

## 13 Culture matters

### French–German conflicts on European central bank independence and crisis resolution

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The European sovereign debt crisis has highlighted a fault line between German and French politicians and board members of the ECB. In this chapter we argue that this fault line is rooted in cultural differences between Germany and France. This position is based on previous research on the relation between central bank independence and national culture and the construction of cognitive maps of a French (Jean-Claude Trichet) and German (Axel Weber) member of the ECB's board. Consequently, although a European wide agreement on the ECB's independence has been reached, national cultural differences still play an important role in board members' preferences and the ECB policy. As such, this chapter provides another illustration of how the cultural turn in economics helps to understand financial affairs. Moreover, it develops a new methodological approach to operationalize dimensions of culture in the process.

#### Introduction

In October 2009, the newly elected Greek Prime Minister, Georgios Papandreou, announced that 'our economy is in intensive care'. The Greek budget deficit and public debt proved to be much higher than had been declared by the previous government. During the months after this announcement, a fierce debate arose among European leaders. On the one hand, we find the then French Prime Minister, Nicolas Sarkozy, and the then President of the European Central Bank, Jean-Claude Trichet, who both pleaded for a European solution. On the other hand, we find the German Chancellor, Angela Merkel, and some Northern member states of the euro-area, who favoured the involvement of the International Monetary Fund (IMF). One of the latter group's arguments was that the Maastricht Treaty explicitly precludes a bail-out of member states, so no European solution could be offered. This dispute dragged on until, in May 2011, the sovereign bond market nearly collapsed. An agreement was then signed in which the IMF, the European Commission and individual members states of the euro-area provided finance. In 2011 two German members of the ECB's board, Axel Weber and Jürgen Stark, resigned. They disagreed with the measures taken, especially with the scheme to purchase sovereign bonds. In their view, this policy contradicts the ECB's mandate, which precludes direct support to governments.

This dispute clearly illustrates that a formal institution, in this case, the Maastricht Treaty, can be interpreted in fundamentally different ways. Bohn and de Jong (2011) have argued that these different interpretations result from systematic differences in culture, where culture is understood as 'the collective programming of the mind' (Hofstede 2001: 9). The central idea is that individuals over their lifetime acquire values, ideas and heuristics, which can be summarized in the term 'mental model'. Since experiences differ among people, no two individuals will have the same mental model. Nevertheless, through communication, individuals will influence each other's mental map. This process will result in similar mental maps for groups of persons, so-called shared mental maps (Denzau and North 1994). These groups can take different forms, for example, those raised in the same region, belonging to the same religion, the same occupation, having had the same education, and so on. Mental maps are particularly important for decision-making in situations of strong uncertainty (Denzau and North 1994: 3; Hogg 2010). The European sovereign debt crisis is certainly characterized by strong (Knightian) uncertainty. We expect that the level of uncertainty was greatest during the first phase of the crisis. In later phases, communication may have led to a more common view and/or those opposed to the solution resigned, as happened regarding the ECB's board.

During the first years of the European sovereign debt crisis, the French and the Germans held opposite positions. The French were often supported by Southern European countries and the Germans by Northern countries, such as the Netherlands, Finland and Austria. Bohn and de Jong (2011) claim that these different positions can be explained by differences in national cultures, especially the extent to which a representative individual accepts differences in power. This argument is based on previous research (de Jong 2002a) on the connection between national cultures and central bank independence. This research is summarized in this chapter's second section. A potential critique of applying these results to the European sovereign debt crisis could be that this research is based on *national* cultures, which refer to the population at large, whereas it is leaders who make decisions in the crisis. The values of these leaders might differ from those of their compatriots. That is why in a more recent paper (van Esch and de Jong 2013) we use a data set for leaders (managers) to check the robustness of our results. The relation appears even more significant for this data set of leaders' culture than the original data set and thus reinforces our claim. Research on leadership also reveals a national component in leadership styles (Hofstede *et al.* 2002; House *et al.* 2004). However, applying the results of these studies to important actors for the European sovereign debt crisis might be criticized on the grounds that these studies are based on surveys held among middle managers of companies, whereas our topic is the value pattern of specific, more political, leaders.

In order to circumvent this critique, in this chapter we construct mental maps of two European leaders who held different economic and political views on how to deal with the crisis during the first period of the crisis, namely, Jean-Claude Trichet and Axel Weber. We suggest that – despite the strong pressure to

reach a consensus on the causes of, and solutions to, the crisis – these leaders' mental maps will show distinct national preferences. To test this proposition, their mental maps are compared with the pattern expected from each other's national culture and national scores on Power Distance in particular. We selected two board members of the ECB for several reasons. First, by selecting members of the same institution, the differences in value patterns cannot be ascribed to differences arising from different aims of the organizations to which the selected persons belong. Moreover, their educational and previous occupational background shows much similarity. Both have headed their country's central bank and always worked on issues of international monetary economics. Furthermore, an advantage of selecting members of a European institution instead of national political leaders has the advantage that the views released by the latter might be disturbed by domestic issues, such as regional elections. Nevertheless, we would welcome efforts to construct the mental maps and changes therein of other leaders in future research. In this sense, our study is exploratory.

This chapter is organized as follows. The first section briefly discusses the literature on central bank independence and its relation to culture. The next section describes the method for deriving cognitive maps; and then we present the results for Weber and Trichet. The chapter ends with some concluding remarks. Overall, the chapter aims to contribute to the discussion on the cultural turn in political economy in two ways. First, in ontological terms, we illustrate that semiotic factors like culture and leaders' beliefs are necessary – though not sufficient – factors in understanding policy-making and international policy coordination. Second, in methodological terms, we introduce Comparative Cognitive Mapping as a new technique to study the influence of culture on financial policy-making.

### **Central bank independence: a survey of trends in the literature**

During the negotiations about the EMU, the independence of the future ECB was an important issue. At that time, the 1990s, the literature on central bank independence was inspired by the differences in success of reducing inflation. It was believed that an independent central bank would reduce inflation rates. The Germans, who favour stability and hence also low inflation rates, therefore insisted that the ECB should be at least as independent as the Bundesbank.<sup>1</sup> The French were more used to a dependent central bank but, in the end, they agreed that the ECB would be independent.

The different aspects of central bank independence can be grouped into two notions: functional independence and political independence (Masciandaro and Spinelli 1994). Functional independence refers to the possibility of controlling quantities or prices of money and credit (including the credit to the government). An independent central bank controls these monetary instruments and is not allowed to practice monetary accommodation. Political independence is high if the statutes contain price stability as the bank's main goal: the government may

not interfere in the appointment of the members of the board; the board members are appointed for a fixed and long term in office; representatives of the government are not allowed on the bank's board; and there is a set of well-defined rules to settle any conflict between the central bank and the government. All these characteristics refer to formal institutions with respect to the central bank's operation and the appointment procedures of its board members. In both cases the aim of the regulations is to shield the central bank from political forces. The claim that an independent central bank leads to low inflation rates literally means that a low inflation rate is the result of having the right (formal) institutions in place.

One can wonder whether just changing the legislation will have the desired result. Consequently, researchers started to seek other factors that could cause both a high degree of central bank independence and a low inflation rate. Both more material and semiotic factors were suggested, such as government debt and deficit levels (see, for example, de Haan and van 't Hag 1995; de Jong 2002a), checks and balances in the political system (Moser 1999), social cohesion (Prast 1998), preferences (van Lelyveld 2000) and culture (de Jong 2002a; Hayo 1998).

De Jong (2002a) provides the most extensive theoretical and empirical analysis of the relation between culture, central bank independence and inflation. His empirical analysis is based on data for 18 OECD countries and employs the cultural dimensions of Hofstede (2001) (for further discussion, see Chapter 2 in this volume). Two of Hofstede's original four cultural dimensions can theoretically be related to both low inflation and an independent central bank: these are Uncertainty Avoidance and Power Distance. High scores on Uncertainty Avoidance are associated with a preference for strict rules, which corresponds with an independent central bank, and an aversion of uncertainty. Inflation is often associated with uncertainty, so that a high score on Uncertainty Avoidance is expected to correlate with a preference for low levels of inflation. Inhabitants of societies scoring high on Power Distance easily accept differences in power and wealth. High rates of inflation are known to enhance differences in income and wealth because the wealthy have more ways to protect the real value of their wealth. Moreover, high scores on Power Distance are associated with a concentration of power, which implies a high level of political influence on various institutions, including the central bank. Often the latter is part of the Ministry of Finance. The empirical analysis reveals that for a group of Organisation for Economic Development and Co-operation (OECD) countries Uncertainty Avoidance is primarily related to inflation and Power Distance to central bank independence.

Within a group of Western European countries, the scores on Power Distance vary widely, which suggests that these countries show great diversity in attitudes towards concentration of power and central bank independence. In particular, the scores of Germany (low) and France (high) differ considerably. In a series of papers (de Jong 2002b, 2004; van Esch and de Jong 2013), we have used this difference between France and Germany on Power Distance (hereafter PD) to

show that this cultural factor provides a more plausible explanation for CB independence than various material factors. This is our starting point for arguing that cooperation between these two countries will not be easy and, in particular, that the divergence in view on central bank independence can easily lead to conflicts about the ECB's operation. The ECB is modelled according to the statutes of the Bundesbank, which implies a high degree of independence. For French politicians, this is hard to accept. It could (and, according to the Germans and Dutch, would) imply that elected officials are subordinate to highly placed civil servants – a position unthinkable to French politicians. This French position is nicely illustrated by President Chirac in May 1998, when Wim Duisenberg refused to announce the date at which he would step down as the first President of the ECB. Chirac expressed his anger with the words: *'Je ne me laisse pas faire chanter par un petit fonctionnaire'* (de Haas and van Lotringen 2003: 25). That is exactly what the ECB President is in French eyes: a little civil servant. Far more than their French colleagues, German politicians are used to sharing power and hold independent organizations in high esteem.

The discussion so far is summarized in the upper part of Figure 13.1, which derives from the framework in de Jong (2009: 57). In the 1990s, the discussion focused on the (formal) institutions as a prerequisite for low inflation. Later on, some stressed the importance of culture as a set of common values for the degree of central bank independence and low inflation (bottom part of Figure 13.1). Based on these results regarding the relation between national cultures and national central banks, the debate on the functioning of the ECB was framed in terms of differences in national cultures. In its first phase the focus was on the attitude of politicians of different countries (in particular France) and the

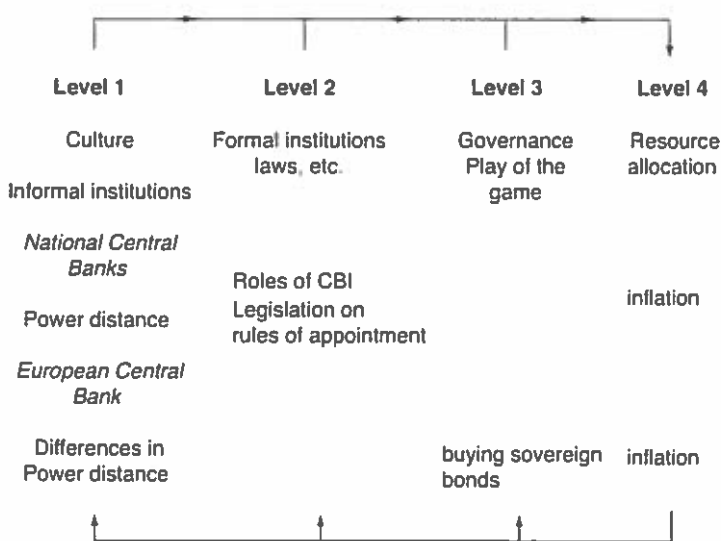


Figure 13.1 Summary of approaches.

independent functioning of the ECB. Bohn and de Jong (2011) use these insights to claim that the differences in political cultures between France and Germany have intensified the Greek and later the European sovereign debt crisis. The cultural difference is manifested in different leadership styles and different views on the best way to solve Greece's debt problem. The French favoured a European solution, whereas the Germans requested IMF involvement; an option dismissed by the French as an Anglo-Saxon invasion. These were discussions between politicians. As could have been expected, the crisis also highlighted differences, however, among several members of the ECB board; in particular between the French (Trichet) and the Germans (Axel Weber and, later, Jürgen Stark). Now the squabble is about the ECB's reaction to the political failure to solve the European debt crisis. Trichet and various South European central bankers favoured buying sovereign debt. This idea was fiercely opposed by the German representatives, who are joined by some central bankers from North-European countries (bottom part of Figure 13.1).

The research summarized above is based on historical events and on the cultural dimensions derived from questionnaires completed by employees of a company (IBM) and participants in an elite seminar. The results based on these data are used to derive hypotheses of the behaviour of individual persons, such as presidents and top civil servants. One can criticize this approach on the grounds that it assumes that individuals behave in accordance to criteria derived from a larger population. This chapter addresses this criticism by investigating the value patterns of two of the individual leaders concerned: the German former President of the Bundesbank, Axel Weber, and the French former President of the ECB, Jean-Claude Trichet. In particular, we conduct a first explorative test into our assumption that in times of crisis these individual leaders show an attitude that corresponds with their nation's value pattern and leadership styles in general and PD scores in particular (see also Hogg 2010: 415).

## Method

The technique of Comparative Cognitive Mapping (CCM) is used to establish whether and how far the positions of former Bundesbank President, the German national, Axel Weber, and the French President of the ECB, Jean-Claude Trichet, regarding the role of central banks in the European sovereign debt crisis reflect their nation's value pattern and leadership style.

Cognitive mapping is one of the best developed and systematic methods for studying decision-makers' beliefs and has been successfully applied in political science, social psychology and organizational studies (Axelrod 1976; Bougon *et al.* 1977; Curseu *et al.* 2010; Eden and Ackermann 1998; van Esch 2007, 2013; Young and Schafer 1998). CCM has two further advantages over other methods to study beliefs and belief-change: (1) it enables the systematic qualitative *and* quantitative comparison of leaders' beliefs; and (2) it allows for a more discrete focus on European economic and monetary issues, thereby increasing the construct-validity of the findings (Curseu *et al.* 2010; Laukkannen 2008; van

Esch 2007; Young and Schafer 1998). In order to create a cognitive map, a number of public speeches, statements or writings on the topic of European economic and monetary integration are analysed to derive all the causal relationships alluded to a leader. Subsequently, these relations are transformed into a graphic map as arrows between two concepts using the CM software package, *Worldview* (Axelrod 1976: 3–17; van Esch 2007; Young 1996; Young and Schafer 1998).

Given the general difficulty of obtaining private documents of contemporary events, using public sources to ascertain leaders' views or personal characteristics is a customary practice in political psychological studies of leaders 'at a distance' (Renshon 2009; van Esch 2007: 125). While scholars caution against extrapolating affective reactions from public sources, studies of the validity of public assertions in assessing leaders' beliefs generally conclude that analysis of public sources produce outcomes similar to those of private sources (Renshon 2009). An additional advantage of using public speeches is that one may assume that these speeches reflect the person's opinion in his official role. That is the only position we are interested in. What does this person think and will he (or she) do as member of the ECB's board. One could argue that these public speeches are written by speech writers and thus do not reflect Weber's and Trichet's own views. If that is right, we will find no traces of national culture. In sum, by selecting persons from the same board, with similar educational and occupational backgrounds and using public speeches, we have significantly decreased the probability of finding differences in opinion. Hence, if under such harsh conditions for finding cultural differences, we still find cultural differences, then we can be quite certain that these differences are real.

As an example of this technique, Figure 13.2 displays an excerpt from Axel Weber's cognitive map. This excerpt shows, for example, that, in his speeches, Weber refers to the concepts 'ECB purchasing bonds' as contributing to a 'blurring of fiscal and monetary policies' that, in turn, in his eyes, diminishes the 'credibility' of the ECB. It may also be inferred that the ECB's decision to

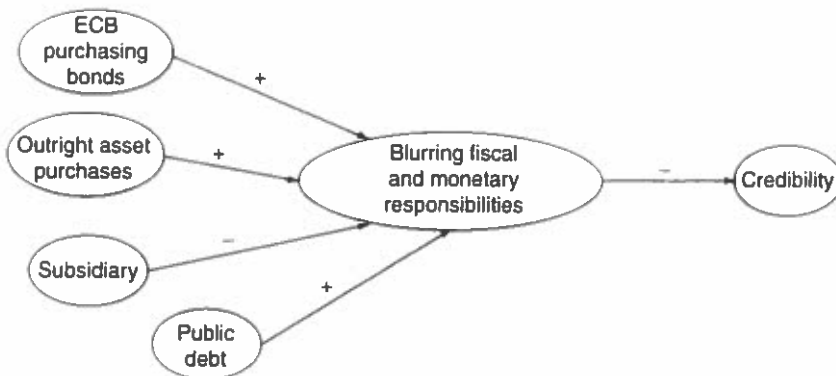


Figure 13.2 Excerpt of Weber's cognitive map.

engage in the purchasing of bonds is not welcomed by the former President, because its 'consequent path' shows that it contributes negatively to the positive goal of 'credibility' of EMU.<sup>2</sup> A cognitive map thus gives a structured overview of a leader's position on a certain topic, shows which concepts are linked in his/her mind and in what way, and indicates which concepts are valued positively and which negatively.<sup>3</sup> The relative strength of leaders' beliefs is determined by establishing the relative saliency – the frequency with which it is mentioned – and centrality of concepts – the number of dyads to which it belongs. As shown in Figure 13.2, the centrality of the concept 'blurring of fiscal and monetary policies' is 5; saliency is not visualized in a cognitive map. Overall, leaders' policy-preferences, values and causal reasoning may thus be ascertained from the maps by a qualitative analysis of the concepts and relations in the maps.

In addition, the maps are analysed at the level of belief-dimensions, an aggregate of concepts indicating leaders' adherence to an underlying ideal-type policy paradigm or value-construction, like the level to which a leader adheres to Keynesian or Ordoliberal economic ideas (see Tables 13.2–13.8). In order to determine whether a leader adheres (more) to one ideal-type paradigm than another, several calculations are performed: the number of concepts a leader refers to that may be characterized as belonging to a paradigm, the aggregated saliency and centrality of these concepts, their average saliency and centrality, and the amount (in percentage) the aggregated saliency and centrality of the concepts comprise the sum of saliency and centrality of all concepts in a map (see Tables 13.2–13.8; cf. van Esch 2007, 2013). This makes the comparison of cognitive maps possible.

To determine whether Weber and Trichet's views on the financial crisis reflect their nation's scores on Hofstede's PD dimension, a cognitive map was created for each leader based on four public speeches on the Euro-crisis before various national and international audiences from April 2010–April 2011 (Trichet 2010a, 2010b, 2010c, 2011; Weber 2010a, 2010b, 2011a, 2011b). From these speeches, the sections dealing specifically with the functioning of the European Economic and Monetary Union were selected for analysis. These resulting maps (not included here but obtainable from the authors) include up to 94 concepts and 168 causal relationships.

### *Operationalization*

As stated above, the idea of central bank independence is correlated with Hofstede's Power Distance dimension. In a general sense, Power Distance (PD) refers to the extent to which the less powerful members of organizations and the wider society accept and expect that power is distributed unequally. In terms of ideas about the state and politics, PD harbours three interrelated characteristics of interest to our discussion (Hofstede and Hofstede 2005: 67).

First, in terms of the political system, states with high and low PD profiles differ on how power should be distributed. In high PD states, inequalities are accepted as a natural fact and both the people and political elite show a



preference and acceptance for centralization of power in the hands of a few. In low PD countries, centralization of power is deemed undesirable, and the fragmentation and dispersion of power over different institutions are preferred (Hofstede and Hofstede 2005: 61). Second, high and low PD states have differing views on the forms of power they deem desirable and legitimate. While high PD countries tend towards traditional, charismatic or political leadership, low PD nations are hesitant simply to accept leadership. Merit-based legitimation of leadership is needed and, to be considered legitimate, authority must be based on expertise. The third relevant aspect of the Power Distance dimension is the attitude towards checks and balances. In high PD countries, might reigns over right, and people feel less need to scrutinize their leaders' authority or to constrain their actions or the decisions by other forms of authority. This is in contrast to low PD states, where people feel right should rule over might and the power and actions of leaders is more often constrained by the rule of law (Hofstede and Hofstede 2005: 61). In combination, these three dimensions reveal a clear picture of the differences in political structure and leadership. High PD states have a relatively high tolerance for centralization of power in the hands of a (small) group of authoritative political leaders whose actions and decisions are less scrutinized and constrained by the rule of law and the power of expertise. In low PD states, people would be highly suspicious of such a political configuration. These states prefer to disperse authority and put their trust in leadership by expertise which is constrained by the rule of law.

In terms of the issue of central bank independence, this distinction translates as follows. Central bank independence would be valued specifically in low PD states due to its reliance on the power of expertise rather than politics. Moreover, the fragmentation of power by separating monetary from general economic policy and delegating these separate tasks to an independent central bank and government respectively corresponds to low PD preferences for dispersion of power. Finally, low PD states would advocate constraining the actions and mandate of political actors and central banks by rooting these firmly into law-like rules. Conversely, in high PD states, people would find far less legitimacy in the power of expertise and see less need for a separation of power or instating a system of regulatory checks and balances. In such states, people find little fault in centralizing monetary and economic policy into the hands of a few authoritarian political leaders (see Table 13.1).

*Table 13.1* Power Distance and public policy-making

<i>Power Distance cultural aspects</i>	<i>High</i>	<i>Low</i>
Division of power & tasks	Centralization Political dependent CB	Fragmentation Independent CB
Legitimate power	Politics (state)	Expertise (central banks)
Checks & balances	Unnecessary or political	Rooted in law

## Results

We will analyse and compare the respective maps of Trichet and Weber to ascertain the extent to which their thoughts correspond to their national cultural value-pattern on each of these three aspects.

### *Division of power and tasks*

The first cultural aspect is the division of economic and monetary power and tasks among political actors and central banks. As the issue of central bank independence is rooted in leaders' broader economic views, we start by studying their general view on economic and monetary policy-making in order to contextualize their specific views on the division of power between politics and expertise. Later we will focus on their beliefs of central bank independence in particular.

The idea of separation of power in European economic and monetary policy has a close link to the divide between Ordoliberal versus Keynesian economic thinking. The need for central bank independence is especially pronounced in Ordoliberal economic thought. This view is characterized first and foremost by a belief in the primacy of price stability ('sound money'), which is the guiding principle by which all other policy-measures are assessed. Crucially, in the eyes of the Ordoliberals there is no trade-off between (1) price stability and (2) employment and economic growth (Verdun 2000: 100). To ensure price stability, European economic and monetary unification must meet two requirements. First, it has to ensure that member states adopt stringent budgetary and fiscal policies and denounce monetary financing. Second, Ordoliberals stress the need for CB independence, as only a central bank that is constitutionally, politically and financially autonomous can guarantee sound and credible monetary policy-making based on expert analysis of the economic fundamentals, rather than on political or electoral considerations (Dullien and Guerot 2012; Dyson *et al.* 1999: 276; Verdun 2000: 100). Crucially, they combine these economic ideas concerning European economic and monetary unification with ardent support for the primacy of economic over political or geo-political considerations: 'sound' economic ideas should not be subordinated to political or geo-political interests.

In contrast, more Keynesian-oriented leaders would place less emphasis on the need for CB independence. First, in the Keynesian ideal-type, price-stability is not regarded as the central economic goal and a trade-off is recognized between, on the one hand, economic growth and employment and, on the other hand, price stability. In addition, economic stimulation – as opposed to stringent budgetary policy advocated by politically independent experts – may lead to economic benefits that outweigh possible effects on price-stability in their eyes. Overall, Ordoliberalism and Keynesianism harbour very different beliefs on the separation of power between government and central bank, politics and economics and thereby central bank independence. Adherence to one or the other may thus provide a first indication of a leader's view on division of power.

Tables 13.2 and 13.3 summarize Weber's and Trichet's views on Division of Power and Central Bank Independence. We now discuss Table 13.2 in more detail in order to explain the procedure used and figures listed in the tables. The table lists all the concepts found in Weber's speeches that refer to his economic paradigm. For each view (e.g. Ordoliberal or Keynesian) the table contains four summary statistics. The first two are the number of concepts belonging to this view, and the total score, which is the number of times the concepts are mentioned (Saliency) or form part of a dyad (Centrality). Percentage of total is the number of times concepts belonging to this view (and listed in the table) are mentioned (Saliency-column) or are part of a dyad (Centrality-column) as a percentage of the total number of times concepts in Weber's map are mentioned or form part of a dyad. This percentage is important because it gives us a measure of the relative importance of the concepts listed in the tables. So concepts referring to his economic paradigm make up 32.7 (33.2) per cent of the number of times a concept is listed as Centrality (Saliency) in the entire cognitive map of Weber. Mean score of concepts is the total score divided by the number of concepts (91/25 in column Centrality of Table 13.2).

When we compare the views of Trichet and Weber in terms of Ordoliberal and Keynesian economic thought, a clear pattern emerges (see Tables 13.2 and 13.3). Weber is a clear and univocal supporter of Ordoliberal thought. His reference to ideal-typical Ordoliberal concerns like sound budgetary policy, price-stability and a strong EU Stability and Growth Pact make up a third of his entire map and are almost six times as salient and central to his belief-system than more Keynesian beliefs (see Table 13.2; cf. Young and Semmler 2011).<sup>4</sup> Trichet's views have Ordoliberal tendencies but to a far lesser extent: Ordoliberal concerns make up about a fifth of his entire map and are about three times as salient and central as his Keynesian concepts.

More interesting in the light of the Power Distance score of their respective nation states, however, are the concepts and relations referring directly to central bank independence and their preferred division of power. At first sight, Weber's map reveals a curious pattern: the former President of the Bundesbank does not mention CB independence even once in the speeches under study.<sup>5</sup> Previous studies indicate, however, that prior to the crisis, Weber was an explicit and strong supporter of central bank independence (Boin *et al.* 2012). However, on closer inspection, Weber's map reveals that, with the outbreak of the crisis, Weber shifted his focus from the abstract discussion of aspects of central bank independence to a detailed discussion of the mandate, domain and responsibilities of the ECB and governments respectively. As such, after the crisis erupted, he seems to have become more concerned with the functional than political independence of the ECB.

His views on these matters are clear: In principle, Weber sees some value in the exceptional measures taken by the ECB in response to the crisis as this could lead to solving liquidity problems and serve price stability.<sup>6</sup> However, the former Bundesbank President stresses that these measures should be strictly conditional

Table 13.2 Weber's economic thought

Weber-PD	Ordoliberal	Centrality	Saliency	Keynesian	Centrality	Saliency
Economic thought	Sound public finances	19	24	ECB liquidity measures	5	5
	Price stability	8	10	Economic growth	2	2
	Sound single monetary policy	7	8	Exceptional measures [E]CB	2	2
	Timely exit from ECB non-standard measures	5	8	German current account surplus	2	2
	Excessive deficits (-)	7	7	Current account deficits in foreign countries (-)	1	1
	Strengthened SGP	5	6	Domestic demand	1	1
	Blurring fiscal and monetary responsibilities (-)	4	5	ECB central player in moneymarket	1	1
	Budgetary deficits (-)	5	5	Economic stimulation	1	1
	ECB asset purchases (-)	4	5	Long-term saviour of banking sector	1	1
	Fiscal discipline	3	4			
	Founding principles of EMU	2	4			
	Incentive for borrowing (-)	3	4			
	ECB standard policy	3	3			
	Public debt (-)	3	3			
	ECB using monetary analysis	2	2			
	German debt brake	2	2			
	Financial stability as ECB goal (-)	1	2			
	Fiscal policy as ECB goal (-)	1	2			
	60% debt ratio	1	1			
	Conditional ECB measures	1	1			
	Convergence criteria	1	1			
	Early warning system	1	1			
	Independent monetary policy	1	1			
	Liquidity growth (-)	1	1			
	Price stability as ECB goal	1	1			
	Number of concepts	25	25	Number of concepts	9	9
	Total score	91	111	Total score	15	16
	Percentage of total in map	32.7	33.2	Percentage of total in map	5.4	4.8
	Mean score of concepts	3.6	4.4	Mean score of concepts	1.7	1.8

Notes

C = Centrality, the number of dyads a concept is part of; S = Saliency, the frequency with which the concept is mentioned; - = negatively valued concepts; 0 = ambiguously valued concepts.

Table 13.3 Trichet's economic thought

Trichet-PD	Ordoliberal	Centrality	Saliency	Keynesian	Centrality	Saliency
Economic thought	Price stability	13	28	Sustainable economic growth	9	10
	Sound public finances	13	16	ECB increase of interest rate (-)	3	5
	Strengthened SGP	5	6	ECB asset purchases	3	5
	Public debt (-)	3	6	Current account deficits in foreign countries	2	2
	[E]CB independence	2	6	ECB liquidity measures	2	2
	Price stability as ECB goal	5	6	Enlargement of EMU	1	2
	Clear and strong budgetary rules in EMU	4	4	Domestic demand	1	1
	MS responsibility to ensure competitiveness	3	4	Economic growth	1	1
	Rules for competitiveness	3	3	Exceptional measures [E]CB	1	1
	increased fiscal surveillance (SGP)	3	3	Sound public finances alone (-)	1	1
	Budgetary deficits (-)	2	2			
	Austerity programme problem states	2	2			
	Compliance with SGP norms	2	2			
	Conditional financial assistance	2	2			
	Independent monetary policy	2	2			
	Surveillance of competitiveness	2	2			
	Sufficiently strong sanctions	2	2			
	Fiscal discipline	1	1			
	Economic boom	1	1			
	Sound national budgetary procedures	1	1			
	Sound single monetary policy	1	1			
	Acceleration excessive deficit procedure	1	1			
	60% debt ratio	1	1			
	<i>Number of concepts</i>	23	23	<i>Number of concepts</i>	10	10
	<i>Total score</i>	74	102	<i>Total score</i>	24	30
	<i>Percentage of total in map</i>	23.3	24.4	<i>Percentage of total in map</i>	7.6	8.2
	<i>Mean score of concepts</i>	3.2	4.4	<i>Mean score of concepts</i>	2.4	3

Notes

C = Centrality, the number of dyads a concept is part of; S = Saliency, the frequency with which the concept is mentioned; - = negatively valued concepts; 0 = ambiguously valued concepts.

Table 13.4 Weber's view on the division of power and central bank independence

Weber-PD	Divided	Centrality	Saliency	Shared	Centrality	Saliency
Central bank independence	Sound single monetary policy	7	8	ECB liquidity measures	5	5
	Timely exit from ECB non-standard measures	5	8	Exceptional measures  E CB	2	2
	Blurring fiscal and monetary responsibilities (-)	4	5	ECB central player in money market	1	1
	ECB asset purchases (-)	4	5			
	ECB standard policy	3	3			
	ECB using monetary analysis	2	2			
	Financial stability as ECB goal (-)	1	2			
	Fiscal policy as ECB goal (-)	1	2			
	Conditional ECB measures	1	1			
	Independent monetary policy	1	1			
	Price stability as ECB goal	1	1			
	Number of concepts	11	11	Number of concepts	3	3
	Total score	30	38	Total score	8	8
	Percentage of total in map	10.8	11.4	Percentage of total in map	2.9	2.4
	Mean score of concepts	2.7	3.5	Mean score of concepts	2.7	2.7
<i>Total of all references</i>						
	Number of concepts	14	14			
	Total score	38	46			
	Percentage of total in map	13.7	13.8			

Notes

C = Centrality, the number of dyads a concept is part of; S = Saliency, the frequency with which the concept is mentioned; - = negatively valued concepts, 0 = ambiguously valued concepts.

Table 13.5 Trichet's view on the division of power and central bank independence

Trichet-PD	Divided	Centrality	Saliency	Shared	Centrality	Saliency
Central bank independence	[E]CB independence	2	6	FCB asset purchases	3	5
	Price stability as ECB goal	5	6	ECB liquidity measures	2	2
	Independent monetary policy	2	2	Exceptional measures [E]CB	1	1
	Sound single monetary policy	1	1			
	Number of concepts	4	4	Number of concepts	3	3
	Total score	10	15	Total score	6	8
	Percentage of total in map	3.1	3.6	Percentage of total in map	1.9	1.9
	Mean score of concepts	2.5	3.8	Mean score of concepts	2.0	2.7
Total of all references	Number of concepts	7	7			
	Total score	16	23			
	Percentage of total in map	5.0	5.5			

Notes

C = Centrality, the number of dyads a concept is part of; S = Saliency, the frequency with which the concept is mentioned; - = negatively valued concepts; 0 = ambiguously valued concepts.

and temporary. In addition, Weber discusses the mandate of the ECB at length. Clearly, in his eyes the ECB should not diverge from its formal obligation to focus first and foremost on safeguarding price stability. He fiercely opposes including goals like financial or fiscal stability into the ECB mandate and rejects any blurring of the proper responsibilities of member states and ECB as this would threaten ECB credibility, price stability and sound monetary policy. As such, Weber is clearly a strong supporter of a division of power amongst political actors and central banks as well as central bank independence (overall C and S of 30/38 versus 8/8; see Table 13.4).

Trichet's ideas concerning the need for CB independence reveal that he has a more flexible view on the issue. First, while he refers explicitly to the concept of CB independence in his speeches, he deploys fewer concepts referring to mandate, domain and responsibilities of the ECB and governments than Weber (7 versus 14). Moreover, like Weber he is generally positive about the exceptional measures the ECB engaged in during the crisis which in his eyes have benefited the banking sector and solved liquidity problems. However, in contrast to Weber, he does not explicitly identify the need for these measures to be conditional or temporary. Second, he agrees with Weber that price stability is the ECB's pre-eminent objective but seems less concerned about the topic of the proper ECB mandate: he distinguishes only one concept referring directly to this issue: 'Price stability as ECB policy goal'. The overall saliency and centrality of concepts that point to central bank independence and a division of power is only slightly higher than those indicating a broad and flexible ECB mandate (C and S = 10/15 versus 6/8).

Overall, a comparison of their maps reveals that Weber's concern for the separation of the mandate, domain and responsibilities of the ECB from that of the states is far more salient and central to his mind than it is to Trichet's (see Tables 13.4 and 13.5). This supports our hypothesis that leaders from low PD states have greater concern for division of power and central bank independence.

### *Legitimate power*

A comparison of the cognitive maps of Weber and Trichet also provides some support for our hypothesis about the kind of power people experience as legitimate depending on whether they come from a high or low PD country. As indicated above, in high PD states, people tend to perceive political actors as legitimate policy-makers while people from low PD states feel legitimate power should be merit-based and rests with experts rather than politicians. In the case of European economic and monetary policy-making and the Euro-crisis in particular, this differentiation in politics and expertise is clearly visible in practice, whereby political leadership is located in government officials in the European Council, Council of Ministers and unilateral decision-making by states. Expertise on the other hand is embodied in the national central banks and the ECB. As such, we have studied the references both leaders make to the actions of these actors and their assessment of their performance.



From the analysis it appears that to both Weber and Trichet, governments and central banks are legitimate powers in their own right.<sup>7</sup> However, while Weber refers as much to governmental actions and obligations as to the actions and proper mandate of the ECB, in Trichet's map the saliency and centrality of governmental actions are higher than those of the ECB. Moreover, further analysis reveals that Trichet is more positive about both the political actors as well as his own ECB than Weber: he is fairly positive of governmental action, and – as may be expected – unambiguously enthusiastic about the actions and mandate of the ECB (see bottom part of Table 13.7).<sup>8</sup> In accordance to the image portrayed in the media, we find that Weber is far more critical of the ECB than Trichet, and he is even less positive about the European governments (see Table 13.6).<sup>9</sup>

While the results are less pronounced than they were for the Division of Power and Tasks, they accord with our hypothesis. Reviewing these results, a possible criticism is worth noting. Since Trichet may be regarded as the embodiment of the ECB, his score with respect to the assessment of ECB actions may be distorted by his formal position. The differences in focus on politics and expertise as well as the more critical attitude of Weber regarding governmental actions, however, cannot be explained in this manner. These may thus be taken as valid indications of the thesis that leaders from low PD states are more prone to perceive expertise as more legitimate than politics.

### *Checks and balances*

Finally, we conducted a preliminary test of the third aspect of the Power Dimension relevant to our research topic: leaders' preference for instating checks and balances in the policy-making process. The lower a state's PD, the more its people and leaders are expected to favour binding policy-makers to the mast. Moreover, the lower a nation's PD, the more pronounced its preference for checks and balances in the form of laws, rules and regulations. People and leaders from high PD states see less need for checks and balances and display a preference for political or democratic controls. Since neither Trichet nor Weber mentions political or democratic checks and balances in their assertions, the analysis is focused on their relative concern for more, or more stringent rules and regulations. We will compare the saliency and centrality of such concepts in their minds as well as the value they attach to rules and regulations.

As is evident from Table 13.8, the results of the analysis do not fit our expectations based on Hofstede's dimensions. One would have expected that Weber, as a German (low PD), would be the one to stress the value of regulatory checks and balances. However, Weber identifies fewer concepts referring to (stringent) rules and regulations, and these scores are lower in terms of centrality and saliency as well as portion of his total map than in the case of Trichet. Although the differences are small, one would at least have expected the pattern to be reversed.

Further analysis reveals another interesting pattern in their scores on the checks-and-balances aspect that may call for further research. Both leaders are

Table 13.6 Weber's view on legitimate power

Weber-PD	Politician/government	C	S	Central banks	C	S
Legitimate power	Sound public finances	19	24	Sound single monetary policy	7	8
	Excessive deficits (-)	7	7	Timely exit from ECB non-standard measures	5	8
	Fiscal support package (0)	4	7	Blurring fiscal and monetary responsibilities (-)	4	5
	Member states coping with asymmetric shock	4	7	ECB asset purchases (-)	4	5
	Budgetary deficits (-)	5	5	ECB liquidity measures	5	5
	Fiscal discipline	3	4	IE/CB policy	4	4
	MS problems with refinancing debt (-)	3	3	Low interest rate (0)	4	4
	Public debt (-)	3	3	Tailored IE/CB response	2	4
	Compliance	2	2	ECB standard policy	3	3
	Decision-making by politicians (-)	2	2	ECB using monetary analysis	2	2
	German debt brake	2	2	Exceptional measures IE/CB	2	2
	National policies (-)	2	2	Financial stability as ECB goal (-)	1	2
	Unproductive use of capital	2	2	Fiscal policy as ECB goal (-)	1	2
	Cope with future pension problems	1	1	Conditional ECB measures	1	1

German policy	1	1	1	1	1	1	1	1	1
Government investment (0)	1	1	1	1	1	1	1	1	1
Political commitment	1	1	1	1	1	1	1	1	1
Pro-cyclical policy (0)	1	1	1	1	1	1	1	1	1
<i>Number of concepts</i>	18	18	18	18	18	18	17	17	17
<i>Total score</i>	66	66	75	75	75	75	48	48	58
<i>Percentage of total in map</i>	23.7	23.7	22.5	22.5	22.5	22.5	17.3	17.3	17.4
<i>Mean score of concepts</i>	3.7	3.7	4.2	4.2	4.2	4.2	2.9	2.9	3.4
<i>Performance (S)</i>									
<i>Politicians/government</i>									
<i>Number of concepts</i>	8	8	7	7	7	7	12	12	4
<i>Total score</i>	42	42	24	24	24	24	40	40	14
<i>Percentage of total in category</i>	63.6	63.6	36.4	36.4	36.4	36.4	74.1	74.1	25.9
<i>Mean score of concepts</i>	5.3	5.3	3.4	3.4	3.4	3.4	3.3	3.3	3.5
<i>Central banks</i>									
<i>Number of concepts</i>									
<i>Total score</i>									
<i>Percentage of total in category</i>									
<i>Mean score of concepts</i>									

Notes

C = Centrality, the number of dyads a concept is part of; S = Saliency, the frequency with which the concept is mentioned; - = negatively valued concepts; 0 = ambiguously valued concepts.

For 'Performance' only the saliency scores are given.

Table 13.7. Trichet's view on legitimate power

Trichet-PD	Politician/government	C	S	Central banks	C	S
Legitimate power	Sound public finances	13	16	[E]CB policy	4	11
	Public debt (-)	3	6	[E]CB independence	2	6
	Sound national economic and financial policy	5	5	Price stability as ECB goal	5	6
	MS responsibility to ensure competitiveness	3	4	ECB increase of interest rate (-)	3	5
	SGP reform [2004] (0)	3	3	ECB asset purchases	3	5
	Fiscal support package (0)	2	3	ECB liquidity measures	2	2
	Budgetary deficits (-)	2	2	Independent monetary policy	2	2
	Austerity programme problem states	2	2	Exceptional measures [E]CB	1	1
	Compliance with SGP norms	2	2	Sound single monetary policy	1	1
	Economic policy harmonization	2	2			
	Renewal of SGP	2	2			
	Enlargement of EMU	1	2			
	Fiscal discipline	1	1			
	Compliance	1	1			
	Sound national budgetary procedures	1	1			
	Sound public finances alone (-)	1	1			
	<i>Number of concepts</i>	16	16	<i>Number of concepts</i>	9	9
	<i>Total score</i>	44	53	<i>Total score</i>	23	39
	<i>Percentage of total in map</i>	13.8	12.7	<i>Percentage of total in map</i>	7.2	9.3
	<i>Mean score of concepts</i>	2.8	3.3	<i>Mean score of concepts</i>	2.6	4.3
Performance (S)	Politicians/government	Positive	Negative	Central banks	Positive	Negative
	<i>Number of concepts</i>	11	3	<i>Number of concepts</i>	8	1
	<i>Total score</i>	38	9	<i>Total score</i>	34	5
	<i>Percentage of total in category</i>	80.6	19.2	<i>Percentage of total in category</i>	87.2	12.8
	<i>Mean score of concepts</i>	3.5	3.0	<i>Mean score of concepts</i>	4.3	5.0

Notes

C = Centrality, the number of dyads a concept is part of; S = Saliency, the frequency with which the concept is mentioned; - = negatively valued concepts; 0 = ambiguously valued concepts.

For 'performance' only the saliency scores are given.

Table 13.8 Weber's and Trichet's views on regulatory checks and balances

PD	Weber	C	S	Trichet	C	S	
Regulatory checks and balances	Strong institutional framework	7	7	Strengthening economic union	10	15	
	Macroeconomic surveillance	6	7	Macroeconomic surveillance	7	7	
	SGP	6	6	Stronger economic governance of Eurozone	5	7	
	Strengthened SGP	5	6	Strengthened SGP	5	6	
	Founding principles of EMU	2	4	Clear & strong budgetary rules in EMU	4	4	
	ECB standard policy	3	3	Clear & strong multilateral surveillance	3	4	
	Subsidiarity	2	2	Increased fiscal surveillance (SGP)	3	3	
	German debt brake	2	2	Rules for competitiveness	3	3	
	Compliance	2	2	Compliance with SGP norms	2	2	
	ECB using monetary analysis	2	2	Conditional financial assistance	2	2	
	Sanctions	1	1	Sanctions	2	2	
	Crisis management system	1	1	Strong institutional framework	2	2	
	Conditional ECB measures	1	1	Sufficiently strong sanctions	2	2	
	Convergence criteria	1	1	Surveillance of competitiveness	2	2	
	Early warning system	1	1	60% debt ratio	1	1	
	60% debt ratio	1	1	Acceleration excessive deficit procedure	1	1	
				Compliance	1	1	
				Fulfilling conditions	1	1	
				Single fiscal authority	1	1	
				Sound national budgetary procedures	1	1	
		<i>Number of concepts</i>	16	16	<i>Number of concepts</i>	20	20
		<i>Total score</i>	43	47	<i>Total score</i>	58	67
		<i>Percentage of total in map</i>	15.5	14.1	<i>Percentage of total in map</i>	18.2	16.0
	<i>Mean score of concepts</i>	2.7	2.9	<i>Mean score of concepts</i>	2.9	3.4	

Notes

C = Centrality, the number of dyads a concept is part of; S = Saliency, the frequency with which the concept is mentioned; - = negatively valued concepts; 0 = ambiguously valued concepts.

Weber mentions 'Flexibility' S=1, C=1; Trichet mentions 'Transparency' S=3, C=3 and 'SGP reform [2004]' S=3, C=3 which he values ambiguously.

univocally positive about (more and stronger) regulation of European economic and monetary policy-making. However, apart from Weber's call to bind the ECB to the mast by imposing conditions on the non-standard liquidity measures it took during the crisis, both leaders only refer to checks and balances aimed at curtailing the actions and powers of the European member states. Apart from upholding their formal mandate of guarding price stability, they apparently see no need for checks and balances on the actions and powers of (European) central banks. Extending this study to include political leaders may reveal whether this is a matter of a self-interested role perception rather than culture.

### **Concluding remarks**

The European sovereign debt crisis has highlighted huge differences in opinion. On one side stood the Germans and some Northern European countries who pleaded for IMF involvement. On the other side were French politicians and the French President of the ECB, Jean-Claude Trichet, who supported a European solution that would be independent of the IMF. Disagreement with the solutions provided even led to the resignation of two German members of the ECB's board. In this chapter we argued that cultural differences were at the root of these conflicts. This argument is partly based on previous research that makes use of constructs of national culture. Another piece of our argument consists of constructs of the mental maps of two important European decision-makers Axel Weber and Jean-Claude Trichet. For two of the three concepts we found that the cognitive maps of these two leaders correspond with the hypotheses derived from national culture. This implies that an independent institution such as the ECB is formally (according to its constitution) independent but that its actual behaviour may still reflect national differences. So in spite of an institutional independence, national cultural differences still shape the preferences of the ECB's board members.

We also illustrated the usefulness of the technique of constructing mental maps of public leaders. This technique enables researchers to investigate the views of leaders without having to rely on results of surveys which incorporate respondents from the society at large or subgroups (managers, teachers, and so on) of the society. Since the first results are promising, we would recommend constructing mental maps of more important European leaders in the future. Finally, this chapter has illustrated the increasing importance of soft factors for economic policy. In this manner it illustrates the relevance of Cultural Political Economy.

### **Notes**

- 1 Historical reasons for the German preference for low inflation are provided in van Esch and de Jong (2013).
- 2 A decision-maker prefers policies that are linked to a positively evaluated goal by only positive relationships or even an amount of negative relations, or to a negatively evaluated goal by an uneven amount or negative relations. Decision-makers' preferences are

indeterminate when linked to policy by a path containing one or more zero signs or when paths are contradictory.

- 3 For an elaborate description of the method used, see van Esch (2007, Chapter 4).
- 4 Keynesian concepts like ‘monetary expansionary policy’ are listed under Ordoliberal and vice versa in Tables 13.2 and 13.3 when looked upon unfavourably by the respective leader. Similar calculations are conducted for Tables 13.4–13.5. In case of indeterminate concepts, they have been omitted from the calculation.
- 5 A quick scan through all Weber’s post-2009 speeches on the Bundesbank site reveals that this is the case in most of his speeches.
- 6 He attaches a positive value to the concept of the ECB providing liquidity and the ECB exceptional measures and is ambivalent about the bond purchases by the ECB (see Table 13.2).
- 7 Governmental action makes up about 13 per cent of Trichet’s map with an average centrality and saliency of 2.8 and 3.3. ECB actions and mandate make up approximately 8 per cent with an average centrality and saliency of 2.6 and 4.3. In contrast, they make up about 23 per cent and 17.4 per cent of Weber’s map with similar average centrality and saliency values (see Tables 13.6 and 13.7).
- 8 Trichet identifies only one negative in the actions of the ECB, and his positive references to governmental actions make up about 87 per cent of all concepts in this category against circa 13 per cent for negative references in terms of centrality and saliency (see Table 13.7).
- 9 Weber identifies four negative aspects versus twelve positives in the actions of the ECB, while he identifies eight negatives and seven positives in governmental actions (see Table 13.6).

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