" clause that Germany had insisted upon when the Maastricht treaty had been drafted. As put to me by Thomas Steffen, German deputy finance minister in 2012-17: "Deauville was intended to signal to market participants that the no bailout clause was for real, that there was no implicit state guarantee and to reintroduce market discipline in the functioning of sovereign debt markets in the Eurozone" (Telephone interview, 24 April 2019). Investors would constantly be assessing the creditworthiness of member states and pricing their

3 Interview in Paris, 12 March 2018. Musca became deputy CEO at Crédit Agricole upon leaving the French presidency in 2012. He had previously been the French Treasury's director (2004-09). I provide this information as illustration of the kind of instrumental corporate power (on which see the theoretical section of the paper) in evidence during the Eurozone crisis.

4 Bini Smaghi moved to the private sector upon leaving the ECB executive board and has been chairman of Société Générale since 2015. For Monti's views, see Bastasin 2015, 387. Bini Smaghi interview in Paris, 22 November 2017.

5 When I put this to Jean Lemierre – French Treasury director in 1995-2000, special adviser to BNP-Paribas's chairmen in 2008-14 and chairman since 2014 himself and finally one of the two IIF negotiators of the Greek PSI in 2011-12 – he agreed. He further remarked that the Deauville decision and the whole debate on PSI crystallized one of "the problems not dealt with when the euro was created and which was dealt with during the crisis, namely whether there is a string that holds the whole system [of sovereign debt] together, whether there is solidarity and what conditions it comes with. Deauville […] is a true political debate." Interview in Paris, 14 March 2018.

debt accordingly. Deauville was thus an attempt to reinstate the system created at Maastricht – to go backwards, not forwards through greater integration.

And had financial repression not been effectively defeated through banking union,[6] financial corporations would have further increased the home member-state bias in their balance sheets, deepening the process of financial disintegration witnessed in 2009-13. Instead, the geographic diversification of bank balance sheets has now become an avowed objective of policy and banks' and insurers' cross-border exposure has been on the rise again.

Consequently, the Eurozone crisis can be seen as a critical juncture in the history of the EU, where certain paths were rejected in favour of others that lead to significantly deeper integration.

Resurgence of corporate power research

This lack of attention to the interaction between corporate actors and policymakers is all the more surprising in view of the resurgence of studies of corporate power spawned by the 2008 financial crisis (e.g. Culpepper, 2015). These studies have mostly focused on the 2008 bank bailouts and issues of bank regulation. This is understandable inasmuch as "too big to fail" banks emerged as such a major policy issue. But there is no reason not to extend the purview of corporate power inquiries to other instances of acute financial stress such as the Eurozone crisis and, indeed, to the issue of institutional design geared towards eliminating the systemic causes of such stress.

Two recent accounts apply the concept of corporate power to aspects of the Eurozone crisis. Manolis Kalaitzake (2017) has examined the pivotal role played by the Institute of International Finance – the international big bank lobby dealing with sovereign debt issues – in the negotiations over the restructuring of Greek debt in 2011-12. Similarly, Greece is one case study in Jerome Roos's broader examination (2019) of the evolving dynamics of sovereign defaults and the increasing structural power of the big international financial corporations that dominate sovereign debt markets. These two studies focus on the most extreme case of the broader standoff between private international creditors and Eurozone debtor member states. As such, they shed precious light on the

6 I borrow the idea that banking union was the alternative to financial repression from Nicolas Véron, 2012.

power dynamics at the heart of the Eurozone crisis, in particular the structural advantage the creditor-debtor relation in highly financialized contemporary economies grants private creditors. However, they do not deal with how the exercise of corporate power during the crisis determined the broader policy response and in particular the institutional innovations introduced to deal with sovereign risk and the financial fragmentation of the Eurozone.

Roos, however, provides (2019, 13) an insight that is directly relevant to the case of the Eurozone:

> "the accumulation of foreign government debt on the balance sheets of an ever-decreasing number of systemically important private financial institutions has meant that a disorderly default in the periphery now risks triggering a deep financial crisis in the creditor countries. As a result, a systemic need arises — from the perspective of global finance and the creditor states — for an international lender of last resort capable of "bailing out" distressed peripheral borrowers in order to prevent contagion towards the overexposed banks and institutional investors of the core countries."

This goes to the heart of the Eurozone crisis and in particular the issue of the risk-free status of sovereign debt. However, I argue that in this case what this entailed was far broader in scope than an international lender of last resort: the issue was to provide risk-free sovereign debt through the mutualisation of the fiscal liability of member states, thus opening the way for the development of centralised fiscal policy-making in the Eurozone.

Roos's theoretical framework is also useful in clarifying another issue, namely the extent to which one can conflate large financial corporations with the more anonymous concept of "bond markets" or "financial investors". Roos argues (2019, 12) that one of the major transformations of global finance since the mid-1970s has been the "vast increase in the concentration and centralization of international credit markets," which has led to "the liabilities of peripheral borrowers [being] held by an ever-smaller circle of systemically important and politically powerful private banks and financial institutions in the advanced capitalist countries." Roos sees this growing concentration and centralization of sovereign creditors as a major factor in the vastly increased structural power of global finance because it has allowed a relatively small number of investors to coordinate their actions in relation to sovereign debtors and therefore "form a relatively coherent international creditors' cartel" capable of threatening debtors with credit strikes. In the case of the Eurozone, this is all the more so as the European financial system is "overbanked" (ESRB, 2014) and sovereign bondholding is dominated by the handful of big banks and insurers that sprung up in the twenty years preceding the Eurozone crisis.

The Greek PSI bears this out. As late as May 2011 – more than a year after big banks and insurers started offloading their bonds – more than two thirds of Greek bonds were held by just 30 investors, of which the ten biggest held more than half (Barclays Capital, 2011). As a result, the PSI was negotiated by a private creditor committee (set up by the International Institute of Finance) comprising the Eurozone's biggest banks and insurers, two UK banks and two US investment banks. Zettelmeyer, Trebesch and Gulati note (2013, 9 and table 2 on creditor committee) that "the rebirth of the creditor committee was likely due to the fact that much of Greece's outstanding debt was held by large western banks."

This observation is methodologically important because it allows to test the hypothesis of the critical influence of corporate power by focusing closely on the lobbying and market behavior of the big banks and insurers during 2008-12. This includes tracking individual corporate sovereign bondholdings in order to document the timing and scope of the credit strike which I argue was the critical factor in swaying policymakers.

Addressing the corporate power gap in the literature on the Eurozone crisis entails incorporating this dimension into theorising about European integration; this is one of the aims of this paper. Accordingly, I begin by outlining the theoretical framework and generating relevant hypotheses. The following section outlines the mainsprings of the Eurozone crisis in an attempt to sketch out how the theoretical framework can explain why the Eurozone was set up as a flawed monetary union at Maastricht and to show the continuity between the two episodes as this underscores the key role of corporate preferences. The paper then shows how the overall policy response to the crisis fits the European corporate elites' preferences. The following section is the critical empirical section where I use process tracing to show how this response came about after the exercise of structural corporate power against PSI and financial repression. The section traces the evolution of government-corporate interaction from October 2008 to September 2012. The paper concludes with a short reflection on how to take research into corporate power in the EU further.[7]

7 In terms of sources, I rely on interviews conducted in 2017-20 with around twenty-five policymakers and corporate leaders, well-informed journalistic accounts, publicly available documents and surveys of corporate executive

Corporate reconstruction of European capitalism and corporate power in the EU

The core theories of European integration – neo-functionalism and liberal intergovernmentalism – start from the same basic premise, namely that the fundamental driver of integration is deepening economic interdependence among European member states. Neo-functionalists believe that this creates "spillovers" from one integrated policy sector to the other and that transnational actors (business, NGOs, political parties) and the supranational institutions (the Commission, the ECB and the Court of Justice) are the vectors of this dynamic. Liberal intergovernmentalists argue instead that the dynamic is mediated through intergovernmental bargaining and the member states to which civil society still owes its primary political allegiance. Moreover, both these theories share a pluralist understanding of the structure of power in contemporary Europe.

The structural link between European integration and corporate power

The starting point for challenging their pluralist assumptions is to revisit their understanding of economic interdependence. While this is undoubtedly the key element in integration, these theories simply accept it as a macroeconomic reality but fail to identify its microeconomic drivers.

These drivers are familiar to historians of the corporate form of business organisation (in particular, Alfred D. Chandler Jr., most notably 1990) and IPE scholars concerned with the role of large corporations, scale economies and cross-border value chains in the setting-up of regional trading blocs (Chase, 2005). Chandler showed how the technological innovations of the second industrial revolution triggered the transition from entrepreneurial to corporate capitalism, through the potential for economies of scale and scope based on continental-scale integrated markets dominated by oligopolistic firms.

But while the second industrial revolution happened simultaneously in Europe and America during the last quarter of the nineteenth century, it was the United States that led the transition to corporate capitalism (Chandler, Amatori and

opinion, as well as data by the European Banking Authority on the evolution of the sovereign exposures of big banks (I also present some patchy data for insurers).

Hikino, 1997). Europe's political-economic fragmentation resulting from the multiplicity of nation states hampered the transition. European integration is thus about overcoming the fragmentation with the aim of facilitating the process of corporate reconstruction and the development of pan-European oligopolistic market structures as well as the recasting of economic governance institutions along lines congenial to the development of a pan-European corporate economy.

At the same time, these transformations result in the emergence of a European corporate elite as the dominant social group in Europe. Just like the corporate reconstruction of American capitalism resulted in the advent of a federal polity dominated by corporate elites (Domhoff, 2022), the same process should play out in Europe. This allows for the adoption of a corporate dominance theory of power.

Adopting these building blocks (integration as corporate reconstruction and corporate dominance of power) leads to a clear hypothesis regarding the actors most closely associated with economic interdependence and therefore the main proponents of integration. This produces the following research agenda: identifying the extent to which corporations have Europeanized as well as the corporate preferences generated by their Europeanisation and demonstrating that once a corporate consensus based on a synthesis of these preferences has been arrived at, it dominates the integration process. Chase shows, for example, how the Europeanisation of industrial corporations in the 1980s lay behind the push to complete the single market and the Single European Act and other authors (van Apeldoorn, 2002) have documented the key political role played by these corporations' executives in that push.

Applied to the Eurozone crisis, the theory's hypothesis is that its successful resolution must reflect the basic set of preferences held by corporate elites (H1).

However, if this framework is to be applied to the very compact sequence of the 2008-12 crisis, a few further qualifications are necessary that incorporate insights from the recent literature on corporate power and generate hypotheses about the dynamics of government-corporate interaction (summarized in table 1).

Limits to corporate dominance

First, corporate preferences do not completely dominate the policy process under all circumstances. Incorporating this point has been a key feature of the recent literature. I follow Pepper Culpepper's (2011) hypothesis that corporate power is constrained when issue salience is high. The more removed from public purview policy is, the less contentious it becomes and accordingly the capacity of corporate elites to shape it increases.

The expectation in relation to the Eurozone crisis is that *when particular dimensions of the policy response became highly salient, governments had to accommodate the pressures emanating from public opinion, leading to variance between policy and the corporate consensus* (H2).

Modes of corporate power

The theory does not evacuate political conflict and the need for corporate actors to exercise in different ways the political power they derive from their organizations' dominant position in the economy. I follow the distinction between instrumental and structural business power (Culpepper and Reinke, 2014). Instrumental power is the wielding of resources extrinsic to the core economic activities of corporations. Lobbying, campaign contributions, corporate-friendly policymakers and the "revolving door" between public and corporate positions all amount to instrumental power.

Structural power, in contrast, involves precisely such core activities – in its original formulation from the 1970s, it refers to corporations going on a capital strike by scaling back investment. The market behaviour of corporations amounts to structural power. In the case at hand, the capital strike largely took the form of a credit strike in that financial corporations offloaded their holdings of peripheral member state bonds and refused to subscribe to new issues of such bonds.

Given the point made above about the limits to corporate dominance, instrumental power is most likely to be deployed when public opinion pressures do not constrain policymakers to pursue policies opposed by corporate actors. This is the "everyday mode" of corporate power. But when that does happen, structural power in the form of market behaviour is likely to kick in. This is the "crisis mode" of corporate power.

In relation to the Eurozone crisis, the prediction is that *when policymakers tried to accommodate public opinion pressures by implementing policies opposed by corporations, the latter exercised their structural power by going on a credit strike, creating market conditions that constrained policymakers to revert back to policies that enjoyed broad corporate support* (H3).

Splits along national lines, transnational corporate consensus and neo-functional policymaking

Apart from cases of limited corporate dominance, there are also cases where the corporate community is split. Since the initial structure of European capitalism involved a multiplicity of nation states and national business communities, I expect at least some heterogeneity in corporate preferences along national lines. This is especially so regarding institutional reform in policy domains that have hitherto remained organized along national lines and in cases where the market position of firms varies in line with differences in member state economic and financial conditions. The creation of new supranational institutions and policies can be expected to differentially benefit corporations according to the circumstances of their home member states.

The existence, therefore, of a corporate consensus cannot be taken for granted but must be demonstrated empirically and the theoretical framework has to offer hypotheses for how the degree of corporate consensus plays out in the field of policymaking.

To do this, I incorporate insights from federalist theory (Sbragia, 1993), which analyses polities with multiple levels of government as driven by a tension between functional and territorial logics. In the EU, the functional logic corresponds to the "community interest" (e.g. preserving the Eurozone) whereas the territorial logic corresponds to "national interests" (e.g. reserving national fiscal resources for national instead of European welfare). The functional logic is most clearly advocated by the supranational institutions whereas the member states express the territorial logic. I expect corporate preferences, if and once these have overcome nationally idiosyncratic positions to forge a transnational corporate consensus, to be most closely aligned with the positions of the supranational institutions. Here I converge with neo-functionalist notions about the politico-institutional dynamics of integration. In such circumstances, bargaining power asymmetries between member states become almost irrelevant.

The general expectation flowing from this is that there is a strong correlation between the degree to which corporations have Europeanized and a European corporate elite has taken shape and the degree to which decision-making power is centralized within supranational institutions giving expression to the functional as opposed to the territorial logics within an overall federal framework.

The hypothesis in relation to the Eurozone crisis is that *when the corporate community overcame national splits to form a transnational corporate consensus, this must have been aligned with the preferences of the Commission and the ECB and outcomes must not necessarily reflect the relative bargaining power of member-states* (H4).

Prevalence of national splits, lack of transnational corporate consensus and relevance of intergovernmental bargaining

Finally, when a transnational corporate consensus fails to emerge, political conflict among member states should reflect the national splits in the corporate community. Intergovernmental bargaining dynamics and power asymmetries should dictate the outcome, along a liberal intergovernmentalist pattern.

The hypothesis in relation to the Eurozone crisis is that the differential impact of the crisis on member-states must have split Europe's corporate elites along national lines on at least some of the measures envisaged to deal with the crisis. In particular, and since the crisis was at its core a balance of payments crisis, *corporate executives in deficit member-states from which capital was fleeing must have had different preferences than executives in surplus member-states into which capital was flowing* (H5). The former must have advocated more decisive measures of fiscal liability mutualisation than the latter.

Table 1 Hypotheses about the Eurozone crisis

Theoretical building blocks	Hypotheses
Corporate dominance of policymaking	H1: Crisis resolution matches corporate consensus
Limits to corporate dominance due to high issue salience	H2: Policymakers stray from corporate consensus
Modes of corporate power	H3: Structural power used to force reversal of non-corporate-friendly policies
Predominant transnational corporate consensus	H4: Neo-functionalist pattern of policymaking
Limited transnational corporate consensus	H5: Splits among member states and intergovernmental bargaining

The rise of a European corporate elite, the mainsprings of the Eurozone crisis and the core elements of its resolution

Before examining the 2008-12 crisis, it is useful to lay out its mainsprings. I argue that the Eurozone's institutional deficiencies are the legacy of the initial round of activism by the emergent European corporate elite in favour of monetary union. Moreover, the decentralization of banking policy that enabled the policy of financial repression can be explained as resulting from the weak integration of banking markets and the limited Europeanisation of big banks during the 1990s.

Why corporate elites left unfinished business when setting up the Eurozone

Until the 1970s, the corporate reconstruction of European capitalism essentially entailed member states using all kinds of policy tools to build up national champion firms. As a result, levels of financial integration remained relatively subdued. This strategy came up against its inherent limits during the 1970s, as various industrial national champions started Europeanizing and disseminating their investments across the single market (Franko, 1976), thus beginning to forge pan-European oligopolistic market structures.

As former industrial national champions Europeanized (i.e. as they restructured their supply chains to integrate them across the European market), they generated deeper financial integration among member states. By the early 1990s, capital controls were lifted and a set of banking directives laid down the legislative infrastructure for the Europeanisation of banking national champions. However, deeper financial integration also led to deepening macroeconomic imbalances between surplus member states around Germany and deficit ones around France as well as to greater speculative capital movements that repeatedly wreaked havoc in currency markets (James, 2012, 1-28).

Jeffry Frieden has shown (1996, 202) how these developments led to a reformulation of corporate preferences in favour of a single currency. "Higher levels of cross-border trade and investment increase the size and strength of domestic groups interested in predictable exchange rates. Firms with strong international ties support a reduction of currency fluctuations. These effects are especially important to banks and corporations with investments throughout the EU." Pan-European corporations gradually came to prioritize monetary stability over domestic policy autonomy, which by 1989 led them to forge a consensus in favour of a single currency. As summed up in a first-hand account by two managing directors of the Association for the Monetary Union of Europe, the corporate lobby set up in 1987 to campaign for the euro, "Practical men in Europe were confronted with high costs due to monetary instability. Given the growing degree of European market integration they favoured exchange rate stability" (Collignon and Schwarzer, 2003, 50).[8]

But because the corporate community's preoccupation was solely with currency risk, it stopped short of advocating fiscal and banking union to go along with monetary union. The AMUE's research director told me (Telephone interview with Stefan Collignon, 28 February 2017) that

> "The main gist was that we wanted the euro to go through and we were aware that overcharging the project might sink it ... There was within AMUE a kind of neo-functional understanding of how monetary union would lead to fiscal and political union. We would have monetary union first, and at some point a crisis would force the move to fiscal union too."

Once monetary union was achieved, the AMUE thus chose to dissolve itself because it felt its objective had been fulfilled (Davignon interview). The corporate community was therefore indifferent to proposals that began emerging

8 Both Étienne Davignon (chairman of the AMUE in 1991-2001 and a former vice-president of the European Commission) and Yves-Thibault de Silguy (European commissioner for economic and monetary affairs in 1995-99 and later director of the French concessions and construction giant Vinci) told me that monetary union was necessary to preserve the single market and that this was the primary motive of corporate executives campaigning for it. Davignon interview in Brussels, 12 January 2018 and de Silguy interview in Paris, 24 November 2017.

about fiscal integration. Consequently, despite the extremely close collaboration between the AMUE and the Commission in the 1990s, the former failed to provide any support for commissioner de Silguy's proposal in 1998 to create a European Treasury and mutualise the debt issuance of Eurozone member states. Lacking the powerful instrument of corporate leverage on member state governments, the proposal fell by the wayside (De Silguy interview).[9]

Banking corporations, moreover, were still largely nationally oriented in the early 1990s and still enjoyed various forms of national regulatory forbearance and assistance and were thus opposed to the Europeanisation of banking policy (Epstein, 2014). This led to the "single passport" principle, where banking policy would be the responsibility of the home member state while any national banking license would suffice to run operations anywhere in the single market.

The rise of a European corporate elite

During these years, former national champions became pan-European corporations. First were the industrial corporations, but in the 1990s, a process of national consolidation and European expansion took place in financial services too. First the big insurers and from the late 1990s onwards the biggest banks in the most important member states began expanding in the rest of the EU (Bayoumi, 2017, 33-43 has a good summary of the consolidation-cum-expansion process in European banking). As argued by Bayoumi, this led to the formation of a few "mega-banks", namely Deutsche Bank, BNP Paribas, Crédit Agricole, ING, Société Générale, UniCredit, Santander, Commerzbank, Intesa Sanpaolo and BBVA. All these banks have since consistently featured in Europe's top twenty banks by assets, alongside the UK's big four (HSBC, Barclays, RBS and Lloyds) and Switzerland's big two (UBS and Crédit Suisse). Together with the major insurers, these financial corporations will be at the centre of this paper's account of the Eurozone crisis.

The rise of these pan-European corporations was accompanied by the rise of a number of corporate lobby organisations that allowed the emerging European corporate elite to become an organised pressure group and create forums in which it could debate and come to consensus views. Besides the sectoral associations, most of which are dominated by the biggest and most

9 De Silguy was emphatic about the AMUE's leading role and the closeness of the relationship he had forged with Davignon. He was also keen to point out that the ESM is similar in spirit to his unsuccessful proposal.

Europeanised corporations, two such lobbies stand out: the European Round Table of Industrialists, founded in 1983, and the European Financial Services Round Table, founded in 2001.

The ERT brings together around 50 CEOs of major European industrial corporations whereas the EFR brings together 23 CEOs or chairpersons of Europe's biggest banks and insurers. The membership includes France's and the UK's top 3 banks, Spain's and Switzerland's top 2 banks and the top bank from Germany, the Netherlands, Italy and Sweden (by assets). These banks all figure in the list of Europe's top 20 banks. Alongside the banks, the group includes the UK's and Switzerland's top 2 insurers as well as the top insurer from France, Germany, Italy, the Netherlands and Spain. Again, these insurers feature among Europe's top 10 insurers (measured by volume of premiums or total assets). In other words, the EFR is the club of the biggest financial corporations in Europe and its membership is a good guide to the prime movers in European finance. In attempting to identify as granularly as possible the corporations that played an active role during the crisis, I will therefore base myself on the EFR's past and present membership when trying to document the credit strike later in the paper.

How the unfinished business laid the ground for the Eurozone crisis

The euro's introduction in 1999 was facilitated by the inflationary consequences of German reunification. The German economy registered for the first time in the post-war period current account deficits for a prolonged period (from 1991 to 2001), whereas the French current account was continually in surplus from 1993 to 2004. This helped stabilise currency markets after the exchange crisis of 1992-93 and allowed traditionally deficit member states to fulfil the Maastricht criteria for joining the Eurozone. However, this was a long parenthesis in post-war European macroeconomic history. The reunification shock also operated at the labour market level where it exercised a strong downward pull on German wages. The result was the re-emergence of the traditional pattern of macroeconomic imbalances within the Eurozone: German and Northern European surpluses mirrored in deficits in France and other Southern member states.

Two further developments in market structure and regulatory politics combined with the accumulating imbalances to produce the conditions for the

Eurozone crisis. First, during the 1990s and 2000s, banking national champions began Europeanizing aggressively. This initially involved investment-banking activities (Mügge, 2010) and then in the 2000s it began affecting commercial banking as well (Véron, 2007). A small number of pan-European mega-banks had emerged by the time the Eurozone crisis erupted. And just as in the past, the Europeanization of important markets furthered the degree of intra-Eurozone financial integration, leading to deeper imbalances that could be financed for longer without triggering capital flight. The behaviour of banking and financial corporations during 1996-2009, when risk premiums on Eurozone member state bonds all converged to the German benchmark, indicates that corporate elites failed to price in the risks associated with continued and ever deepening macroeconomic imbalances. Ackermann, in June 2012, admitted "that was different before, because everybody felt [sovereign bonds were] risk-free assets" and that "the first 10 years were so successful that we forgot a little bit to really push for […] much more integration […] some sort of fiscal union or political union" (Ackermann speech to Atlantic Council). This was also encouraged by the ECB's "one bond" policy of affording equal treatment to member state bonds as collateral for refinancing purposes, which "implied an implicit European guarantee for even the weakest borrowers" (Tooze, 2018, 100. More broadly on the "one bond" policy, see Gabor and Ban, 2016).

Second, the "structure of banking supervision in Europe and its fragmentation in line with national borders encouraged moral hazard and excessive risk-taking by banks" (Véron, 2015, 21). The regulatory politics of "banking nationalism", where member state banking policies were partly designed to bolster local banks vying for position with banks from the rest of Europe in the context of the Europeanization of banking markets, led national supervisors to give implicit guarantees and apply regulatory standards loosely. In other words, the competitive dynamics among Europeanizing banking national champions led to regulatory competition resulting in a slackening of micro-prudential supervision. This further fuelled various credit bubbles, saddling banks with too many bad assets.

The re-emergence of financial risk as sovereign and banking risk and the mutualisation of member state fiscal liability as a policy response

The notion that the single currency could function smoothly without some degree of fiscal and banking federalism was dispelled by the crisis. At its core, this was a typical balance of payments crisis: the pattern of capital flows reversed and investors fled the deficit member states for the safe haven of the surplus member states. The creditworthiness of deficit member states came under intense scrutiny. When it became obvious that Greece was insolvent, panic ensued and investors began offloading their bonds.

Banks and insurers became exposed to sovereign credit risk. As a result, the valuations of bank equities melted away in proportion to their presumed exposure to deficit member states. Banks in those member states also ran into difficulties on the interbank market. In turn, as confidence in the banks collapsed, sovereign bond markets were further destabilised because of the expectation that the sovereigns would have to backstop their domestic banks. The negative feedback effects between banks and sovereigns became known as the "doom loop".

In this way, the institutional set-up of the monetary union led to the financial risk stemming from growing imbalances re-emerging in the shape of sovereign and banking risk, whereas previously such risk had taken the shape of currency risk. And just as in the past corporations with operations across the EU were exposed to this currency risk, this time they were exposed to sovereign risk.

Deficit member states, and by extension their corporate creditors, thus came to depend on the fiscal solidarity of the member states enjoying the greatest credibility on bond markets. This fiscal solidarity is the "international lender-of-last-resort" theorised by Roos. In a word, Germany and the other credit-worthy member states could "lend" their credibility to deficit member states by backstopping their fiscal liabilities.

Fiscal solidarity among member states can be more or less extensive. The five cases implemented or publicly debated during the crisis, in ascending order of liability mutualisation, were the following: bilateral loans (the first rescue package for Greece in 2010 through the Greek Loan Facility); a temporary fund endowed with limited borrowing capacity and fiscal resources in the shape of guarantees by member states (the EFSF set up in 2010); a permanent fund endowed with borrowing capacity and fiscal resources in the shape of paid-up capital (the ESM that subsumed the EFSF in 2012); an a priori mutualisation of member states' fiscal liability through joint liability (eurobonds); a Eurozone Treasury headed by a finance minister enjoying full fiscal powers.

The setting-up of the ESM represents *ad hoc* fiscal liability mutualisation, limited to the specific task of preventing sovereign defaults and recapitalising struggling banks. Similarly, bank supervision, resolution and the contingent fiscal liability for recapitalisations are now centralised through the new institutions created by banking union. Banking union also entails an element of fiscal union, in that resolution and recapitalisation use fiscal resources (levies on banks).

However, there has crucially been another way in which fiscal liability mutualisation materialised, namely through the balance sheet of the ECB. The ECB's capital is subscribed by the member state central banks (which belong to the national Treasuries) in proportion to each member state's share of the Eurozone's population and GDP. As a result, profits and losses made by the ECB are apportioned to each member state according to the Bank's capital key. When the ECB takes sovereign bonds on its balance sheet – as it did in 2010-11 through the SMP programme, as it promised to do through the OMT programme in September 2012 and as it has been doing since it launched quantitative easing in 2015 – it is ultimately putting on the line the balance sheets of member states and so enacting a form of fiscal liability mutualisation by stealth (Schelkle, 2014). The legacy of the ECB's taking on this new role is that 16.6% of outstanding Eurozone sovereign debt was sitting on its balance sheet in 2017 (BIS, 2017, 72. By comparison, the Federal Reserve held 11.8% of outstanding US sovereign debt). By any standard, in particular by the Maastricht standards that sought to prevent the ECB from becoming a lender-of-last-resort and from mutualising fiscal liability, this has been a momentous institutional innovation.

ECB executives did not openly admit this during the crisis, but the Bank of England governor, Mervyn King, straightforwardly explained the financial dynamics involved in a joint press conference with Draghi in November 2011 (Pratley, 2011). Bundesbank president Jens Weidmann went as far as claiming that ECB bond buying was "synonymous with the issuance of euro bonds." As the issue of how much fiscal liability mutualisation was needed and what form it should take became highly salient, a tussle developed between the ECB and the member states over who was going to do the mutualisation.

The broad fit between the policy response and the transnational corporate consensus

The policy revolving around structural adjustment for the deficit member states, banking union and fiscal liability mutualisation closely matched corporate preferences.

Corporate consensus on preserving the Eurozone

The starting point of the corporate response was the need to preserve the Eurozone. Acknowledging that this entailed deeper integration, corporate elites from all sectors and member states quickly agreed on the need for decisive institutional reform. The ERT called for emergency measures to eliminate sovereign risk and a reform of the institutional architecture (ERT, 2011). In a high-profile public letter, 50 leading Franco-German CEOs argued in June 2011 that the euro was a success because “a common market endowed with a single currency and without exchange rate fluctuations has materialized, thus creating prosperity and wealth” and rejected “demagogic” proposals such as expulsion of member states from the Eurozone (Cercle de l’Industrie, 2011). The letter was signed by such heavyweights as the CEOs of Deutsche Bank, Allianz, Lazard and Société Générale on the financials side and BMW, Daimler, BASF, Siemens, ThyssenKrupp, Total, GDF-Suez, Sanofi, Vivendi and Saint-Gobain on the industrials side. Finally, Grant Thornton, a consultancy, has conducted since 2012 an annual survey of European corporate executives titled “The Future of Europe”. In 2013 and 2014, respectively, 94% and 93% of the 1,350 executives of Eurozone-domiciled corporations favoured the preservation of the euro.

The broad contours of the crisis-management policy received explicit corporate support. The fifty Franco-German CEOs considered that the deficit member states “must be assisted in order to regain their financial independence … In exchange for this assistance, efficient measures must be introduced.” In a September 2012 statement, the peak organizations of France, Italy, Spain and Germany expressed their support for the key policy choices (the ESM, structural adjustment and OMT) and called for “greater economic and political integration of the European Union” (BDA *et al.*, 2012). In both 2013 and 2014, the Grant Thornton surveys showed that 89% of Eurozone corporate executives supported a greater degree of integration.

Splits along national lines

The political conflicts that surrounded the process of cobbling together these measures, revolving largely around the extent of fiscal liability mutualisation, with deficit member states advocating extensive mutualisation and surplus member states the opposite, are also reflected in the differentiated preferences of European corporate elites along national lines. Corporations from deficit member states were more heavily exposed to sovereign risk and accordingly keener on more extensive forms of direct fiscal liability mutualisation such as eurobonds. The French peak employers' organization, Medef, cautiously supported the idea in a press release on 7 August 2011 and its Italian counterpart did so explicitly in December 2010 (da Rold, 2010) whereas the German BDI said in a 28 November 2011 press release that eurobonds should only be introduced in the long-term. In the 2014 Grant Thornton survey, 85% of Spanish, 78% of Italian, 63% of French but only 22% of German corporate executives supported eurobonds (the Eurozone average was 55%). Finally, a 2011 survey by Booz&Co, the European Executive Council and INSEAD showed a strong correlation between corporate support for boosting the capacity of the ESM and the ratio of public debt to GDP of the member states in which the corporations were domiciled. Ackermann spelled out the rationale for the position of executives in surplus member states: "[the Germans] know that maybe we have to do more, but we should maintain the pressure on the countries to do the necessary structural reforms [...] But I can assure you that if it comes to the worst, before the Eurozone collapses, everything will be done to bail the Eurozone out" (Atlantic Council speech).

The transnational corporate consensus on structural adjustment and fiscal retrenchment was stronger. In January 2011, the ERT called for a "quick and orderly return to sustainable public finances" (Schäfer, 2011). The 2012 survey carried out by Booz&Co showed strong majorities among corporate executives in all member states in favour. 83% of Eurozone executives were in favour, ranging from 96% in Germany to 67% in Spain and Greece, 74% in Italy and 87% in France.

The limited corporate consensus on the extent of fiscal liability mutualisation corresponds nicely to the split among member states and the supranational institutions and the outcome of the bargaining process on the issue, as predicted by liberal intergovernmentalism. The surplus member states continually resisted all maximalist proposals. When eurobonds were discussed at the December 2011 European Council, Merkel opposed the push by the deficit member states and the Commission to consider them as a long-term solution (Bastasin, 2015, 358). At an informal European Council on 23 May 2012, Germany, the Netherlands, Finland and Austria resisted the push by France, Italy, Spain and the Commission for Eurobonds (Gilmore, 2012).

Similarly, the French-led bloc was not successful in challenging the corporate consensus on structural adjustment. The dynamics of government-corporate interaction in this case were different. Governments in deficit member states were under intense pressure from public opinion to limit the extent of fiscal retrenchment. In this case, a strong transnational corporate consensus coincided with the stance taken by the Commission and the ECB as well as the bloc of surplus member states.

Adjusting policy to the corporate consensus – structural corporate power in action, November 2010 – September 2012

The observation of the fit described above is neither enough to prove the decisive influence of corporate power on the way the crisis was resolved nor does it reveal the extent to which the policy response was initially at variance with corporate preferences. A closer look at the empirical record of the 2008-12 period reveals that the policy response described above was only arrived at after a stand-off between the corporate community, in particular the biggest financial corporations, and the member states as well as a stand-off between the latter and the supranational institutions (in particular the ECB). The corporate community and the supranational institutions were largely aligned; indeed, it can be argued that they forged an alliance of convenience to force the governments to backtrack. More than that, my claim is that the 2010-12 speculative crisis was the very means by which the alliance of the financial corporations and the ECB forced the governments – in particular Germany – to do so. I see the speculative crisis as a credit strike led by big banks and insurers that began in retaliation to the decision by the November 2010 European Council to include PSI in future bailouts of member states in line with the Deauville agreement.

Crucially, the financials broke two commitments they had secretly made in spring 2009 and May 2010 to the governments, namely to use ECB liquidity to continue buying member states' bonds and to keep hold of those they already held, in exchange for a commitment that there would be no sovereign debt restructuring.

Once the cooperative game between the financials, the governments and the ECB came unstuck in November 2010, the standoff crystallised in three interrelated issues (abandoning PSI; ending financial repression and severing the doom loop; providing a potentially unlimited commitment to fiscal liability mutualisation). These were successively dealt with between late 2011 and September 2012, after the credit strike by financial firms reached its climax in the autumn of 2011.

The rest of this section traces the successive stages in government-corporate interaction during the period stretching from October 2008 to September 2012.

Abandoning Private Sector Involvement as a general principle governing Eurozone sovereign debt

The first issue that crystallised the conflict between corporations and governments was the German push for a solution that would involve bondholders of assisted member states taking losses.

The German government had all along been under pressure from a "moral hazard" coalition demanding that German fiscal resources not be used to prop up deficit member states or their banks. This coalition dominated public debate in Germany. The most authoritative study of politicisation and salience during the Eurozone crisis has shown that Germany had by far the highest levels of salience and that it was far ahead of France where "politicisation only reached 40 per cent of the German level" (Kriesi and Grande, 2016, 255). Its demands were the mirror opposite to public opinion pressures in deficit member states against fiscal retrenchment; its backbone were SMEs under family control (*The Economist*, 2011), fiscally conservative voters and a majority of academic economists. Crucially, it included the Bundesbank and the web of domestically-oriented cooperative and savings banks. These banks are a unique feature of the German banking system. They accounted for 42% of total bank assets in Germany in 2014 whereas the big private banks made up only 25% (Behr and Schmidt, 2016). The contrast with France is sharp: France has a much more concentrated banking system and a greater number of big banks measured by total assets. In the 2012 ranking of European banks by assets, the second German bank in the list (Commerzbank with around 922 billion euros) ranked well below the fourth French bank (BPCE with 1540 billion). In other words, the German banking system is far less dominated by Europeanised mega-banks than the French system;[10] the prevalence of domestically-oriented banks with strong links to local politicians was an important factor in limiting the big German banks' capacity to exercise instrumental power over the German government.

The coalition was pitted against German big business. The association of family businesses (*Die Familienunternehmen*) disagreed strongly with the BDI on all the issues relating to the management of the Eurozone crisis. It opposed the Greek bailouts, the setting-up of the ESM, the ECB's bond buying schemes and categorically ruled out Eurobonds under any circumstances. Its general stance was that "Europe does not need a centralized economic government but an economic system with clear regulatory principles" (Schuseil, 2012).

The German government's preference for including losses for investors in plans for financial assistance to member states was, therefore, an attempt to accommodate the demands of the "moral hazard" coalition and to stick to the spirit of Maastricht.

The German government waived this prerequisite for the first Greek bailout in May 2010.[11] IMF staff first broached the possibility of imposing losses

10 Fontan and Saurugger 2020 highlight the strong influence of French banks in the formation of policy preferences of the French government during the crisis.

11 According to Philippe Legrain, former Commission president José Manuel Barroso's chief economic adviser, this happened after intense lobbying by German and French banks (<https://www.youtube.com/watch?v=kbZxS6uHFXc>). This is one instance of instrumental power observed during the crisis. The public statements cited above are another. There is also evidence of the presence of corporate-friendly policymakers and the revolving door in the French government, the ECB and the Commission. ECB executives regularly meet corporate bankers – even before announcing key monetary policy decisions (Jones, 2015). Of the twelve ECB executive board members since 2010, the two presidents are members of the Group of 30 that brings together central and corporate bankers (Tsingou, 2015). Four had a background in the corporate sector and four went through the revolving door upon leaving the ECB. Two have been members of an IIF committee dealing with sovereign debt restructuring.

The NGO Corporate Europe Observatory has shown (2017) that 98% (508 out of 517) of the members of the ECB's 22 advisory committees come from the private financial sector with the Eurozone's biggest banks having the most representatives. Deutsche Bank, BNP-Paribas, Société Générale, UniCredit, Commerzbank, Crédit Agricole, Intesa Sanpaolo, Santander, HSBC and ING all featured among the top ten financial institutions with the highest number of seats. The NGO has also documented the extensive revolving door linking the Barroso Commission to the corporate sector on investors in Greek bonds in a secret meeting with French and German finance ministry officials in April 2010 (Blustein, 2016, 114-120). The French, contrary to the Germans, were adamantly opposed and finally convinced the government in Berlin that the risk of scaring off investors was far too great. In an April 2010 interview, Wolfgang Schäuble (then German finance minister) admitted that bailing out Greece was contrary to the Maastricht spirit but argued that Greece could not be allowed to "turn into a second Lehman Brothers" (*Spiegel Online*, 2010), using the same language repeatedly used by policymakers opposed to PSI, in particular Trichet.[12]

However, in exchange for this, the governments extracted a commitment from European banks and insurers to keep hold of peripheral sovereign bonds for three years (Bastasin, 2012, 3-5). This is the second of the two "grand bargains" of the period between governments and big banks and insurers. In a meeting in May 2010, just after the Greek deal was clinched, Schäuble asked German banks and insurers to keep hold of their peripheral sovereign bonds and Bastasin argues (2012, 217) that all Eurozone finance ministers formulated the same request. For the French case, this was confirmed to me in interviews with Ramon Fernandez (French Treasury director 2009-14, interview in Paris, 24 October 2018) and Denis Duverne (Axa chairman since 2016, interview in Paris, 23 October 2018). Both interviewees recalled that two such meetings took place in 2010, one in May 2010 and the second the following autumn. Duverne further claimed the request entailed an implicit promise that all Eurozone sovereign debt would be repaid in full.

The German government revived the idea of PSI in September 2010. The IMF's managing director, Dominique Strauss-Kahn, had started urging the adoption of PSI right after the May 2010 Greek deal. But this was only made official German policy after Norbert Barthle, the CDU's parliamentary spokesman for budgetary issues, publicly proposed in August 2010 a scheme whereby after the EFSF's expiration in 2013, a new arrangement would require private creditors to take losses before a member state could be bailed out (Mody, 2018, 275). At the October 2010 Deauville meeting, Merkel convinced Sarkozy to agree to

(<https://corporateeurope.org/revolvingdoorwatch>, see also Vassalos, 2017). Corporate representatives have 70% of the seats in the Commission's own advisory groups (<https://corporateeurope.org/expert-groups/2017/02/corporate-interests-continue-dominate-key-expert-groups>).

12 Trichet was particularly keen to point out when I interviewed him that "there had been no Lehman Brothers" in Europe, suggesting this was the foremost policy achievement. This suggests that everything the ECB did was guided by the goal of preventing PSI and the collapse of a major financial corporation.

such a scheme. This was a concession from the president to the chancellor designed to "help" her deal with "domestic opposition" (Leparmentier, 2013, 21).

The deal triggered powerful opposition. Sarkozy's chief economic adviser Xavier Musca[13] and the French Treasury (Fernandez interview) were opposed. ECB president Jean-Claude Trichet, at the European Council meeting that followed Deauville, said the politicians did not understand how the markets would react and that the decision would "kill the euro." In her press conference after the meeting, Merkel said "the ECB president above all wants that markets be able to see the Eurozone with calm. But we also need to take into account our population" (Leparmentier, 2013, 20-22). In her Bundestag speech a few days later, she used even stronger language to highlight the conflict between public opinion pressures and corporate preferences: "Do the politicians have the courage to make those who earn money share in the risk as well? ... This is about the primacy of politics, this is about the limits of the markets" (Wiesmann, 2010).

Corporate opposition to the deal quickly materialised. Duverne told me that the deal "destroyed the relation of trust between the public authorities and the private sector." Ackermann publicly criticised it (*New York Times,* 2011).[14] Europe's seniormost banker[15] lobbied van Rompuy and Barroso and held two

13 See footnote 2 on Musca. The extent to which top financial bureaucrats alternate positions at the top echelons of the French bureaucracy and those of national financial champions is solidly documented in sociological literature on French elites. Many policymakers suggested in interviews in 2013-14 with the *Financial Times* that this explains why French officials adopted corporate-friendly positions, contrary to their German counterparts who tend to be career bureaucrats (<http://podbay.fm/show/878656889/e/1400257800?autostart=1>). Musca told me that coordination between policymakers and France's top bankers was extremely close during the crisis and that the actors knew each other very well, whereas the same was not true in Germany because of a fragmented policymaking system and banking industry and because actors weren't "from the same walk of life." Interview in Paris, 12 March 2018. This proximity qualifies as instrumental power.

14 Ackermann was generally acknowledged at the time as an influential unofficial adviser to the chancellor. In 2008 he had been the first major figure in Germany to call for public bank bailouts. He directly negotiated with Merkel the 2008 rescues of Commerzbank and Hypo Real Estate, forcing her to put up public money to complement a rescue by private banks by threatening to otherwise sit on his hands and let the two banks collapse (Bastasin, 2012, 16-20).

15 Deutsche Bank was Europe's top bank by assets in 2011 and 2012 (<https://www.relbanks.com/top-european-banks>). The two previous years, the top rank was occupied by France's BNP-Paribas, whose chairman, Michel Pébereau, was also regarded as Sarkozy's foremost unofficial adviser with a direct hand in designing the 2008 bank rescues but also the EFSF and the ESM. See Michel, 2011 and Autret, 2013. Pébereau and BNP-Paribas

face-to-face meetings with Merkel. When he and the other opponents of the Deauville deal finally lost out and the European Council formally agreed upon PSI, "banks broke the hidden agreement with their governments not to sell the public debt of Greece, Ireland and Portugal. The landslide began to accelerate … The Deutsche Bank moved quickly and extended its sales to Spanish and Italian bonds, with fateful consequences" (Bastasin, 2012, 5 and 232). Duverne confirmed that Axa began shedding its holdings of peripheral Eurozone debt whereas Fernandez concurred, explaining the situation in the following way: "private creditors – and I can understand them – agreed to keep hold of that risk so long as the politico-public side considered that the debt should not be restructured and therefore it could also play this collective game. If the game was no longer played, then it was every man for himself, which was what we wanted to avoid." The sell-off became known as the "Merkel crash" and the speculative crisis snowballed from that point onwards. November 2010 thus marked the beginning of the credit strike by financial corporations.

The next turning point came with the decision to implement a PSI for Greece in July and October 2011 without at the same time providing a credible mechanism for guaranteeing the rest of the peripheral member states' sovereign debt (greater ESM capacity or unlimited ECB bond buying). The credit strike intensified as banks and insurers stepped up the offloading of Italian and Spanish bonds. Moreover, institutional investors such as pension funds, which pursue a risk-averse investment strategy, also began reallocating their portfolios (Tooze, 2018, 385), a clear sign that the risk-free status of sovereign debt was decisively damaged.

In the aggregate, between end-2009 and end-2011, Eurozone investors reduced their holdings of peripheral sovereign bonds by a total of around 750 billion dollars, i.e. almost a third of the initial holdings, whereas non-Eurozone investors decreased their holdings by 138 billion (19% of initial holdings) (Beck, Georgiadis and Gräb, 2015).[16]

The credit strike is documented on a bank-by-bank and insurer-by-insurer basis in Tables 2a to 2d. I report data for banks among Europe's top 20 banks by assets in 2010-12. These data are systematic and were published at regular

were also instrumental in pushing the idea of banking union (see following section).

16 Unfortunately, the data on bondholdings reports end-of-year positions only – ideally, one would want to calculate the reduction between November 2010 and September 2012.

intervals following the stress tests conducted by the European Banking Authority from 2010 onwards. There is no equivalent data for insurers as the European Insurance and Occupational Pensions Authority did not conduct comparable exercises or publish similar data. I therefore rely on patchy data that are freely available on the internet for five of Europe's major insurers.[17] The tables report peripheral member state bondholdings for each financial corporation. For Italian and Spanish corporations, I report separately the bondholdings of their domestic member state as this highlights that financial repression led them to actually increase their exposures in 2012 (see next section). This also highlights that these corporations were not major players as their holdings of other peripheral member state bonds were very low – ultimately, it was the mega-banks (and the mega-insurers) from France, Germany and the Netherlands that were at the front line of the credit strike. This makes sense to the extent that the major compromises and political decisions throughout this period were brokered between the French and German governments and the ECB. It is important to note that these data probably downplay the extent of the credit strike because they only reflect one aspect of it – the offloading of bonds on the secondary markets. The other major dimension of the credit strike – the refusal to purchase fresh bonds on the primary markets at low interest rates – cannot be measured numerically.

As far as the banks are concerned, the data show that despite the varying degrees of fiscal liability mutualisation advocated by national corporate communities, and with the negligible exceptions of BPCE and Intesa Sanpaolo, all 13 other banks actively participated in the credit strike during the year that followed the Deauville agreement. The total holdings for these 15 banks dropped from 189.002 (399.970 if one adds the domestic sovereign bonds respectively held by Spanish and Italian banks) in December 2010 to 119.455 (318.990) billion euros in December 2011, a staggering drop of some 37% (and even 20.25% despite the resilience of domestic exposures of Spanish and Italian banks). The three biggest French banks alone shed 35.088 billion euros worth of bonds, some 46% of their initial holdings, whereas Deutsche Bank reduced its holdings by 48.8% and ING by 61.2%. The three UK banks reduced their holdings by 36.3%. The credit strike continued until June 2012, when total holdings dropped further to 109.958 (334.933) billion euros. The levels stabilized in

17 Axa, Allianz, Aviva, Generali and Munich Re. These are among the ten biggest European insurers by assets (<https://www.relbanks.com/top-insurance-companies/europe>) and have all been members of the EFR. My data sources are Willis, 2011 and JP Morgan Cazenove, 2013. JP Morgan Cazenove's data is part of a systematic dataset that unfortunately is only available to clients. I was refused access due to restrictions laid down in the MiFID II directive.

December 2012 and then started increasing again to reach 161.162 (393.751) billion euros in December 2015.

Moreover, the data reported here simply show that the biggest banks were the prime movers of a credit strike that encompassed a broader layer of banks. When the European Banking Authority published the initial results of the 2011 stress tests in December 2011, the *Financial Times* reported that 55 out of the 65 stress-tested banks had offloaded peripheral bonds in 2011 – the exceptions were mostly Spanish banks that had increased their holdings of Spanish bonds. Unsurprisingly, the paper also reported bankers saying that these bonds were mostly sold to the ECB and adventurous hedge funds betting that in the end the European banks and insurers would manage to force governments to abandon PSI (Jenkins, Stabe and Pignal, 2011).

The data for insurers show the same trend, although they must be treated with much greater caution. The comparison is between bondholdings on 30 September 2011 and the 31 December 2012. These two dates are ten months after the start of the credit strike in November 2010 and three months after the ECB's OMT announcement in September 2012 respectively. They thus very likely understate the extent of the offloading of peripheral bonds by the insurers. Nonetheless, the trend in the data is similar to that of the banks. Apart from Aviva, the other four insurers all cut their exposures. Generali, like Italian and Spanish banks, came under the moral suasion of its local government and thus increased its holdings of its own government's bonds.

Over the twelve months following the beginning of the credit strike in November 2010, the ECB leveraged the credit strike at two key turning points.[18] This would create conditions of an open corporate revolt against the political leaders' handling of the crisis in the autumn of 2011.

In May 2010, the ECB had waited for the European Council to come up with the funds for the first Greek bailout and the agreement on the EFSF before launching on 10 May its bond-buying scheme (the SMP). The decision on SMP had been preceded by a conference call with the Association for Financial

18 When I asked Bini Smaghi whether there had been an "alliance of convenience" between the ECB and the financial corporations, he said "At the end, yes, the markets said 'if there isn't a regime change, the system risks exploding.' And the ECB said more or less the same thing. These were different pressures. … the aim was the same." But he also claimed that "certainly, it was the market pressures that woke up the political decision makers." Interview in Paris, 22 November 2017.

Table 2 The 2010-12 credit strike in the Eurozone: sovereign exposures to peripheral member states (Cyprus, Greece, Ireland, Italy, Portugal, Spain) in billions of euros (sources: EBA for banks; Willis and JP Morgan Cazenove for insurers)

Table 2a Banks domiciled in the Eurozone core

	BNP Paribas*	Deutsche Bank*	Crédit Agricole*	ING*	Société Générale*	BPCE	Commerzbank*	Rabobank	Total
31 Dec 2010	41.229	12.828	16.651	11.231	18.291	8.609	19.948	1.123	129.910
31 Dec 2011	25.640	6.572	6.924	4.359	8.519	8.922	16.436	0.356	77.728
30 June 2012	19.099	6.619	12.557	4.333	6.115	10.750	13.500	0.271	73.244
31 Dec 2012	20.156	12.418	11.885	3.922	6.245	10.125	13.940	0.204	78.795
31 Dec 2013	24.054	13.291	16.334	4.071	9.583	14.183	14.097	0.189	95.803
31 Dec 2015	26.588	7.056	14.625	7.501	8.804	12.903	16.659	0.016	94.152

* feature in top 20 European banks by assets (2010-12), EFR membership and top 10 of ECB advisory committees

Table 2b Banks domiciled in EU but outside the Eurozone

	HSBC*	Barclays	RBS	Total
31 Dec 2010	14.571	20.266	10.409	45.246
31 Dec 2011	9.328	10.630	8.848	28.806
30 June 2012	6.068	10.279	6.320	25.546
31 Dec 2012	6.831	8.644	5.356	20.831
31 Dec 2013	5.370	5.243	7.924	18.537
31 Dec 2015	6.410	4.987	8.210	19.597

(Lloyds and Nordea not included due to insignificant exposures, UBS and Crédit Suisse due to unavailable data)

Table 2c Banks domiciled in the Eurozone periphery (exposures reported for the five member states other than their home member state; in brackets, exposures to their own member state government)

	Santander*	UniCredit*	Intesa SanPaolo	BBVA	Total
31 Dec 2010	4.575 (46.019)	2.776 (49.071)	1.641 (60.152)	4.954 (55.726)	13.846 (210.968)
31 Dec 2011	3.180 (48.298)	2.718 (44.236)	2.281 (53.443)	4.742 (53.558)	12.921 (199.535)
30 June 2012	4.096 (55.326)	1.983 (49.064)	1.228 (71.443)	3.861 (54.142)	11.168 (224.975)
31 Dec 2012	2.763 (47.798)	1.508 (50.199)	1.105 (79.476)	4.409 (57.811)	9.785 (235.284)
31 Dec 2013	5.456 (40.446)	0.607 (56.704)	1.494 (77.271)	3.900 (53.019)	11.457 (227.440)
31 Dec 2015	14.346 (51.223)	15.636 (65.347)	6.897 (50.462)	10.534 (65.557)	47.413 (232.589)

Table 2d Insurers

	Axa	Allianz	Generali	Munich Re	Aviva (in pounds sterling)
30 Sep 2011	30.6	34.454	9.933 (Italy = 46.235)	8.236	9.100
31 Dec 2012	27.6	33.888	8.277 (Italy = 59.700)	4.934	12.284

Markets in Europe (AFME, an investment bank lobby), in which the bankers "told the ECB ... that central bank purchases of debt were vital to stem the crisis" (Ludlow, 2010, 28). The ECB had not intervened in bond markets until then on purpose, realising that the market reaction by investors would force the governments to agree some kind of fiscal liability mutualisation scheme (Irwin, 2013, 222-230).

Following the Deauville deal, the ECB asked the member states to step up the extent of fiscal liability mutualisation by allowing the EFSF/ESM to buy sovereign bonds on the secondary markets (just as the ECB had been doing through SMP). When the March 2011 European Council instead decided to strengthen the commitment to PSI and rejected the ECB's demand, the ECB secretly reneged on the SMP and sold some of the bonds previously purchased in order to allow investors to ratchet up the pressure on the member states (Bastasin, 2012, 254).

The strengthened PSI pledge led the rating agencies to downgrade peripheral member states because "sovereign debt restructuring is a potential pre-condition to borrowing from the ESM," thus conveying broadly how investors perceived things (Djankov, 2014, 90). At that point, the credit strike gained further momentum as American investors began shorting Eurozone sovereign debt and heavyweights among them – such as PIMCO's Bill Gross and hedge fund owner John Paulson – went public with their new strategy (Tooze, 2018, 379).

The ECB reactivated the SMP in August 2011, in exchange for a secret commitment by the Italian and Spanish governments to implement structural adjustment measures. When the Italian government backtracked, the ECB again scaled back its bond purchases, piling up the pressure on Silvio Berlusconi who resigned the premiership in November 2011.

When the credit strike peaked in early November 2011, the rift extended from the banks and insurers to the broader corporate community. On the basis of a survey of executives in major industrial corporations, *The Economist* (2011) commented that "Europe's industrial bosses oscillate between fear, anger and disbelief [...] Company bosses long to shout "You're fired!" at any number of European politicians. They find it inconceivable that Greece [...] has been allowed to send the system spinning out of control." By late 2011, a proper investment strike in the productive sector began as gross fixed capital formation across the Eurozone, which had begun recovering in the second quarter of 2010 after the 2008-09 recession, started declining again from the fourth quarter of 2011 until the second quarter of 2013.

The credit strike forced the German government to gradually retreat. The 21 July 2011 European Council that decided the Greek PSI also announced that Greece was a unique case and that participation would be "voluntary". Crucially, PSI was completely ditched at the December 2011 European Council meeting.

But despite the assurances given, the credit strike was not stemmed as investors began asking for tangible guarantees that there was a potentially unlimited backstop for sovereign bonds. It was no longer enough for politicians to promise there would be no losses for investors; they had to make good on that promise in the here and now.

It would take two other decisions to align policy with the corporate consensus and thus decisively quell the crisis. One was banking union and the other was a tangible backstop in the form of potentially unlimited fiscal liability mutualisation.

Abandoning financial repression and severing the doom-loop between banks and sovereigns

The second issue that demonstrates the variance between the corporate consensus and the policy response was the policy of financial repression and the associated commitment to preserving member state responsibility for banking systems. Véron (2012) defines financial repression as "governments harnessing national financial systems to reduce their own financial difficulties to the detriment of savers and other users of financial services." Examples include national supervisors telling banks to maintain lending levels in their home markets, decrease their exposure to foreign markets or buy up even more sovereign bonds issued by their home member state, all cases of what happened during the crisis.

The origins of this policy go back to the 2008 bank rescues. At the time, the French government touted the idea of a "Euro-tarp" – a European fund that would mutualise the costs of recapitalising Europe's banks. Presciently, French finance minister Christine Lagarde justified the proposal by questioning the capacity of small member states to deal with bank failures, thus anticipating the problem of the doom-loop (Tooze, 2018, 186-187). The German government killed the proposal before it was even seriously discussed (Musca interview), despite Ackermann and Germany's big banks supporting it (*Zeit online,* 2008 and Gow, 2008). A year later, the idea of centralising banking supervision was discussed in the de Larosière group,[19] but only timid progress was achieved, despite Europe's big banks supporting the principle for some time. As Epstein (2014) has argued, the Europeanisation of banking national champions during the 2000s weakened their ties to their home states, leading them to prioritize a centralized framework for banking policy over political and regulatory support from their home authorities. Banking union came to be seen as "an indispensable precondition for international investors to restore the credibility of the Eurozone and the European financial sector" according to a high-ranking official of the French Banking Federation.[20]

Bastasin argues that an initial grand bargain was struck by member states with the banks and the ECB as early as March-April 2009 after meetings between CEOs and ministers whereby the latter used "moral suasion" to get the banks to channel additional ECB liquidity to their home member states. "Several top bankers concede the huge pressure they received from their national regulators about specifically subscribing national debt" (Bastasin, 2012, 96-99).[21] Indeed, ECB monthly data show that domestic sovereign bonds went from 2% to 5% of the total assets of Eurozone banks between end 2008 and end 2012 (around 7% for banks in the peripheral member states). The same study has confirmed that moral suasion was the main reason for this (Ongena, Popov, and van Horen, 2016; see also Becker and Ivashina, 2018). Moreover, national banking regulators had started asking banks to ring-fence national assets and set aside capital for each separate member state market, thus turning back the regulatory clock to the pre-single passport era. The pressures on investors intensified after May 2010 and indeed the greatest part of the rise in holdings of domestic sovereign debt occurred after that date, in particular during 2011.

19 Jacques de Larosière was another former French Treasury director (as well as former IMF managing director and Banque de France governor) who was special adviser to BNP-Paribas chairman Michel Pébereau. Pébereau had in fact privately floated the idea of centralizing banking supervision in 2006 in Brussels when he was speaking in his capacity as European Banking Federation chairman (Autret, 2013).

20 Interview with Benoît de la Chapelle-Bizot, Paris 9 February 2018. Bizot became the FBF's chief operating officer in 2014 after spending five years in Brussels in charge of financial and monetary affairs at France's permanent EU mission.

21 When I asked him, Bini Smaghi agreed there had been moral suasion.

Top financiers resented the recourse to financial repression. Relations between the German banks and Schäuble had soured because of "what they called financial repression" (Bastasin, 2012, 204). Speaking about the request to keep hold of deficit member state debt, Duverne was emphatic that during the crisis investors faced financial repression.

The matter gained prominence during 2011, as from the spring onwards rating agencies began downgrading not only peripheral member states but also banks, citing the "doom loop" between the two as the main factor behind their decisions (Vause and von Peter, 2011, 8-9 for a summary of the downgrades.). The October 2011 European Council for the first time acknowledged that the banking side of the crisis needed to be addressed and set a target of 106 billion euros in capital needs for the banks. It also decided that should the banks fail to tap private sources or their national governments for capital, the EFSF/ESM could step in. This was the first step in the direction of banking union.

But this was only a very timid first step that did not replace the governments' reliance on financial repression. This was highlighted in December 2011 when Sarkozy stated in an interview on French radio that the ECB's new long-term liquidity support measures (the Long-Term Refinancing Operations LTROs)[22] should allow member states to turn to their own banks who would now have ample liquidity to buy their bonds. This became known as the "Sarko trade". The governments' strategy at that point amounted to the following: unable to agree on a credible commitment to guarantee the risk-free status of sovereign debt, they wanted to convince the banks that the unlimited liquidity provided by the ECB should be seen as a substitute.

The banks welcomed the LTRO's, and the individual data reported in table 2c for the four Spanish and Italian banks confirm that these did indeed use the additional liquidity to increase their domestic sovereign bondholdings. In the aggregate, the effect was to reinforce the "doom loop", as the share of Spanish government bonds held by foreign investors declined to 26% in March 2012, down from 40% a year earlier. In Italy, the decline during the same period was from 51% to 35% (Thomas, 2012). But since the measure did not deal with

22 The LTROs offered cheap three-year ECB liquidity in unlimited amounts to the banks and were decided in December 2011 after a meeting on 16 November 2011 between Draghi and 25 CEOs of leading European banks. The CEOs wanted action to stem the credit crunch on the interbank market that had developed in parallel to the credit strike in sovereign debt markets (Atkins, 2012).

sovereign risk or the doom loop, bankers only saw it as a "painkiller" according to Commerzbank chief economist, Jörg Krämer (Atkins, 2012).

Accordingly, while interbank market tensions eased off following the LTROs in December 2011 and February 2012, the failure of the policy of reinforcing the doom loop became obvious in the spring of 2012 when the Spanish banking crisis erupted after the collapse of Bankia that led to its nationalisation on 9 May. Capital fled Spanish banks and sovereign debt in massive amounts as it became obvious that the standard recipe of having the local sovereign borrow the funds on bond markets to recapitalise the local banks was not credible (Jones, Jenkins and Johnson, 2012). Lagarde's 2008 premonition was now materialising, only the member state concerned was the Eurozone's fourth largest economy.

The bankers stepped up their campaign for banking union, with Ackermann publicly arguing in early June 2012 for direct recapitalisation of the Spanish banks by the ESM and the decoupling of banks and sovereigns.[23] The ECB backed them again. Draghi forcefully argued that the decentralised system of banking supervision had failed (Jones, Jenkins and Johnson, 2012). There is also evidence that the ECB threatened to carry out its own bank balance sheet assessments and condition access to its refinancing windows on them if the politicians did not act (Bini Smaghi interview).

Again, this alignment of forces led the German government to relent. Sarkozy had again raised the issue of bank recapitalisation with European funds in October 2011 when the Franco-Belgian bank Dexia collapsed (Bastasin, 2015, 363) and the French government was already open to the idea of common bank supervision as a *quid pro quo* (Musca interview). The deal was struck in Rome on 22 June 2012 at a summit of the Italian, Spanish, French and German leaders after Merkel argued that common supervision was a prerequisite for bank recapitalisation by the ESM (Bastasin, 2015, 380). The 29 June 2012 European Council decided to launch banking union and a deal was agreed with the Spanish government whereby the ESM provided the funds to recapitalise Spanish banks in exchange for a binding agreement on the restructuring of

23 Atlantic Council speech. Ackermann argued that it was better to eliminate sovereign risk than allow it to devalue banks' balance sheets and then recapitalize them. This can be seen as an open threat to governments: the ongoing credit strike, by depressing bond prices on secondary markets, would lead the banks holding them to write down those assets and thus generate a need for fresh capital that would need to come from fiscal resources. Either way, then, the governments would have to act.

the Spanish banking sector to be supervised by the Commission. Unsurprisingly then, the meeting was generally judged as a painful defeat for Merkel in Germany (*Spiegel online*, 2012).

In the ensuing negotiations over banking union, a pattern similar to the one described above over PSI took shape. Under pressure from the domestically oriented banks, the German government led a camp of surplus member states opposed to extensive powers for the single supervisor and extensive forms of resolution funding mutualisation. Pitted against it was a coalition comprising the Commission, the ECB, the French-led bloc of deficit member states and the major banking corporations, including Deutsche Bank and Commerzbank. Again, despite apparent bargaining power asymmetries in favour of the German-led bloc, Germany made concessions across the board, accepting that the single supervisor will have ultimate authority over all German banks, a single resolution authority with a single resolution fund and direct bank recapitalization by the ESM. As argued by Epstein and Martin Rhodes (2014, 23) “It is one thing to resist appeals for greater solidarity from the weak peripheral member states […], and quite another to fight and win against a much larger coalition comprising the Commission, the ECB and the European Parliament, as well as the largest European banks and their European-level associations.”

Providing a potentially unlimited commitment to fiscal liability mutualisation

The June 2012 European Council opened the door for the final decision that would fully align policy with corporate demands.

Rescinding the Deauville deal in December 2011 had offered the promise that member state sovereign debt would be restored to its status as the Eurozone’s safe asset *par excellence*. The commitment to severe the doom loop between sovereigns and banks through banking union lent some credibility to that promise in that it entailed a decisive move towards the mutualisation of the contingent fiscal liability for bank rescues necessary to avoid banking troubles dragging down the sovereigns. Moreover, it provided the institutional underpinnings necessary to reverse the policy of financial repression that was driving the process of financial disintegration in the Eurozone.

But the commitment to neutralise sovereign risk was not credible to the extent that a potentially unlimited backstop for sovereign debt was still not in place.

Although the German government accepted tentative steps towards granting the ESM greater capacity, this was still far from credible. To begin with, in July 2011, the leaders decided that the EFSF/ESM could, in principle, intervene in bond markets, just as the ECB had been calling for. But the total resources of the EFSF/ESM were perceived as being nowhere near enough for the task at hand and politically, such intervention was still toxic in Germany. The rest of 2011 was spent in negotiations on how to increase the fund's resources, either by granting it a banking licence so that it could leverage ECB liquidity or even by pooling Eurozone member states' Special Drawing Rights (the IMF liquidity) (*Spiegel*, 2014). This became known as the debate on the Eurozone's missing "bazooka", a term used by US Treasury secretary Timothy Geithner who had persistently sided with the French and the ECB in arguing that investors had to be offered rock-solid guarantees for the crisis to be contained (Fernandez interview). The conclusion of the debate was to raise, in March 2012, the EFSF/ESM's capacity from 500 to 800 billion euros, a sum that remained unconvincing in relation to the contingency of having to underwrite Italian and Spanish sovereign debt. By spring 2012 then, the situation seemed to be completely deadlocked.

Moreover, soon after the June European Council, it became clear that the surplus member states would only agree to allow the ESM to directly recapitalise struggling banks after banking supervision had been centralised – something that was not expected to happen until 2014 at the earliest. A backlash was also gathering pace in those member states against the claim made by Italian premier Mario Monti after the meeting that the ESM would now start buying bonds on the secondary markets. Tellingly, the Dutch premier, Mark Rutte, in a bid to assuage domestic criticism on that score, told his parliament that the ESM's resources were in any case limited, underscoring the fact that the ESM was far from being the unlimited guarantee demanded by financial corporations. Predictably then, the credit strike kept raging (Chaffin, 2012).

Draghi and other central bankers had become increasingly alarmed during the first half of 2012 by the way investors were reacting (Blackstone and Walker, 2012). They had expected investors to reverse the credit strike after a firm commitment by deficit member states to structural adjustment was achieved in late 2011 through the Fiscal Compact; instead, investors were conveying to the central bankers in face-to-face meetings that an unlimited backstop was required (Bastasin, 2015, 360).[24]

Consequently, the only available option that commanded corporate support and that was sufficiently obscure in technical terms for it to remain a relatively low salience issue was to once more use the ECB's balance sheet. Crucially, using the ECB's balance sheet did not require the Bundestag's approval, as such approval had come to crystallise the political difficulty of getting surplus member state public opinions to agree to fiscal liability mutualisation. And Draghi and the ECB had been satisfied by the June 2012 European Council that the political leaders were sufficiently committed to substantial further integration.

Accordingly, Draghi liaised with the German government in the summer of 2012 and obtained its backing for the critical move that he made on 26 July at a global investor conference in London, announcing that the ECB would "do whatever it takes" to preserve the Eurozone. The German government had come to accept that agreeing to let the ECB commit its balance sheet in an unlimited way was the politically least costly solution. The French government, in contrast, had always supported such a solution. Draghi's commitment materialised at the 6 September 2012 meeting of the ECB's governing council and came in the form of the Outright Monetary Transactions programme. Draghi took care to specify in his press conference that day that OMT would be unlimited in scope and his "message was clearly heard in the financial communities" (Bastasin, 2015, 417). Draghi has been clear about investor pressure forcing him to act. On 31 July 2012, he told Geithner that his "whatever it takes" remarks had been prompted by the deep scepticism he had sensed in his audience of hedge fund managers (Tooze, 2018, 440). A few months later, in an interview with the *Financial Times*, the journalists pointed out that "All the top financiers were saying that they've got to have unlimited ECB capacity." Draghi replied: "What I thought was that the markets should know what our stance was [...] I said the markets underestimated the leaders' determination and the amount of political capital they have invested in the euro" (Barber and Steen, 2012).

24 Bini Smaghi agreed that investors were asking for a potentially unlimited backstop and suggested that policymakers had not understood this early enough. He also argued that had he had prior experience as a private banker, his awareness of corporate demands would have been sharper and that in Draghi's case (who had spent three years at Goldman Sachs), that prior experience had certainly been very useful. Bini Smaghi interview.

Very quickly, the credit strike was suspended. This is borne out not only by the aggregate data (Beck, Georgiadis and Gräb, 2015, 9) but also by the individual corporate data reported in tables 2a-2c. Although UK banks continued reducing (at a much slower pace than in 2011) their exposures between June and December 2012, the much more consequential banks in the Eurozone core (table 2a) returned to peripheral sovereign bond markets, a trend that would gather pace in 2013. The Eurozone crisis was over. The member states – in particular the surplus ones – had performed the about-turn that aligned policy with corporate preferences. They finally accepted the need for a credible fiscal guarantee that bondholders would be made whole under any circumstances and the need to carry out bank recapitalisations with European funds, which entailed relinquishing their firm regulatory grip on the banking sector.

Conclusion

The account provided above is consistent with the expectations generated by the theoretical framework (summarized in table 1). The overall policy response was in line with corporate preferences (H1). The crisis indeed erupted after policymakers went down paths strongly opposed by corporate elites due to public opinion pressures (H2). As soon as that happened, corporate elites changed gear and went on a credit strike, no longer relying on their instrumental power and exercising structural power instead (H3). The corporate reaction was leveraged by the supranational institution best placed to influence the course of events (H4), namely the ECB, which quickly realised that its own capacity to persuade the politicians was limited and that they would only listen if confronted by the full force of corporate structural power.

One counterintuitive conclusion from the above is that the bloc of surplus member states led by Germany found itself on the losing side of policy making much more often than usually acknowledged – and on fundamental issues for that matter. The credit strike prevented the relapse to the Maastricht system based on market discipline for sovereigns, the solution favoured by the German government (H4). Similarly, the credit strike and the corporate refusal to fund the Spanish bank restructuring scheme forced Berlin to take the necessary steps to severe the doom loop between banks and sovereigns, thus Europeanising bank policy and reversing the policy of financial repression (H4).

A mixed pattern of policy-making can be observed – one in which the supranational institutions got most of what they wanted. On some issues (structural adjustment) intergovernmental bargaining power dynamics saw the bloc of surplus member states win out while on others (PSI and financial repression) such dynamics failed to dictate the outcome. When the corporate community was split (eurobonds), relative bargaining dynamics dictated the outcome (H5).

The case of the Eurozone crisis is instructive because corporate power most clearly comes to the fore during times of crisis when policy is most likely not to spontaneously align with corporate preferences and corporations resort to structural power to get their way. This paper sheds light on the reality of power in the EU and, more specifically, on how the corporate dominance of power is structurally linked to the deepening of integration and ultimately the building of a new federal polity.

The Eurozone crisis can be seen as a critical juncture that has demarcated the possible paths down which the future development of the EU can go – namely by creating a path dependency that should ultimately lead to some kind of fiscal union (the pinnacle of which must be the provision of a safe asset around which the Eurozone's financial system can be organised) and full banking union. Post-March 2020 developments add weight to the conclusions in this article as they confer predictive power to them.[25] The ECB's launch of the Pandemic Emergency Purchasing Programme confirms that the policy lesson of guaranteeing the risk-free status of public debt in a crisis was safely learnt. The decision to allow the Commission to borrow approximately one trillion euros in current euros to fund a temporary unemployment reinsurance scheme (SURE) and, more importantly, an investment fund to finance recovery spending (NGEU) are even more consequential as they introduce federal public debt and spending on a large-scale. The debate has now moved on to whether and how such federal borrowing and spending should become a permanent feature of the EU's political economy.

Scholarship about the EU, then, needs to take seriously Ackermann's 2012 statement with which this paper opens. This paper is an attempt to do so. As crisis conditions have subsided so has the exercise of structural power. This paper has only flagged examples of instrumental power. As the reform of the Eurozone is now being negotiated under normalised conditions, it is neces-

25 The penultimate version of this paper was completed before March 2020.

sary to dig deeper into the many subtle ways in which corporations exercise instrumental power to shape the policy agenda and the policymaking process.

This has long been a preoccupation of some NGOs like CEOs, but scholarship has ignored it. One recent encouraging example is Sylvain Laurens's (2018) socio-history of the links between the Commission bureaucracy and business lobbies. Sociologists have also highlighted for decades the deep unity of French corporate and administrative elites and this paper has shown how this unity has had an impact on the resolution of the Eurozone crisis. I have also shown how the proximity between big banks and the ECB was another major factor accounting for the central bank advocating corporate-friendly policies.

Why the same appears not to be true in Germany is clearly of fundamental importance. Some of my interviewees suggested this is because German finance ministry officials are lawyers and career bureaucrats that sociologically stand at some distance from corporate boardrooms. Another possible explanation is that top finance ministry jobs are politicized in Germany, as opposed to France, and that the constitutional constraints on the executive branch are greater due to extensive Bundestag oversight, jealously preserved by the German Constitutional Court. The French executive knows of no such constraints, to the extent that Treasury officials could commit billions of French fiscal resources without even letting the National Assembly know. This was, for example, the main explanation offered by Thomas Steffen when I queried him about the differences with France. One other explanation is the fragmented structure of the German banking industry and the relative weight of small, politicized and domestically oriented banks, as opposed to the highly centralised structure in France (which matches the centralisation of the French state and bureaucracy).

The broader theoretical point is that in trying to better understand this disparity between the ECB, the French and the German financial bureaucracies, integration theories need to historicise corporate-state relations and better understand how these differ across member-states and supranational institutions. In other words, applying corporate power theory to EU studies needs to come with a historical-sociological approach to the way such power has been constructed and is exercised in Europe.

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