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Abstract

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Preference and Policy Formation in International Bureaucracies during Crises: Evidence from the European Commission’s Policies on Debt-management

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ABSTRACT

This paper discusses the conditions under which international bureaucracies might oppose member-state preferences during financial crises. It employs the deviant case of the European Commission and its debt-management suggestions at the beginning of the recent Eurozone crisis to answer this enquiry. It asks why the European Commission stood against the debt-relief preferences of its principals during the private-sector involvement (PSI) period. By using data from grey literature sources, elite interviews and secondary accounts, it suggests that the Commission acted as an autonomous bureaucracy in the field of debt management. Its pro-integration culture, which was tied with the preservation of the Eurozone project via market-appeasing policies, drove its debt-management preferences and suggestions. This insight demonstrates that institutional culture can play a central role even during crises. It shows that when there is significant discrepancy between the international bureaucracy’s culture and the crisis-management preferences of the member-states, the former might come up with suggestions that go against state preferences. The paper’s insights run contrarily to the existing state-centric narratives about the Commission’s role in the recent crisis. They also provide nuances to the existing research on the behavior of international bureaucracies during financial crises.

Keywords: European Commission, crisis-management, international bureaucracies

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1. Introduction

Most scholars that have discussed the role of international organizations (IOs) in the Eurozone crisis have adopted the standard state-centric narrative. They have argued that whenever member-states (MSs) have intense preferences regarding the management of a crisis, they transmit them to their agent, i.e. the international bureaucracy. States manage to achieve this either via the official mandate that they produce or via informal pressures towards the bureaucracy. The supranational bureaucracy, for its part, usually follows these preferences due primarily to budget-related reasons. Despite most scholars being quick to accept this narrative, the relevant data presents a more nuanced picture. Particularly, it shows that the European Commission chose to diverge from the MSs in the field of debt-management during the early stages of the Euro crisis. It chose to oppose the Council’s intention to move forward with a debt relief scheme for Greece. Surprisingly, the state-centric narratives, being based mainly on large-n and comparative studies, do not really provide any explanation for such deviant cases – i.e. cases in which the bureaucracy suggests crisis-related policies independently of state preferences.

Following this admission, the paper asks what led the Commission to oppose state preferences vis-a-vis a politically salient issue, i.e. the PSI. The paper argues that the Commission took a more long-term view and formed its preferences and policy suggestion driven by a feature of its internal institutional culture (Barnett and Finnemore 2004: 19), i.e. its tendency to sustain the Eurozone via market-appeasing measures. The examination of this case suggests that if the incongruence between the MSs’ preferences and the bureaucracy’s core institutional beliefs is high, then agency drift – even in times of crisis – is also likely. By making this argument, the paper shows that during the recent crisis the Commission possessed autonomy of will, that is, the ability to develop its preferences independently of the MSs’ preferences, and autonomy of action – i.e. the ability to translate these preferences into action independently of the MSs’ approval (Bauer and Ege 2016).

The paper proceeds as follows: it first presents an empirical puzzle, then proceeds by analysing the case selection strategy. After doing so, it engages with the existing literature from which it derives certain competing hypotheses. It then examines the empirical material and suggests which hypothesis is more relevant, while also discussing why the alternative explanations hold less analytical power. It concludes by summing up the argument and by discussing implications for the field of EU studies and international organisations, while also making a reference to its limitations.

1.1 Research question and empirical puzzles

The paper employs the Commission’s debt-management positions at the beginning of the Eurozone crisis in order to analyse why Commission officials conceived and approached the problem of debt-management in an autonomous way and in direct opposition to the MSs. In order to address this question, the first phenomenon that will be placed under closer investigation is the Commission’s opposition to Greece receiving some type of debt relief at the very beginning of the crisis. As the first Greek program was signed in 2010 the IMF, the Commission and the ECB, clashed over whether the Greek debt should be restructured. From the one side, the IMF was arguing in favour of an early debt relief strategy, while the Commission and the ECB, in accordance with the EU MSs, were not even considering such an option. After a contentious intra-Troika debate, the preferences of the European side
dominated (Pisani-Ferry and al. 2011: 3). Drawing from this incident we can pose the first question of this paper: which drivers and mechanisms led the Commission to take an anti-debt-relief position at the very beginning of the crisis? Was it state preferences or its internal drivers and can we really distinguish between the two?

**Chronology of the debt management debate (2009-2012) (Table 1.1)**

- **October 2009** - A new government is elected. George Papandreou takes over as new prime minister and George Papaconstantinou is appointed finance minister. The new government discloses that the 2009 budget deficit will be 12.7 percent – more than double the previously announced figure.
- **November 2009** - Papandreou admits that the Greek economy is in “intensive care”, as European finance ministers express concern about the size of the country’s debt.
- **8 December 2009** - Greece’s credit rating is downgraded by one of world’s three leading rating agencies (Fitch) amid fears that the government could default on its ballooning debt.
- **14 December 2009** - The government announces a programme of budget consolidation that aims to cut the deficit by four GDP percentage points in 2010-2011.
- **7 January 2010** - EU officials arrive in Athens to ask the Greek government for more details on its consolidation plan.
- **14 January 2010** - Greece unveils another budget consolidation programme – i.e. the Stability Programme.
- **2 February 2010** - Amid market volatility and increasing borrowing costs, the government announces a wider package of fiscal consolidation.
- **11 February 2010** - Germany opposes a quick bailout for Greece.
- **3-4 March 2010** - Greece unveils a radical austerity package. Financial markets welcome the move by bidding for €16bn of government debt.
- **29 March 2010** - Greece faces weak response to its bond sale. Financial markets start losing faith in the country’s ability to service its debts.
- **2 May 2010** - Greece is granted a financial aid package of €110bn.
- **18 October 2010** - Deauville agreement.
- **6 June 2011** - German Finance Minister Wolfgang Schäuble writes a letter to the ECB and the IMF proposing some type of debt-restructuring for Greece.
- **21 July 2011** - The EU Summit agrees a new bailout plan for Greece, including contributions from the private sector.
- **26 October 2011** - The Euro Summit statement invites Greece and its private-sector bondholders to agree on a bigger PSI.
- **March/April 2012** - The final round of PSI negotiations results in a major debt exchange.

The second empirical puzzle has to do with the Commission’s reaction when the MSs sought to change their policy on debt relief. Only two years after the decision not to restructure the Greek debt the MSs changed their position and Greece was encouraged to reach out to its...
bondholders and seek a voluntary restructuring of its sovereign debt. The realization of the Private Sector Involvement Scheme (PSI) in 2012 signified this radical policy change. As it will be shown, the MSs drove this policy change while the Commission opposed such a scheme. This divergence leads us to the second empirical puzzle: why did the Commission diverged from its principal’s preferences and kept opposing the suggested debt-relief scheme, despite the its risk of experiencing institutional losses?

1.2 Case selection

To explore the above questions, we employ a deviant case study that will allow the in-depth examination of such cases. The chosen case study offers an incident in which the international bureaucracy chose to oppose the salient preferences of its principals during a financial crisis. Yet, the Commission’s approach to the issue of debt-relief also contains all the necessary elements to make it a failed “most-likely case” from a theoretical point of view. According to the relevant IO and EU studies literature, we would expect the Commission, i.e. the agent, to follow the Council’s, i.e. the principal’s, aggregate preferences in the field of debt-management.

The Commission’s characterization as an international bureaucracy is a moot point among scholars. The term “international bureaucracy” usually refers to the permanent secretariat of an international organisation that is distinctive and independent from the organisation’s MSs and its plenary assembly. Moreover, its role and function are usually codified in the organisation’s constitutive treaty or in the staff’s regulations. Furthermore, international bureaucracies usually employ permanent staff, while they also have permanent headquarters and hold regular meetings. Finally, the bureaucracy’s staff is usually required to take an oath of primary allegiance to the international bureaucracy. The Commission possesses all the above elements (Trondal and al. 2010 :6-7); its internal and organisational dynamics are the same that we see in every other international bureaucracy (Trondal and al. 2010 :8) while in many respects it is subject to the same pressures and incentives.

The policy area of debt-management is selected as a politically salient topic for all involved actors. All Eurozone MSs were very much engaged and interested in this discussion given Greece’s excessive debt-levels and the interconnectedness between the Eurozone’s economies (Tooze 2018: 327). Moreover, the MSs had framed the debt-relief question in a way that made it politically salient for their domestic audience (Matthijs and McNamara 2015). Consequently, it was only normal that the handling of the Greek debt was a central concern for all Eurozone members and especially for France and Germany (Bastasin 2012:147-148). The Council’s members had every incentive to transmit their preferences to the Commission and monitor its actions in order to achieve lower bailout costs. Given this, the selected case eliminates the possibility that the Commission’s autonomous behavior would go unnoticed by the MSs. (Hawkins and al 2006 :8).

Indeed, one would expect the Commission to be very considerate regarding state preferences as the Eurogroup was scrutinizing every Troika suggestion (Interview 1, European Court of Auditors 2017: 23, 73). Moreover, the Commission faced its principal’s skepticism. The MSs were not confident that the institution was still fit to fulfil its monitoring duties within the Troika since it had demonstrated laxity when reviewing the prospects of the Greek economy, both before its Eurozone accession (Henning 2017: 95) and as the government announced its
stability programme at the beginning of the crisis (Henning 2017: 85, Pisani-Ferry and al. 2013: 24, 110).

Consequently, the MSs opted to create a Troika that included the Commission and two other institutions: the IMF and the ECB (Hodson 2015, Henning 2017, Pisani-Ferry and al. 2013). Moreover, the Council established new institutions (the EFSM, the EFSF and later the ESM) that would complement the Troika’s work. These institutions were not only aiming to complement, but to also check each other’s works. In effect, the Commission ended up facing intense institutional competition from other international bureaucracies within the crisis-management framework.

Given that the Commission was aware of the MSs’ skepticism and mistrust (Interviews 2, 3) and that it faced a plurality of competing institutions, one would expect from the organisation to cater to the Council’s preferences. Facing a pool of equally competent competing institutions, we would expect the Commission to present itself as being closer to the principal’s preferences in order to retain and potentially expand its authority over the field of EU economic governance (Hawkins and al. 2006:29). Nevertheless, as the analysis will make clear, the Commission did not follow state preferences and chose to openly oppose them.

1.3 The existing literature and the alternative hypotheses

The analysis below presents three mutually exclusive explanatory hypotheses. The three hypotheses are based on the insights of three different approaches on IO governance: 1) the state-centric approach, 2) the bureaucracy-based approach and 3) the advocacy coalition framework.

The state-centric explanation embarks from the assumption that states use international organizations to further their interests and preferences (Koremenos and al. 2001: 762). Following this reading of IOs one would expect that their function and decisions should somehow reflect the preferences of its constitutive stakeholders. Subsequently, the process of preference and policy formation inside IOs would be heavily influenced by the preferences of MSs and the subsequent interactions between them (Vetterlein and Moschella 2014:147).

Following this rationale would suggest that the European Commission followed Germany’s preferences during the Eurocrisis. Being the most affluent state in Europe, Germany was the one state that could withdraw and lead the whole effort to a halt. Moreover, analysis on the Council’s voting dynamics suggests that Germany’s place on the spectrum of preferences made it the dominant state. Germany was, in Henning’s words, the “least forthcoming state”, being in a way the player most likely to veto any decision (Henning 2017: 244). Indeed, most scholars have adopted this narrative. H1 demonstrates this explanatory proposition:

1.3.1 (H1): The European Commission opposed any type of debt relief because it followed the respective preferences of its collective principal.

For this hypothesis to be valid we would first need to see the vociferous expression of intense interests inside the Eurogroup. Such statements would hint that the question of debt relief was important to the MSs. Moreover, the congruence of the Council’s decision with Germany’s preferences would be a strong indicator in favour of this explanation. We should also observe a high level of congruence between the MSs’ preferences and the Commission’s
The literature that has analysed the drivers of autonomous bureaucratic actions has identified two major drivers (Ellinas and Suleiman 2012:6): 1) the bureaucracy’s rent-seeking desire and 2) and the non-budget affiliated motives, meaning the bureaucracy’s distinct preferences that usually tend to serve certain overarching institutional norms, ideas and preferences. The rent-seeking hypothesis presupposes that bureaucrats are acting rationally and pursue their material self-interest by trying to increase their budget and authority (Niskanen 1971). The alternative to the budget-maximisation explanation argues that it is not uncommon that international bureaucrats shift their allegiance and faith to the international institution and its overarching aims, without much concern about their career prospects and the preferences of their countries of origin (Trondal and al. 2010:152).

In times of organizational insecurity, it is more likely that budget-maximization/preservation incentives can explain the bureaucracy’s tendency to follow MS preferences. On the other hand, non-budget motives better explain agency drift and the autonomous actions of bureaucrats. Hypothesis 2 applies this rationale to the Commission’s case:

1.3.2 (H2): The Commission formed its preferences and policies regarding the issue of debt relief driven by certain internal institutional features that were related to its overarching institutional mandate.

For this hypothesis to be valid we would expect to see some form of autonomy to be present. Furthermore, we would expect to find Commission officials arguing in favour of policies that explicitly aim to secure the maintenance of one or more of the Commission’s typical institutional goals – i.e. the stability of the Eurozone and of the EU, the protection of the Commission’s bureaucratic turf, the faithful guarding of the European legal order and the further ceding of national sovereignty to the supranational level. These goals should be clearly communicated by the Commission via official publications, statements and speeches in relation to the issue of debt relief. Finally, we would expect these views to be ardently defended by the Commission in public and private negotiations, with its own stakeholders – i.e. the MSs and with the other Troika organizations.

The final hypothesis is drawn from the policy change literature and specifically from the advocacy coalition framework (ACF) (Sabatier and Jenkins-Smith 1999). Applied in the field of IO governance, the ACF entails officials that are loyal to their own portfolio and dossiers and hence their actions and suggestions are guided by their allegiance to their respective subunit. Such a logic might lead to internal bureaucratic conflicts between different departments and
units (Trondal and al. 2010: 125-126). Subsequently, the final policy suggestions should be
closer to the preferences and ideas of the dominant coalition. The Commission’s structure,
i.e. multiple horizontal divisions with different portfolios, has previously given rise to such
dynamics (Cram 1994, Kassim 2008, Trondal and al. 2010: 28, 121-123). Hence, it is plausible
that a process of internal conflict emerged during the recent crisis. The ACF would suggest
that the process of preference and policy formation inside the Commission was a multi-level
conflict between different actors that were trying to influence the Commission’s views
regarding debt relief. Subsequently we can derive the following hypothesis:

1.3.3 (H3): If the creation of debt-management suggestions, inside the Commission, caused a
conflict between multiple stakeholders, then its suggestions should reflect the preferences of
the dominant coalition.

For this hypothesis to hold we would expect to observe at least two clearly differing views
regarding the question of debt relief (e.g. in favor or against debt relief, different types of
debt relief) and a respective number of coalitions supporting these views inside the
Commission. At the same time, we would expect these groups to engage, both in public and
in private, in an intense debate regarding this issue while they also try to recruit new coalition
partners in order to strengthen their leverage. Finally, we would expect this intense debate
between coalition groups to take place also inside the Commission via the respective
publications of each DG and inside the intra-commission consultation groups.

2. The Commission’s drivers of preferences and policies in the field
of debt management: From “never” debt-relief to the PSI

2.1 The beginning of the crisis
The segment below argues that the Commission formed its preferences and policies vis-à-vis
the handling of the Greek debt motivated by certain internal institutional preferences (H2).
As it will be shown, the Commission sought to sustain the Eurozone project and avoid any
rollbacks in the process of European integration by suggesting and promoting measures of
market-appeasing rationale – i.e. measures that followed market expectations.

The Commission’s initial views vis-à-vis the management of the economic crisis were driven
by the underlying fear that the Greek crisis could cause wider systemic risks to the whole
Eurozone and potentially lead to its collapse. The way such a systemic risk would become
evident in the Eurozone was via market unrest and panic. The rationale was that a lenient
handling of the Greek debt and an early debt-relief might initiate fears that the government
bonds issued by Eurozone governments may drop dramatically in value. Hence, holding
sovereign bonds of Eurozone countries would not signified credibility anymore but a rather
risky position. Subsequently, a widespread sense of market panic might prevail (Woodruff
2016: 84). Such a perception would eventually lead to a “rush to the exit” event, where
investors attempt to liquidate their sovereign bond assets, leading their price to drop
dramatically – much like a self-fulfilling prophecy (Woodruff 2016: 89). Following these
developments, the MSs might have ended up perceiving their Eurozone membership more
like a drag to the bottom rather than a safeguard.
From the very beginning of the Greek crisis, as market unrest was intensifying, the Commission was trying to warn the MSs about the spillover implications that may be caused by the handling of the Greek debt. Its initial proposal to the Council appeared to be predominantly concerned with contagion fears (European Commission 2010: 2). Moreover, the initial discussions between the most senior members of the Commission also demonstrated that market expectations and market volatility, along with spillover fears, were central in the Commission’s thinking. In meetings of the Commissioners’ College between February and April 2010, the College suggested that, given the high degree of interdependence between MSs, the economic situation in Greece was posing a systemic challenge for the whole Eurozone (European Commission Secretary General 2010a: 15).

Following this assumption, the Commission helped Greece to draft a stability program that would assist the country to regain market confidence (European Commission Secretary General 2010a: 15,17, European Commission Secretary General 2010b: 17). As it was noted, these measures did not just aim to put Greece back on track but also to address problems that might affect the rest of the Eurozone. In that sense it was important to convey to the markets the credibility of the Eurozone, of the SGP and of the Commission itself (European Commission Secretary General 2010a: 15,17,19, European Commission Secretary General 2010b: 22, European Commission Secretary General 2010c: 23).

The centrality of contagion fears was not articulated only at the highest policy-making level. Such fears were also very central for the mid-level Commission officials that had to assess the Greek stability program. For the period right before the crisis, the intra-commission dialogue between mid-level officials was focused on how the Commission could steer the country toward a plan of economic adjustment that would calm the market fears and lead investors to see Greece as credible again (Interviews 2,4,5,6). Moreover, the Commission team that was working on the first Greek program was quite concerned with the implications that the chosen lending facility would have for the balance sheets of the contributing MSs (Interview 4). In addition, an early debt relief for Greece was seen as potentially destructive for the country since all of its banks would go bankrupt, adding to further market volatility and domestic unrest. The rest of the Eurozone would not remain untouched since such an incident would create all kinds of economic, financial and political spillovers (Interview 6). From all the above, it is evident that as the Greek crisis began the Commission as a whole – meaning officials from all hierarchical levels – aimed to address market fears and contain spillovers.

Another indication of how vociferous the Commission was, vis-à-vis its contagion concerns, comes from the accounts of institutions that had to interact with the Commission’s services during the negotiations of the first Greek adjustment program. The IMF’s ex-post evaluation report, published in 2013, documented the Commission’s spillover fears. The report noted that the Commission rejected the Fund’s suggestions for an early debt relief having in mind the avoidance of potential spillovers that might jeopardize the stability of the Eurozone (International Monetary Fund 2013: 31). Moreover, another report coming from Bruegel, also pointed towards the same direction (Pissani-Ferry and al. 2013: 119-120). Additionally, senior Greek officials – heavily involved with the negotiations of the first program – suggested that the ECFIN commissioner, Olli Rehn, never brought up the issue of early debt-relief. This was so because he was convinced by the analysis of DG ECFIN that the risk of systemic spillovers was immense (Interview 7).

Another strong indication of how central the spillover fears were for the Commission during the crisis’ early stages comes from the fact that the first Greek adjustment program was tied
to market developments and pressures. In the College meeting that took place in May, only a few days after the signing of the first Greek Memorandum of Understanding, the Commissioners reiterated that the response of the service should be coherent in order to secure the stability of the Eurozone (European Commission Secretary General 2010d: 23). At the same time the ECFIN Commissioner noted that the agreed program was insulating Greece from market pressures and was creating a safe space for the country so that it could restore its competitiveness and fiscal credibility (European Commission Secretary General 2010d: 22). Commission officials that were involved with the technical drafting of the Greek program suggested that its aim was to promote reforms that would calm market fears and help Greece regain market confidence by moving its debt into a declining trajectory (Interviews 2,4,5,6). From this description it is clear that the Commission’s suggestions, vis-à-vis the first program of economic adjustment, were mainly motivated by the need to meet market expectations and ensure that market panic would not emerge.

The Commission’s fears about market volatility and spillovers did not cease after the ratification of the first bailout. On the contrary, they were maintained and intensified as the Greek program was getting off-track. As the first signs of inefficient implementation became evident, the Commission’s president emphasized that a potential failure of the Greek program could have grave implications for the whole Eurozone (European Commission Secretary General 2011a: 14). At the same time the Commission had to account for the debt restructuring rumours that were circulated between private bondholders (European Commission Secretary General 2011b). The Commission’s response was that the Greek program was still on track and that with some extra effort Greece could reach a sustainable path without any debt restructuring. Indeed, a big part of Commissioner Rehn’s actions during that period was focused on convincing market participants that Greece was willing to reform substantially (Interview 2). The Commission’s response to the deteriorating state of the Greek economy is particularly important because it shows that, even when the program was going off-track, the Commission kept focusing on potential contagion effects rather than on redrafting the program toward a more realistic direction.

Despite the above observations, it is difficult to disentangle whether the Commission’s drivers were independent of MS preferences before the PSI as the two converged. Accounts of Commission officials from that period suggest that the Commission was in communication with the MSs and was ready to broadly incorporate their preferences in its proposals (Interview 4). By following this strategy, it incorporated the MSs’ preferences as an outer limit to its suggestions (Interview 1). Subsequently, the most basic and intense interests of the MSs’ were anticipated and incorporated in the Commission’s early recommendations, while the organisation was still able to propose policies that were economically optimal (Interview 1).

Overall, during the early days of the crisis, the Commission and the MSs preferences overlapped. The Commission sought to safeguard the stability of the Eurozone and opposed early debt-relief, fearing the collapse of the Eurozone’s bond market and the subsequent collapse of EMU. The MSs opposed early debt relief because that would lead to exorbitant bailout and domestic political costs (International Monetary Fund 2013: 27). They were also very much afraid of potential financial spillovers into their domestic financial systems (Copelovitch 2010: 53, Pisani-Ferry and al. 2013: 67-68).
2.2 The PSI period

While during the first phases of the Eurozone crisis the Council and Commission appeared to have debt-management positions that reflected each other’s, this changed radically in 2011. Only two years after the European side adopted a firm anti-debt relief stance, one could observe a substantial repositioning of the Council. As the Greek program was missing its targets and the need for a second bailout was becoming evident, the MSs began to change their views regarding the desirability of a debt relief for Greece. The majority of observers suggests that the turning point was the Deauville agreement (Interview 8, interviews 2,4,5,6, interview 9). In this document the French President and the German Chancellor agreed to push for a permanent crisis resolution mechanism that would also involve private sector bondholders (Zettelmeyer and al. 2013: 4, Brunnermeir and al. 2016: 29).

The participation of the private sector was a demand that was articulated and pushed forward by the German side. The Merkel government played a central role in the PSI process and convinced other Eurozone MSs to accept some kind of debt-restructuring. The German government’s shift from a stance against debt-relief to being in favour is attributed to a multiplicity of factors: domestic political pressures, institutional and financial layering at the European level and better coverage of its domestic financial system from any financial spillover effects.

As for domestic political concerns, the German Chancellor faced rising popular discontent over the beneficial treatment of banks and private bondholders during the first phases of the crisis (Interview 7). The insulation of the private sector from any losses, while public funds were used to fund the bailouts, provoked anger inside the German ruling coalition and among the German electorate (Blustein 2016: 160-161). In a poll conducted in spring, 2011, a startling 85 percent of the German electorate thought that the EU needed to supervise the biggest financial groups more closely (European Commission Directorate-General Communication 2011: 20). A similar percentage supported the imposition of additional taxes on big financial institutions (European Commission Directorate-General Communication 2011:26). Facing such mounting pressures, Merkel felt that she had to appease this sentiment: especially after the poor showing of her coalition partners in the regional elections that took place in 2010 (Schwarzer 2011:4).

In addition to rising popular discontent, Merkel felt enabled to pursue a PSI policy after the EU had established several financial firewalls that would contain potential financial spillovers – i.e. the EFSF and then the ESM. These institutions acted as a full-fledged firewall for the Monetary Union (Moschella 2016:814). Furthermore, the proposed debt-relief measure would have small economic repercussions and substantial benefits for the German economy since it would lead to lower bailout costs. As the German financial system became less exposed to the spillover risks (Tooze 2018: 327, IMF 2019: 28), the German government felt less constrained to suggest a debt-relief. Greece’s remaining creditors were not that influential given that they were dispersed across a wide spectrum and their positions were not that central to the German economy. Most importantly, the heterogeneity of preferences within the private creditor groups made it quite difficult for them to organise and lobby the government (Copelovitch 2010: 54).

Despite these developments and the clear repositioning of the Council, the Commission made clear that it was against such a policy due to its spillover concerns. As the discussion for a
potential debt-relief unfolded within the Council framework, the Commission – consistently and in front of different audiences – positioned itself against such a plan.

When the Greek and the IMF side tried to rejuvenate the discussion on debt relief early in the program the Commission labelled such efforts as “whistleblowing”. Given that the program was still ongoing, such talks would inevitably cause extensive market volatility due to increased speculation for a potential debt restructuring (Interviews 2,6). More importantly, Commission officials suggested that the Deauville agreement was a potential source of instability for the Eurozone. The senior Commission staff, which was somehow consulted prior to the agreement, advised against it since they thought that it would drive the risk premia of sovereign bonds up (Interviews 2,6). Moreover, high and mid-level Commission officials that took part in these meeting brought up contagion fears and suggested that these concerns were central in their discussions (Interviews 2,4,5,6).

The Commission’s staff also articulated in public, i.e. in front of investors and market participants, such concerns. Indeed, the congruence between the Commission’s public concerns and the concerns that were voiced in private demonstrates that its debt-relief positions were driven by genuine fears, vis-à-vis the stability of the Eurozone. The Commission’s fourth review of the first Greek program, published right before the PSI, suggested that a debt relief would cause significant spillovers to other Euro-area MSs. Investors would be far less tolerant to the existing debt levels in the Eurozone and hence they would ask for far higher risk premia, leading to rising lending costs. Subsequently, MSs that were seen as creditworthy before the Greek debt restructuring might end up facing exorbitant lending costs. Such a negative spiral would inevitably lead to problems of liquidity. Moreover, the report noted that a debt-restructuring scheme would make Greece even more untrustworthy in the international bond markets since it would signify that the country could go into default anytime. The analysis suggested that all the available debt restructuring options would invariably make Greece’s return to the financial markets even more difficult. Independently of how low the debt of a country is, after a restructuring of its debt, refinancing is extremely difficult due to decreased market confidence. (European Commission Directorate-General for Economic and Financial Affairs 2010: 7). Furthermore, any type of debt relief would have a highly negative impact to the banking sector, a development that would negatively influence the country’s growth prospects and subsequently its debt to GDP ratio (Interviews 5, 6).

All in all, these fears led the Commission to openly and explicitly oppose the upcoming debt relief scheme that the Eurogroup was sponsoring (European Commission Directorate-General for Economic and Financial Affairs 2010: 7). The above report and its argumentation demonstrate that the Commission was willing to express such views even in public, risking market volatility by exhibiting mixed signals to the markets.

Finally, the Commission diverged from its principal’s preferences, even in July 2011, when the Euro Summit officially decided in favor of debt relief. Commissioner Rehn kept arguing that the existing Commission strategy “of gradual, differentiated consolidation” should be maintained, while all actors should strive “to reduce tension on the financial markets in relation to the sovereign debt of certain Member States”. He also suggested that the application of the Council’s debt-restructuring decision had raised spillover concerns (European Commission Secretary General 2011c: 14).
The Commission’s autonomous and strong commitment against debt-relief is further demonstrated by the fact that it experienced institutional losses, due to its debt-management position during the PSI negotiations. The MSs delegated authority to the Euro Working Group and the EFSFS; the two bureaucracies became the Council’s main agents in the Greek debt-management process. Conversely, the Commission went from being closely involved with debt-management to being replaced by institutions of a purely intergovernmental nature. The MSs, seeing the Commission’s unwillingness to contribute actively to a debt relief plan, chose to transfer this power to institutions that were directly controlled by them. In this sense, the persistent and public objections of the Commission against the PSI ended up having substantial institutional costs and led the bureaucracy to lose competences.

All in all, it is clear from the evidence presented above that the Commission’s debt-management strategy was strongly influenced by its desire to appease market participants and avoid a systemic Eurozone crisis. The Commission’s suggestions and actions as a Troika member always had the underlying theme of preserving the stability of the Eurozone. Its fears revolved around the only channel that seemed able to put the MSs’ commitment to the euro, i.e. the bond market, in doubt. Hence, the Commission’s concern that a poor handling of the Greek debt would lead to a sell-off of sovereign bonds and to a subsequent collapse of the common currency. The Commission’s proposals tied the process of European integration with market appeasement – i.e. with meeting the expectations of market participants. This explains why the Commission positioned itself against the PSI. The PSI deal, being the MSs’ effort to reshape market expectations, was seen by the Commission as fundamentally ineffective and counter to its conception of financial crisis-management. It strongly believed that markets should be appeased rather than managed. In that sense, unilateral adjustment, strong national signals in favour of domestic reforms and financial aid – accompanied by conditionality clauses – were seen as more effective and less risky compared to collective state action.

Before concluding the analysis in this section, it is important to discuss whether the Commission’s pro-integration and market-appeasing drivers were compatible with its rule-safe guarding tendencies. These inclinations have been established as central for the Commission’s behavior before (Stine 2012, de Witte 2018) and during the crisis (Lutz and al. 2019). Hence, their relationship with the above tendencies should be briefly examined.

While the Commission did have legal concern regarding the handling of Greek debt, these concerns were not its primary drivers of preferences. The organization sought to ensure that its crisis-management suggestions were compatible with EU Treaties, yet numerous policies ended up being in violation of the EU legal order. For example, the fiscal targets of the adjustment programmes were incompatible with the Sustainability and Growth Pact’s (SGP) fiscal rules (European Commission Secretary General 2010f: 15). Such legally challenging topics were not discussed, or even mentioned, at the highest level. It is worth mentioning that while both the IMF and the Commission had rules covering the topic of debt-sustainability, only the IMF had a serious discussion on the compatibility of its suggested measures to its respective internal rules (IMF 2013: 1-2, Henning 2017: 86-91).

Moreover, while the Commission’s technical staff strived to ensure that its suggestions stood on firm legal grounds, they all acknowledged the strenuous relationship between crisis-management and the acquis. They qualified their legal concerns by saying that their work and suggestions were to be treated as unique legal exemptions that would not set any legal precedent (Interview 5). A telling example of this mindset was that the legal provisions...
needed for the financing of the first Greek programme were drafted on an ad-hoc legal basis (Interview 6).

Moreover, in certain cases their approach signified that they attached lesser importance to the preservation of the acquis and more to the effective handling of the emerging crisis. According to senior Commission officials, in a few cases the acquis was barely taken into consideration, despite the objections of certain team members (Interviews 9, 11). Moreover, external observers recognised that the Commission opted to bypass legal concerns so that it could push for its preferred solutions (Pisani-Ferry and al. 2013: 24, 26, 110, Interview 11).

These insights point to the following conclusion: the Commission had a pragmatic discretionary approach with regard to its role as a guardian of the Treaties. It was willing to respect the Treaties for as long as they did not directly hinder its crisis management policies. If such frictions arose, the bureaucracy would opt for the most effective solution, not for the one closest to the letter of the law. This suggests that the Commission’s rule-safeguarding tendencies did not drive the bureaucracy’s opposition to a debt-relief and hence its disagreement with the MSs.

The above examination of the Commission’s stance during the PSI debate also reveals its uniform approach vis-à-vis this issue; there are only few and somehow trivial observable implications that hint to some kind of coalition conflict inside the Commission.

First of all, there is scarce evidence that conflicts emerged inside the College of Commissioners. The majority of Commissioners expressed their support for the measures that were proposed by the ECFIN Commissioner. The president of the Commission encouraged the College to stand behind the suggested plan and hence exhibit a credible message to the markets (European Commission Secretary General 2010a: 18, 21). The few doubts that were voiced at the very beginning of the crisis, mainly about the political and economic feasibility of the Greek stability program (European Commission Secretary General 2010a: 18), waned as the second Barroso Commission was confirmed. The lack of tensions inside the College continued as the Greek bailout was taking practical shape. In the meeting that took place in the 27th of April 2010, only a few days after Greece had applied for financial aid, Commissioner Rehn and Barnier presented their short-term and long-term crisis-management planning. The two Commissioners backed each other’s plan while the President and the rest of the College also expressed their support (European Commission Secretary General 2010c: 22-26). The same picture of consensus was present after the conclusion of the first Greek bailout.

At the same time, it became evident that DG ECFIN and its respective Commissioner, Olli Rehn, having the full support of the Commission’s president, were the main authority vis-à-vis the management of the Greek debt. The president praised DG ECFIN and Commissioner Rehn for their work on the Greek program, while the ECFIN Commissioner thanked the College for its unanimous support during the build-up of the Greek crisis (European Commission Secretary General 2010d: 21-22). The fact that DG ECFIN had the leading role in drafting the Commission’s suggestions is also telling of how little discursive space existed. First of all, the president of the Commission imposed DG ECFIN as the leading department. As president Barroso stated, “it was important for the Commission to speak with one voice on these highly sensitive issues, and that voice should be Mr. Rehn’s (European Commission Secretary General 2010e: 32).
This modus operandi was not just promoted at the College level but also at the Commission’s lower hierarchical echelons. In the weekly meetings of the Director Generals, the Secretary General ensured the undivided support of all Commission services to ECFIN’s plan (Interview 1).

In addition, Commission officials that were involved with the drafting of the first Greek program also emphasized the leading role of DG ECFIN. According to these interviewees, DG ECFIN was responsible to handle the requests of other DGs so that certain measures related to the harmonization of Greek policies with EU standards could be incorporated in the program. ECFIN was generally happy to accommodate such requests assuming they did not have economic implications for the overall program (Interview 6).

Moreover, the way the Commission personnel worked during the drafting of these recommendations did not leave much room for disagreement between the services. The creation of horizontal teams – where officials from DG ECFIN, COMP, GROWTH (internal markets and services) and the Legal Service worked together to draft policy suggestions for the Council – allowed the Commission to create quickly a common policy line that accounted for the plurality of implications that the suggested measures might have (Interview 1). Thus, even when DG COMP brought up concerns about state-aid violations vis-à-vis bank recapitalization, these issues were worked out inside the Commission’s teams (Interviews 2, 6).

The above pattern was maintained even when the program went off-target and certain deficiencies became obvious. Despite the voicing of concerns about the uneven recovery of program countries (European Commission Secretary General 2011b: 19), the Commission’s modus operandi did not change much (European Commission Secretary General 2011a: 14) and the leading role of the ECFIN Commissioner was maintained (European Commission Secretary General 2011d: 20).

The only time this picture of uniformity was seriously contested was at the eve of the July’s Euro Summit meeting that agreed on the PSI. At that point certain Commissioners brought up the issue of whether the Greek debt was sustainable. Following this dissent, the College started discussing more actively the content of the second Greek program (European Commission Secretary General 2012a: 24-25). Despite the emergence of clear disagreements inside the College after the PSI, the dominance of DG ECFIN and of Commissioner Rehn, vis-à-vis debt-management, remained uncontested (European Commission Secretary General 2012b: 22-24, European Commission Secretary General 2012c: 18, European Commission Secretary General 2012d: 2, 17-21, European Commission Secretary General 2012e: 33-34).

Notably, whenever the actions of the ECFIN Commissioner were questioned by other College members, the Commissioner presiding over the meeting clarified that the ECFIN Commissioner enjoyed the full backing of the Commission (European Commission Secretary General 2012a: 26, European Commission Secretary General 2012f: 15).

All in all, the fundamental precondition for the existence of an advocacy coalition framework inside the Commission, i.e. the existence of two distinct warring factions that seek to influence a policy, seems to be missing. It appears that the Commission’s President, in cooperation with the ECFIN Commissioner and a few other DGs (COMP, GROW), decided on a certain policy line that was then pushed to the rest of the Commission. The modus operandi that the Commission had adopted made sure that this policy line had incorporated the views and the preferences of the most relevant DGs making the emergence of major and prolonged
disagreements scarce. At the same time the disagreements that were occasionally voiced inside the College do not appear to follow a clear policy line. The point that debt restructuring should be considered appeared only occasionally and only when it was clear from the outside environment that the Commission’s strategy did not really match the deteriorating economic circumstances in Greece. More importantly, whenever such dissenting views appeared, the Commission’s president was quick to dismiss them. Hence, he managed to limit the discursive space between the services and to eliminate the possibility of having the debt-management debate turned into a proxy multilevel conflict.

3. Conclusions

This paper has strived to answer why International bureaucracies might diverge from their principals during periods of crisis, i.e. periods during which agents are expected to operate under an efficient monitoring system and hence, to follow their principal’s orders. It used the Commission’s stance on debt-management up until the realisation of the PSI as a deviant and off-the-line case. It showed that the Commission brought forward debt-management policies drawing from internal institutional features and in particular, from its pro-integration culture. As the crisis unfolded, it strived to protect the process of European integration via the implementation of market-appeasing measures. These tendencies remained unchanged despite the Council’s changing preferences. Subsequently, the organisation broke from coalition dynamics, opposed MSs and took an autonomous and institutionally detrimental stance because its culture was in significant discrepancy with its principal’s preferences. The Commission’s actions in the field of debt management suggest that it acted as an autonomous bureaucracy; it demonstrated autonomy of will and autonomy of action (Ege 2017:559). This, in turn, points to the existence of some kind of “bureaucratic personality” (Baeur 2006:29-31).

The above insights demonstrate the influence that deeply rooted institutional beliefs can have during periods in which we would expect the prevalence of short-term, rational calculations. The analysis shows that features of institutional culture can play a significant role and act as a policy-making compass during such eras. They might even lead agents to oppose their principals’ preferences and take positions that are harmful to the agent’s immediate interests. In this sense, non-material incentives can influence the bureaucracy’s policy suggestions and play a significant role during crises. This insight goes against the standard state-centric narrative of financial crisis-management by international bureaucracies.

Moreover, these results contrast with the majority of recent studies on the Eurozone crisis. Many scholars in the field of EU studies have operated under the assumption that during the crisis the Commission formed its views and suggestions following and anticipating MS preferences (Blyth 2013, Pisani-Ferry and al. 2013, European Parliament 2014, Matthijs and McNamara 2015, Brunnermeier and al. 2016, Blustein 2016, Henning 2017, European Court of Auditors 2017). Scholarship has been content with the idea that the organisation operated grosso modo as the Council’s agent; it represented the MSs and reflected their preferences without any agency slack. Following this line of thinking, some research projects have argued that the Eurozone crisis has led to a less active and less independent Commission (Bickerton and al. 2015, Brunnermeier and al. 2016, Matthijs and McNamara 2015). The above results obviously pose a distinct and substantial caveat to the above narrative.
Of course, this is not to say that the paper questions the importance of state preferences during the recent crisis. States made the final policy choices and substantially shaped the overall outcome. Nevertheless, it shows that the contractual relationship between the Council and the Commission needed to be more closely examined. In one of the most important policy fields, i.e. debt management, the Commission not only did not abide by MS preferences but also went against them, causing market volatility.

Finally, the above argumentation is relevant not only for the Commission: its insights can be applied to other international bureaucracies similar to the European Commission. Such bureaucracies are well-developed, they span multiple levels of governance, have extensive administrative capacities (Trondal and al. 2010:7) and a long-standing policy-making presence. The bureaucracies of the IMF, the World Bank and the OECD come to mind as such potential cases. Further research can identify which of the above institutional characteristics are necessary and/or sufficient for the occurrence of such institutional behaviour. For example, further research can show that even if the organisation has less expertise and sophistication, its strong institutional culture might still lead it to agency slack during crises.

Finally, the paper offers practical insights for policymakers – especially for the ones that are called to design crisis-management mechanisms (George and Bennet 2004: 8). If experienced and sophisticated international bureaucracies cannot be trusted to fulfil their mandate, then politicians should be more careful when designing such crisis-management arrangements. They should take steps to mitigate or avert agency slack altogether. They should select agents and institutions having the aforementioned mechanism in mind. Finally, they should consider how much discretion to grant them and what monitoring mechanisms they will establish.
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## Appendix I: Interviews

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