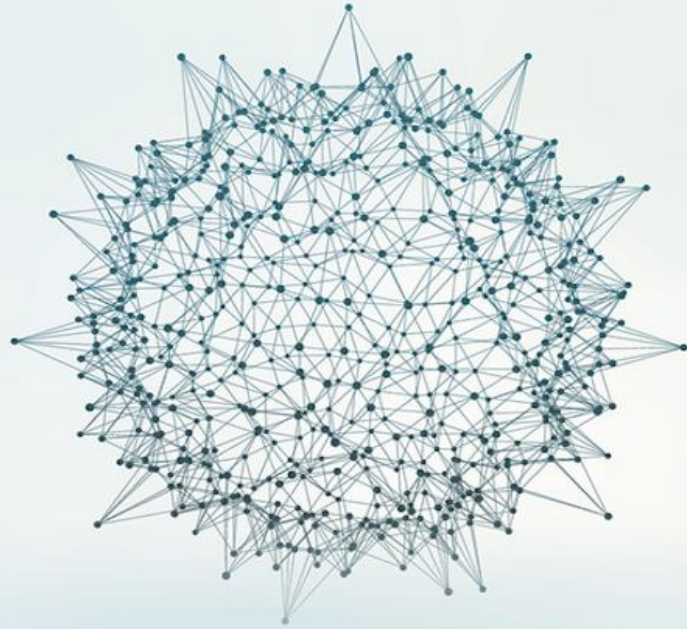


OXFORD



TANGLED GOVERNANCE

INTERNATIONAL REGIME COMPLEXITY,
THE TROIKA, AND THE EURO CRISIS

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Tangled Governance: International Regime Complexity, the Troika, and the Euro Crisis

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“THE LESSONS FOR GOVERNANCE OF
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BRUEGEL, BRUSSELS, 14 JUNE 2017

Questions

1. What explains the institutional form of the financial rescue?
2. How were conflicts among the institutions resolved?
3. How do states strategize the complex of institutions?
4. What explains the co-existence of inter-institutional cooperation and competition?
5. Should the euro area create a European Monetary Fund?

Bottom Line

- ▶ European countries, key creditor states in particular, included the IMF in the rescue packages because their preferences diverged from the Commission's. Regime complexity is the result of states' strategy to control "agency drift."
- ▶ Conflicting preferences among member states and decisionmaking by unanimity lie behind the unwillingness to rely solely on the Commission. By construction, the Commission has difficulty serving as agent primarily for the creditors.
- ▶ Key states mediate deadlock among the institutions and influence the design of programs in so doing. Inter-institutional conflict is integral to the control mechanism.

Bottom Line (cont.)

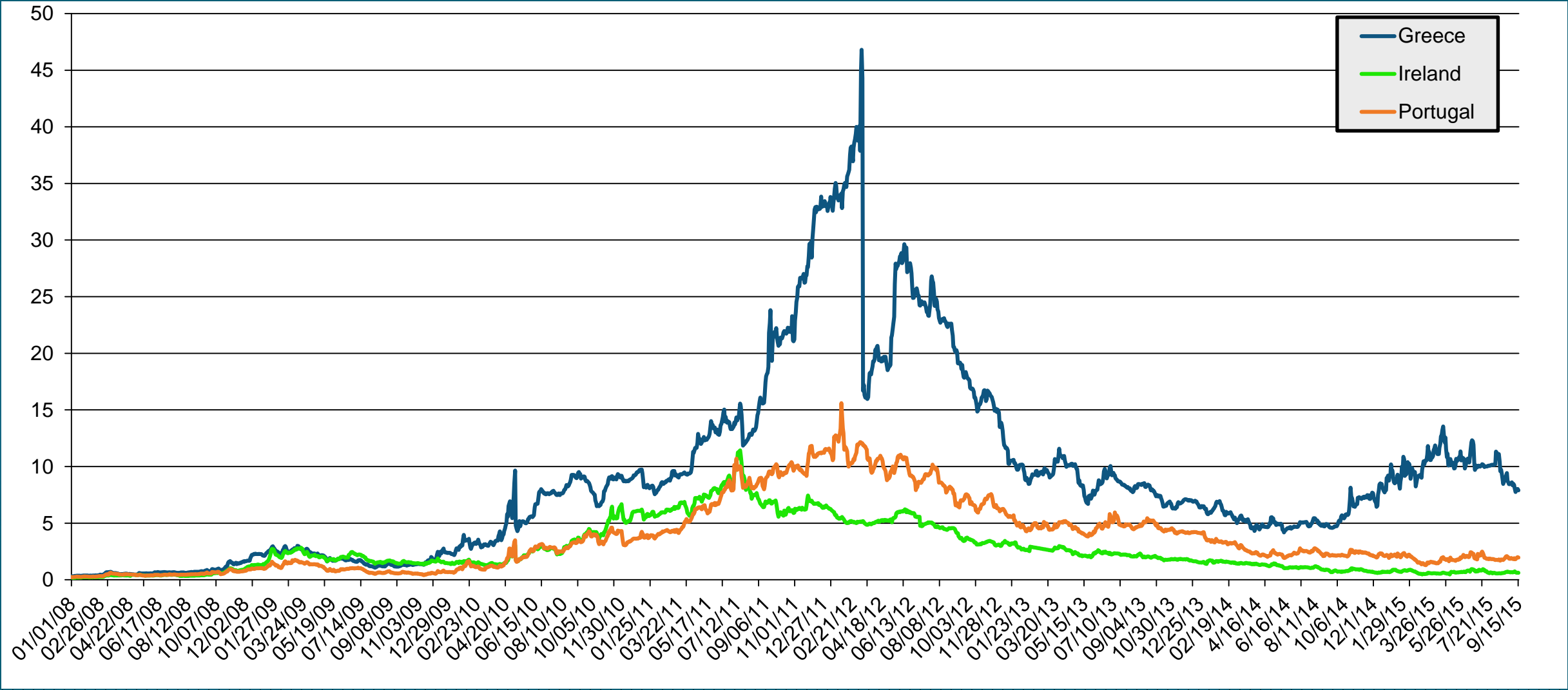
- ▶ Which explains (a) why states such as Germany insist on including the IMF even when it advocates positions averse to their preferences, and (b) why the troika persists despite institutional conflict.
- ▶ Creating a European Monetary Fund would be desirable, but this requires much more than marrying technical capacity to financial facilities. It requires a paradigm shift toward majority voting and thus deeper political integration.

Regime Complex

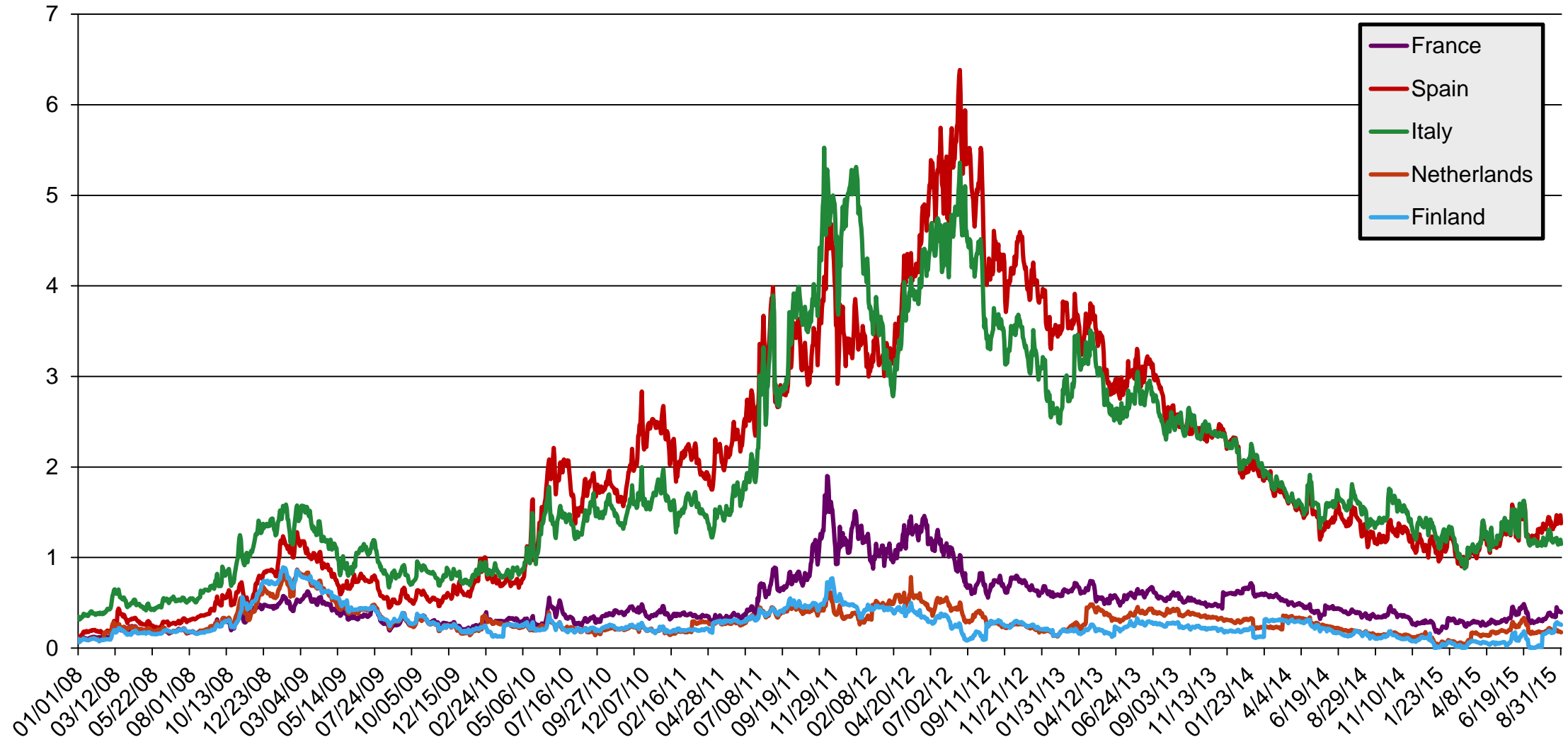


A set of international institutions that operate in a common issue area and the informal mechanisms that coordinate them.

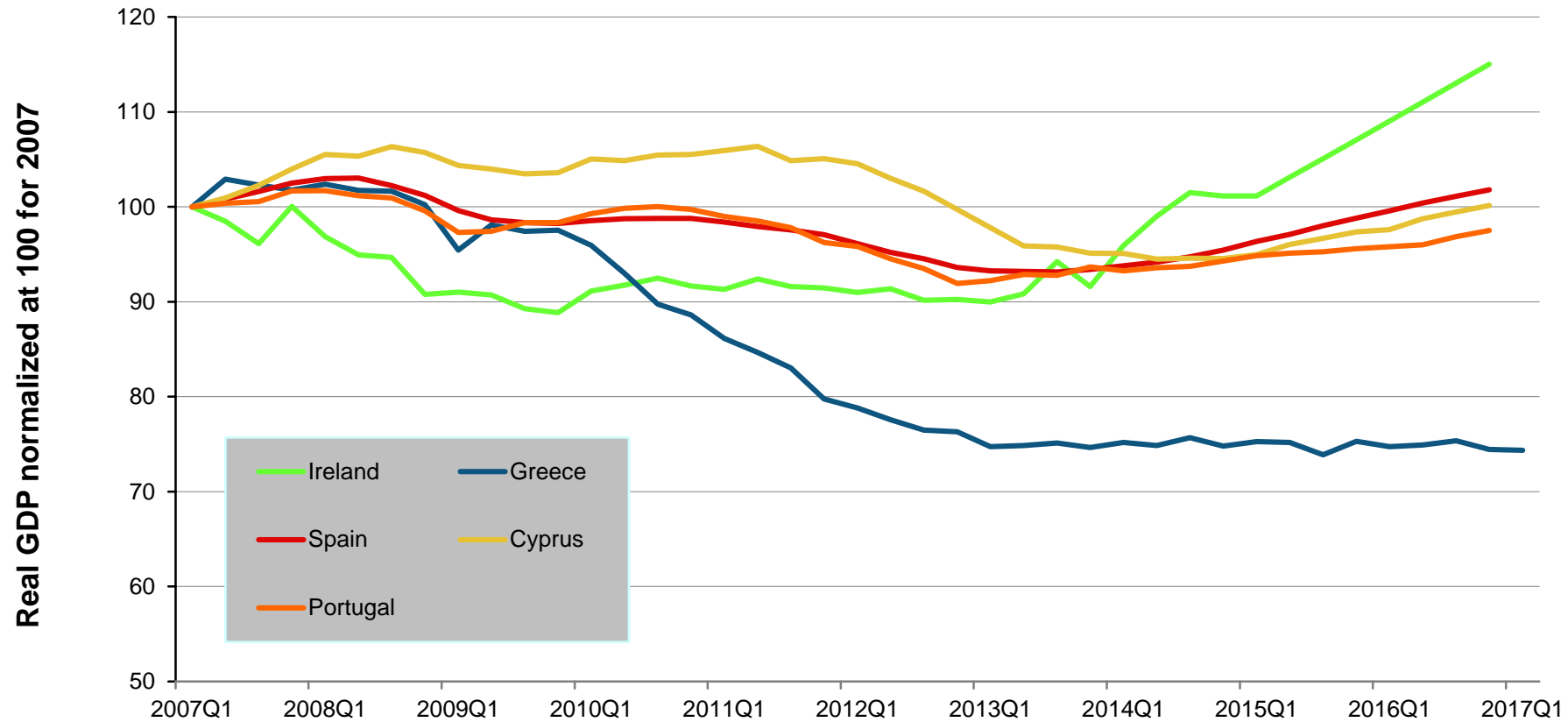
Sovereign 10 year bonds spreads over German Bunds



Sovereign 10 year bonds spreads over German Bunds



GDP of Program Countries



Source: 2017 European Commission, eurostat

Greece 2010: Opposition to IMF Involvement



“We don’t need to call in the IMF. We have more than enough instruments in the treaty to tackle a situation like the one we’re faced with at the moment in Greece.”

Joaquín Almunia, Commissioner for Economic and Monetary Affairs, February 9th, 2010.



“I do not believe that it would be appropriate to introduce the IMF as a supplier of help through standby arrangements or through any such kind of help.”

Jean-Claude Trichet, President, European Central Bank, March 4th, 2010.



... “absurd” ... “It’s not a matter of having the IMF designing the exit strategy as far as public finances are concerned.”

Jean-Claude Juncker, President, Eurogroup, February 16th, 2010.



Opposition to IMF (cont.)

“What’s clear is that this is a matter for the Europeans. There is no doubt that Greece is not a question for the International Monetary Fund.”

Wolfgang Schäuble, Minister of Finance, Germany, February 9th, 2010.



“Nous ne sommes pas..... en situation de faire appel au Fonds monétaire international. On en est pas là du tout.”

Christine Lagarde, Minister of Finance, France, February 12th, 2010.



Regime Complex for Euro Crisis Programs



Note: The SSM and ESM joined program talks in 2013 and 2015 respectively.

Table 1: Overview of Country Program Cases, 2010-2015

	Principal Cause	Loan Amount	Bail In or Debt Restructuring	IMF Inclusion Contested	Institutional Mix	Program Success
<i>Greece 2010</i>	Fiscal and Structural	€ 110 billion	No	Yes	Troika	No
<i>Ireland 2010</i>	Banking	€ 62.5 billion	No	No	Troika	Yes
<i>Portugal 2011</i>	Structural and Fiscal	€ 78 billion	No	Modestly	Troika	Yes
<i>Greece 2012</i>	Banking and Structural	€ 130 billion	Yes	Modestly	Troika	No
<i>Spain 2012</i>	Banking	€ 100 billion	Limited	No	Commission, ECB: IMF monitoring	Yes
<i>Cyprus 2012</i>	Banking	€ 10 billion	Yes	No	Troika, ESM	Yes
<i>Greece 2015</i>	Structural and Fiscal	€ 86 billion	Yes	No	Commission, ECB, ESM: IMF financing TBD	Unkown

Surviving Explanation

1. Financial resources;
 2. Expertise and credibility in designing, negotiating and monitoring programs;
 3. Deflection against political backlash;
 4. **Creditors' unwillingness to rely on European Commission.**
- Preference heterogeneity and intergovernmentalism.

Strategizing Complexity

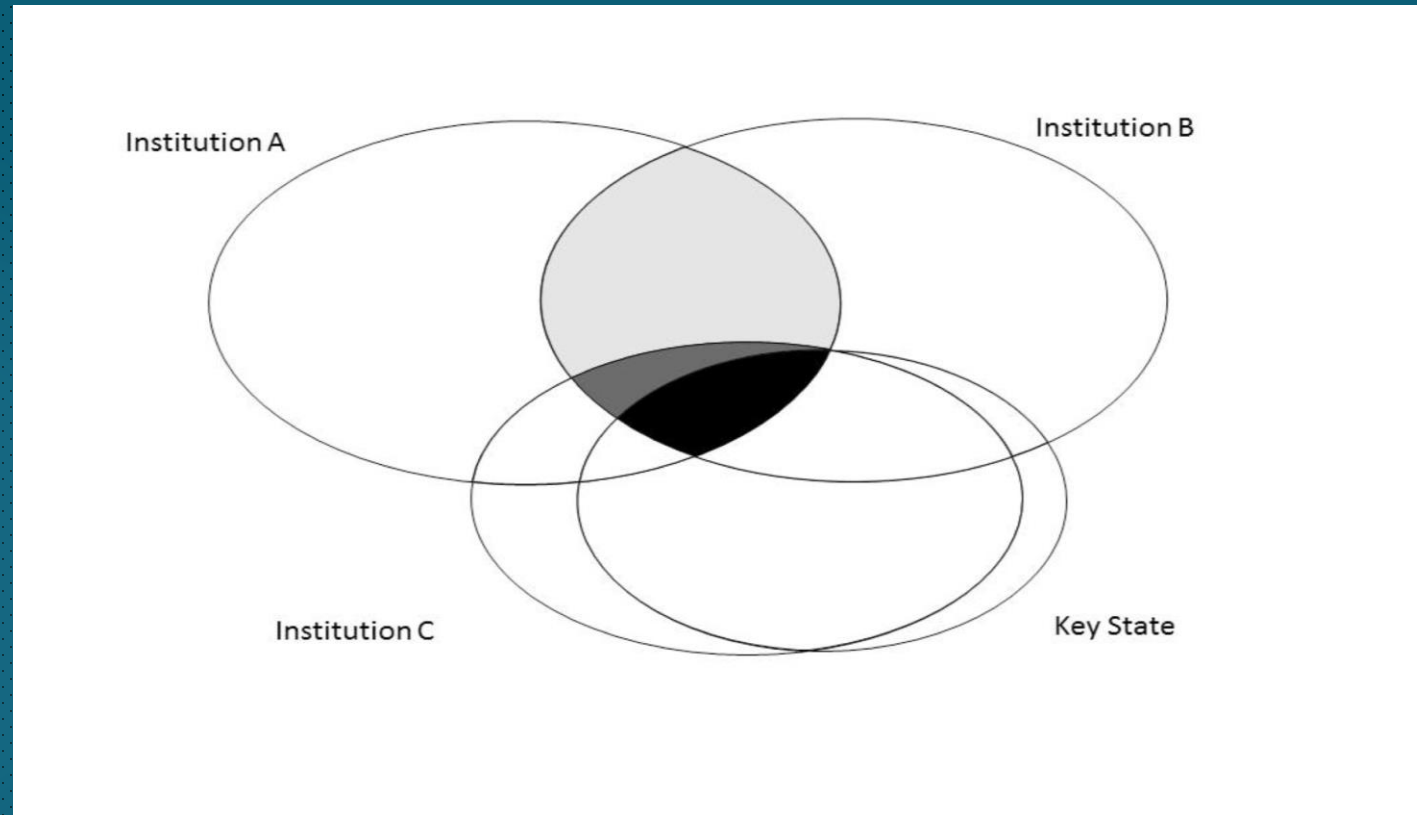
- 1) States can use complexity to *manage agency drift*.
- 2) Especially when they are the *arbiters* of institutional conflict.
- 3) Germany tolerated disagreements with the Fund because it was in such a position, along with other key creditors.
- 4) Inter-institutional conflict does not necessarily portend breakdown in the troika; it is integral to the control mechanism.

Instances of Mediation

- ▶ Merkel insisted on including the IMF in the first Greek program
- ▶ G7 set some key parameters
- ▶ G7 insists on IMF in Portuguese program
- ▶ United States removes objection to Greek PSI in 2011
- ▶ Obama brokered the position on Italy at Cannes G20
- ▶ Germany weighed in on Cyprus bail in
- ▶ Merkel convened the institutions in Berlin and personally negotiated solution for third Greek program
- ▶

Figure 3: Distribution of Preferences among Key Actors

Ellipses describe the locus of outcomes acceptable to each institution



Should Europe create an EMF?

- ▶ Yes, this would be good for Europe, the euro area, and the rest of the world.
- ▶ But bundling analytical and financial capacity in a new institution will not be sufficient.
- ▶ Effective progress, or withdrawing demand for the IMF, would probably require abandonment of unanimity and deeper political integration.
- ▶ Because present domestic political environment does not yet support this, the next crisis will probably arrive before this can be accomplished.
- ▶ Europe is likely to continue to call upon the five institutions in future contingencies, although contentious.

IMF Protocol on Lending to Currency Unions

- ▶ Assurances on union-wide policies that are critical to program success.
 - How to make informal assurances credible is a critical issue.
- ▶ Explicit acknowledgement of the preferred creditor status of the IMF.
- ▶ A regional method of debt relief when sustainability is in doubt.
- ▶ Effective regional governance. Red flags include:
 - Use of the crisis to extract concessions from other regional actors;
 - Threats of expulsion from the union as a bargaining tactic.
- Exacting, perhaps, but fundamentally support regional integration.



Tangled Governance can be found at

<https://global.oup.com/academic/product/tangled-governance-9780198801801?cc=us&lang=en&>



Thank you