SUPRANATIONAL INSTITUTIONS AS CENTRAL STAKEHOLDERS DURING EUROZONE DEBT CRISIS IN 2008-2012

Viljar Veebel*, Ulrika Hurt, Raul Markus****

Abstract

The financial crisis in the Eurozone is combining several new interdisciplinary debates. Has the financial crisis been caused by the decisions of the political actors or rather by complicated economic dilemmas? In what way have the different social stakeholders acted during the years of the crisis and which of the groups have had biggest influence in different stages of the crisis? Why and how national political elites have lost their dominant position in crisis management and which were the cornerstones of this power transition process and what role have the supranational institutions like the European Commission and the European Central Bank played during the crisis? Accordingly, the main goal of the article is to define crucial events and stakeholders in Eurozone crisis solution process by using empirical process tracking and narrative analysis as research methods. This article will also look on the possible interests and future actions of the Eurozone stakeholders based on the last four years´ experience. It will also be inquired into how and why national political elites and citizens delegated their democratic competences and powers to non-electable institutions during Eurozone crisis.

Keywords: Eurozone, European Union, Financial Crisis and Economic Dilemmas

** Estonian National Defense College*
E-Mail: viljar.veebel@gmail.com
*** Tallinn University of Technology*

Introduction

The European Union's political, economic and academic elites have during the last 4 years been looking for a solution which provides stabilization, security and sustainability for the Euro and the Eurozone. This process has been complicated, slow and controversial as in times of economic crisis; popular political goals sometimes tend not to be supported by economic logic and interests of the majority of social groups. The solutions, at least the temporary ones have been found even in cases when these have been outside the European Union´s legislative framework (the European Financial Stability Fund, EFSF) or by asking additional delegation of power to European Union institutions from the member states (the European Stability Mechanism, ESM).

The question, if an economically reasonable solution can also be politically popular and supported by economic elite is one of the most important ones to answer in this study. For the Eurozone, a long-term successful solution providing sustainable growth will also need simultaneous political, economic and public support. In practical decision making process choices and options are of course restricted by economic realities and interests of different social stakeholder groups (voters, political elite, economic elite, administrative elite and international monetary institutions). Finding a balance has been ever more challenging in terms of growing global completion and particularly considering Eurozone problems with labour market flexibility and ageing (Inotai 2011, 7-9).

The situation is even more complicated as the main symbols of European integration (e.g. a single currency with low interest rates and a single market) may have been the variables causing the crisis. The latter can be said to have had a negative impact on the Eurozone's employment, price flexibility and productivity. This leads us to the second research question which asks whether monetary integration can at all be economically reasonable and politically popular for all member states and their stakeholders.

In theoretical aspects the article focuses on the process of delegation and transition of democratic competences and powers to non-electable institutions by social stakeholders in crisis situation. The first task of this paper is to map, evaluate and analyse main options for the solution of the Eurozone debt crisis. The next task is to identify the interests of social stakeholders related to debt crises and having political importance. The third part of the paper focuses on practical policy choices and their influence on the stakeholders during the Eurozone crisis in 2008-2012. The analytical part will focus first on the motivation of social stakeholders during crisis, by also asking which choices were made by their own initiative and which ones were forced by the events of the crisis. The analytical part will also focus on interaction logic and patterns between market fluctuations and Eurozone stakeholders´ reactive actions. The main argument of the research is, that in (Eurozone) crisis situation non-electable institutions tend to be more effective and tend to concentrate more power, as they do not need to concern on voters reactions.

The article is methodologically based on process tracing and narrative analysis model, it will observe Eurozone policy decisions and analyse these actions based on the motivation of social stakeholders. Research is empirically based on official data on economic indicators and crises management programs of the European Central Bank (ECB) and the Organization of Economic Cooperation and Development (OECD).

Discussions and dilemmas on political and economic choices in Eurozone financial crisis

Dilemmas and discussions in terms of political and economic choices and differentiating rationality for Eurozone's stakeholders have been debated actively over the last years among politician, social scientists and academics (Papadimitrou and Wray 2011; Kregel 2011; Christova 2011).

In the framework of the EU institutional system, rational participation of the stakeholders is even more complex because of the multiple supranational institutional actors, which complicate policy choices and actions (Van Schendelen 2002). From broader perspective, different success criteria and values concerning Eurozone have been discussed by Daniel Mugge (2011) who distinguishes pragmatic and dogmatic models of policymaking, claiming that there is a shift from pragmatism to dogmatism in recent years and changed rules may be partly traced to financial sector lobbying in the 1990s when large European banks identified cross-border capital markets as a key source of future profitability.

The financial crisis has also raised the wider strategic question of the economic effects of the currency union without fiscal union and opened debate about possible breakup of the Euro area because of dissatisfaction of some member states with the outcomes of single currency area (Eichengreen, 2009, 4).

Vivien A. Schmidt (2010) drives this question even further by asking, whether the EU has the economic governance capacity needed to rise to the challenges posed by the markets; whether the economic measures taken are the right ones to promote growth while calming markets and whether they are sustainable politically. Schmidt stresses that this is not only a question of European member-state leaders´ political ambition to deepen economic integration at a time when inward-looking politics is on the rise, but also whether their citizens are willing to put up with tough budget cuts at a time of rising unemployment, poverty and inequality (Schmidt 2010).

In the Eurozone's case, the central dilemmas appear between economic rationality and political rationality and between the timeframes of stakeholders, as some of them operate in short term frameworks and some stakeholders in long-term scope (Lane 2010).

For social groups and stakeholders there is no confrontation between political and economic logic as well as the respective interests in long-term goals. Przeworski has shown that good and responsible governance together with economic growth supports effective democracy in the long term (Przeworski 1991). Problems appear during a recession, when it is hard to find simultaneously a winning scenario in terms of political popularity, social stability and economic sustainability. This dilemma can lead to a situation where actual policy implementation may play a secondary role since economic and political circumstances offer no quick fix and public popularity for political stakeholders (Schmidt 2010; Mugge 2011).

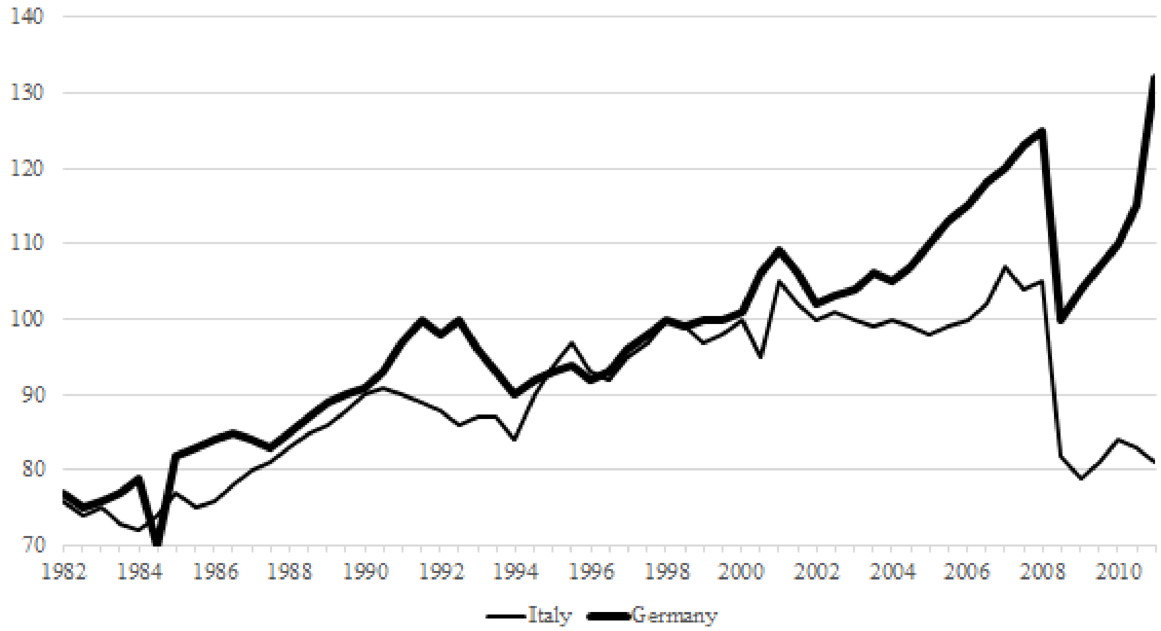
The dilemma between political and economic priorities can also appear in cases of politically important and socially symbolic but economically complicated or ineffective processes. For example, the single currency Euro has from a political point of view been the symbol of successful European integration which should hence be protected at all costs. But from the economic point of view, there is a possibility that Euro as a single currency does not fulfil the economic needs of all the Eurozone member states or is, thus, in itself a cause of the debt crisis and dropping economic productivity (debated in Eichengreen, 2009; Bernanke 2005; Alexiou and Nellis 2012; Notermans 2012).

This effect is illustrated in figure 1, which visualizes, how single currency has widened industrial production gap between member states (Germany and Italy) as disabling the balancing tools (revaluation or devaluation) used in period of national currencies.

As seen from figure 1, in pre-euro period from year 1982 to year 1999, the industrial gap between Italy and Germany was effectively balanced by the pressure and possibility of devaluation (Italy) or revaluation (Germany). Since the introduction of the Euro in year 1999 (marked as 100% level for both countries in figure 1), industrial gap started to grow again; first slowly, but growingly faster after the year 2002. As a result, for the year 2010, Germany has reached the industrial production level of 130% compared to the level of year 1999, while the Italian

Industrial production has dropped to 80% from the level of year 1999.

Figure 1. Industrial production index in Germany and Italy 1982-2012 (year 2000 index=100), Source: OECD database 2012



The viability of effective currency unions without a fiscal union has been one of the most debated dilemmas in the context of Eurozone financial crisis in recent years. The matter was of course debated already during the foundation of the common currency since the single currency by itself can hardly serve all the different interests of its member states and stakeholders: growing and recessionary economies or centrally located large exporters and remotely located consumer economies (Friedman and Mundell, 2001).

When looking from a political perspective, it is not only economic sustainability and stability which can produce political popularity and public support of voters. Limited or temporary governmental overspending combined with high living standard can also be the source of political popularity, especially when existence of currency union may allow enjoying debt financed welfare longer than it would be possible with undistorted market conditions (debated in Eltetö 2011, 37-38). For example, when Italian industrial production index (see figure 1) in 2012 was 43% lower than German production index, than GDP per capita was only 26% lower than German GDP per capita. The advantage is more visible for countries with low productivity as those countries do not experience the negative effects of reducing productivity efficiency like higher inflation and higher interest rates.

Limited overspending inside currency union can also be supported by lenders for restricted periods, if risks are reduced by the existence of single currency and expectations on profit are higher than rates offered by countries with balanced budget and low debt. Growing foreign debt is not a problem per se for creditors as the exchange rate and interest rates should not be threatened or influenced by the national debt. At least this was the vision before the Greek crisis in 2009 (debated in Notermans 2012, 9-10). By keeping their consumption level high these countries also supported exporting countries as they are buying their products and securing them with new reserves and investments. The financial surplus of capital exporters (countries having current account surplus) is balanced with capital demand from consumer countries, having current account deficit (Kregel 2011). As a result, consumer economies can keep consuming as long as foreign investors want to lend their capital to consumer economies with offered interest rates.

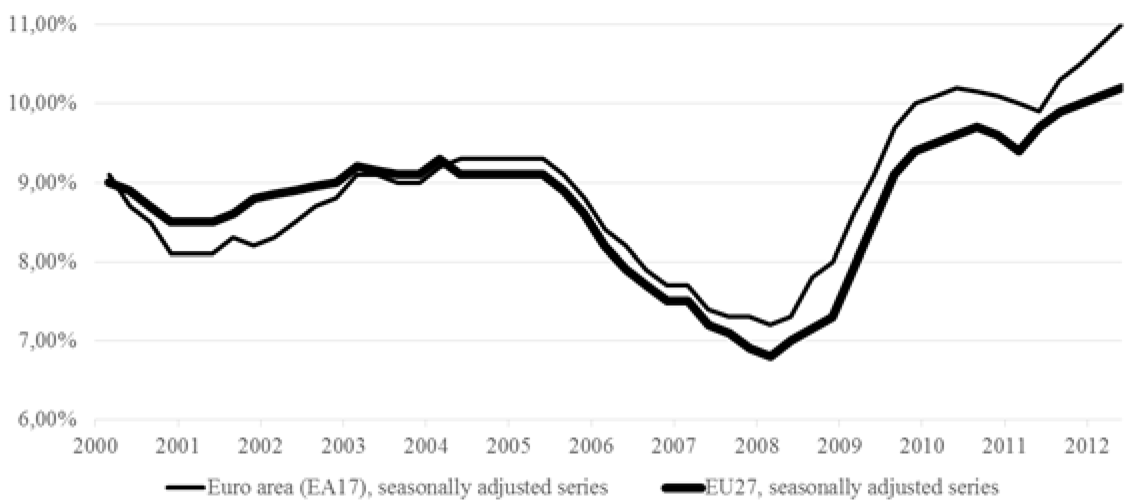
Market feedback in this situation would be restricted by the single currency (see figure 3) and market reactions are not often reflecting the actual performance of the member state, but also the stabilizing effect of the Eurozone (including possible supportive bond purchases and bail-outs, if needed). The economic argument here might be, that if influencing the interest rates is responsible, it would offer much lower summarized interest costs for the whole Eurozone. Or when to say it to more radical form: Why consider the option with market based higher interest rates at all, when the central bank (The ECB for example) can produce as low interest rates and as much additional resources as needed (Draghi 2012)?

In this situation, the logical question arises: which stakeholder group should be motivated for change of lowered interest rates or which change can be advised? The second important question in this dilemma is which stakeholder groups should pay the cost of interest rate synchronization and how much are tax payers in the Eurozone ready to spend on it (Kregel 2011).

Short-term politically desirable (popular) goals (like subsidies) can also lead to immediate negative economic effects. A correlation between Eurozone crisis reduction tools and unemployment levels in target countries represents here a suitable practical example (figure 2). As visualized by figure 2, Eurozone member states which spend hundreds billions of euros for financial and social stabilization suffered higher unemployment rates compared to non-euro states which adopted more quickly during the crisis. As a result, Euro area labour market is becoming less flexible and is losing its productivity compared to other members of European Union and also global competitors (debated in Inotai 2011, 7-9)

Accordingly, in some aspects of the Euro-currency, what should have been the symbol of stability and growth has turned to cause rigidity and stagnation for many a user (Kregel 1999).

Figure 2. Unemployment in Euro area and in EU 27



Source: OECD database 2012.

Stakeholders' interests and powers in the Eurozone crisis

The previously debated Eurozone´s economic circumstances and dilemmas have different value and importance from the perspectives of different groups of stakeholders. Accordingly, social stakeholders and their specific interests play a central role when analyzing Eurozone´s economic dilemmas and choices during policy formulation and implementation.

Stakeholder theory was first addressed in organizational management and business ethics by R. Edward Freeman in „Strategic Management: A Stakeholder Approach" in which he identified and modeled the interest groups of a company as well as described and suggested methods of meeting the interests of those groups. The categories of classification of social stakeholders are based on power, influence, need, value and legitimacy (Mitchell and Wood 1997, Cameron, Seher and Crawley, 2010). Stakeholders´ evaluation can additionally consist their attitude (passive or active, positive or negative), their ability to identify themselves (form a group) and their ability of communication and cooperation (Turner and Kristoffer 2002). Phillips (2003) distinguishes between the organization's normatively legitimate stakeholders to whom the organization holds a moral obligation and derivately legitimate stakeholders whose status derives from their ability to affect the organization or its normatively legitimate stakeholders.

In business terminology, in addition to shareholders, the stakeholders include governmental bodies, political groups, trade associations, trade unions, communities, financers, suppliers, employees and customers (Freeman, 1984).

The stakeholders influencing and influenced by the management of the Eurozone crisis discussed in this paper include: individuals, economic actors, political elites, supranational EU institutions (the ECB and the European Commission) and international monetary institutions. Some of these groups are consisting also influential sub-groups, representing different interests from the majority of the group. Stakeholders' actions will be analysed in categories of their power, influence, value, activity, influence, attitude and legitimacy.

Individuals as a stakeholder group include Eurozone taxpayers and groups dependent from state financing and benefits, citizens and non-citizens; as a result the interests inside this group are not coherent. Individuals as a stakeholder group are mainly interested in high certainty and security regarding the economic outlook (consumer confidence), high employment levels, high salaries, low taxes, high-level benefits from the state, but they tend to be passive as their expectations are met (Dahl 1991).

Individuals can be partly seen as economic actors, as they are holders of government bonds, stocks and shares of pension funds. Higher consumer confidence encourages spending and lending (or saving, depending on interest rates), which then supports GDP growth and increase of tax payments to governments. Individuals tend to be rationally egoistic, wishing lower taxation in years of economic growth and expecting government support in years of crisis (Lijphart 1999). At the same time, most individuals make their economic policy choices without a deep knowledge of national budget and economic policy options (Birch 1993).

Citizens are the source of the legitimacy for political elite and their main power is voting in elections. As citizens control the political system through ballot boxes, their interests need to be met on a short term basis, otherwise ruling politicians will be replaced by another set of political elite (Lipset 1959). Innovations and restructuring, productivity and export capability very seldom find a high place on the long term wish-list for national political choices (Inglehart 1997).

Inside this stakeholders group, sub-groups have different preferences in crisis solution process, mainly depending whether they are net-payers or net-receivers in relation with taxation and state budget. While taxpayers tend to reject additional taxation and prefer to support austerity as a sustainable solution, subsidized groups on the contrary tend to support additional taxation or additional money supply to safeguard their own incomes. Which solution will be chosen by political elite depends not only on the balance between those groups, but also how actively they express their interests (Lipset 1959).

The economic actors as a stakeholder group include wide range of small and medium-sized businesses, national and international level business actors, representatives of industry and services, also involving the networks of business actors, lobby groups and umbrella organizations. The main difference in their interests and actions derives from whether they are tax-payers, receivers of the state or the EU funding or investors and whether they are acting locally or internationally. As to international businesses, majority of them benefit from economic stability and growth both for operating and investing smaller number of them expect the subsidies to be available, the first being more active in lobbying for the market conditions, the latter for conditions of aid. A small number of sub-groups of business sector stakeholders though benefit from market fluctuations and crisis, actors on financial and stock market).

Long term economic actors are interested in a stable and growing economic environment, steady inflation, stable GDP growth, relatively low interest rates, relatively low taxation levels, efficient regulative framework, growth regarding economic outlook (indicated as business confidence), access to cheap funding (interest levels across Eurozone), low taxation levels and for those companies exporting to outside the Eurozone currency exchange rate as well (Kregel 1999). The majority of business groups are interested in fast relief during the crisis, additional financial programs, keeping the employment and consumption levels and ensuring financial sector security. They are less interested in the restructuring of economies, bankruptcies, high unemployment and shrinking government budgets. Low level losses for all social groups through inflation and additional taxation are preferred to sharp losses for those who took the risks. Growing debts are not seen problematic as long as there is a capability to service them.

As the business actors are also a major financers or influencers of political parties, these preferences are communicated to political elite (Lipset 1959). Some business groups prefer a consolidation of finances through budgetary austerity measures, claiming that it cuts deficits fast and should thus produce stability and growth. At the same time, pro-growth experts favor continued accommodating monetary policy and lower interest rates or even quantitative easing, modest inflation and moderate cuts over a long term to promote growth (Darling 2010).

The speculative participants inside the group of economic actors are interested in fluctuating prices and markets, which mainly come from uncertainty. They have a long term view and they are interested in the sustainability of the underlying asset long term (Papadimitrou and Wray 2011). Speculators have generally a short term view and they are interested in fluctuations in price changes (Papadimitrou and Wray 2011).

The differences in terms of crisis solution scenarios inside the group of economic actors are depending from the following variables: a) support to budget growth or to austerity; b) support to inflation or price-stability; c) support to centralized redistribution or to market economy, d) support to economic stability or instability, e) support to creditors' interests or to debtors' interests.

National political and administrative elite is one of the central, most active, most powerful and communicational stakeholder group in process influencing and decision-making regarding the Eurozone governance and policies (Held 2006).

Currently most of the influential decisions regarding Eurozone crisis management are negotiated and agreed by the leaders of the Eurozone countries (during European Council meetings and separate high-level meetings), ministers of finance and presidents of national central banks.

Most of top-politicians (prime-ministers and ministers of finance) managing the crisis are not directly elected by the citizens, but appointed by national parliaments (which is common in modern democracy). The most influential directly elected politicians in terms of European affairs are the directly elected heads of states (French president) and the members of the European affairs committees of national parliaments, giving the mandate and setting the decision limits for national ministers. Before the year 2008 and at the start of the crisis, the norm was that parliamentary decisions on extraordinary actions need to be taken and to be voted at plenary sessions. This has gradually been replaced by mandates given by the committees of the EU affairs (De Grauwe 2010). In everyday decision-making though, the importance of the minister's cooperation and information with expert civil servants in the field is often higher than the cooperation with the parliament.

Among political and administrative elite actors, also the approach "member states of the Eurozone" ("Germany", "Estonia, "Finland" etc) are used often as group or type of stakeholders. The opposition between the debitor countries and creditior countries is also often used in this context. But it would be theoretically more correct to define national governments, ruling coalitions or national political elite in this aspect as stakeholders.

Supranational political and administrative institutions within the Eurozone, in Eurozone context mainly the European Commission the European Central Bank (ECB).

These institutions are either independently elected by their own members (or shareholders) or nominated by national parliaments, governments or presidents. Differently from national politicians, administrative elites (national central banks and the ECB) these institutions do not need to concern about their popularity as their members are not directly elected. Supranational or administrative actors tend to follow neo-institutional motivation model, where rules and norms tend to dominate over the idealist goals and broader gains (Hall & Taylor 1996: 938). Central corner-stones of neo-institutional model are: dominance of legal rules, standardized procedures and administrative habits; support of comfortable, secure compromise solutions and rational choice and compliance (Eilstrup-Sangiovanni 2006¸ Hall & Taylor 1996).

International intergovernmental (financial) institutions (mainly the IMF in Eurozone context), which are directly participating in managing the Eurozone crisis (by giving out loans to problematic countries) are interested (in the short term) in stable financial markets that don't experience huge distortions or extreme volatility, but in gaining profit from loans. In long term international institutions are interested in stable global growth.

Tracking the political process: effects of stakeholders' actions in the Eurozone crisis management

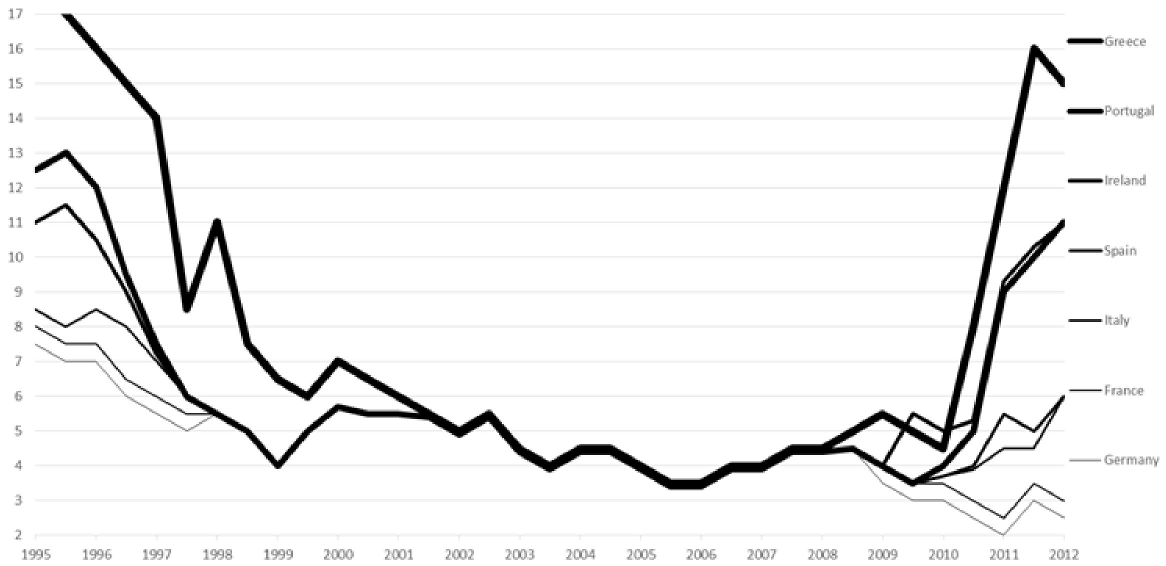
In the beginning of year 2013, the majority of the leaders of the Eurozone countries and the president of European Council have expressed their belief that the worst part of the financial crisis is over and political decisions taken to solve the crisis have been successful (Van Rompuy 2013, 1). This is in sharp contrast with statements made by the same leaders only 6 months ago, when interest rates on sovereign debts were at their 10-years' highest (especially for Southern Europe), the Euro was at its five years' lowest exchange rate against dollar and unemployment in many Euro-area countries was rising fast reaching its highest rate at all-times. Which have been the main actions of markets and stakeholders activities to influence the crisis?

During the first period of the global financial crisis, in years 2008-2009, it was considered possible that member states and local actors could handle the debt problems themselves by adjusting their budgets and cutting deficits while financial markets would offer enough refinancing for the states with acceptable level of interest rates. No special European level interference measures were seen necessary or used. At this stage, national political elites were the most influential stakeholders in the process.

The situation changed in year 2010 when it became evident that some member states with debt problems were unable to continue lending from the markets and refinance their obligations. This led to the situation where the market's and investors' trust towards the Eurozone member states financial stability started to differentiate. Starting from years 2009 the levels of interest rates on sovereign debt (government bonds) across the Eurozone member states which were consolidated and synchronized after the introduction of the Euro started to differentiate quickly again. This created an additional interest payment pressure for already highly indebted countries.

Figure 3 illustrates the interest rates of government bonds showing the pre-Euro market situation, the consolidated period between 2001-2008 and the crisis developments where the major difference occurred in 2011, where the difference between bonds of the Germany and the Greece experienced a gap of 800% (the first having near 2%, the latter 16% rate).

Figure 3. Interest rates of selected Eurozone member states national bonds in years 1995-2011



Source: OECD database 2012

From a stakeholders' perspective, it meant that next to political elites - voters on the one hand and supranational institutions on another hand started to be engaged more actively in discussion and solution seeking. The first major action in fighting the Eurozone crisis was to bail out three member states of Eurozone (first Ireland, then Greece and Portugal) which could not finance themselves due to excessively high interest rates that the financial markets requested.

The problem for Eurozone and for the EU was both legal and economic. Firstly, in legal terms the Lisbon Treaty states clearly in articles 123, 124 and 125 that member states have their own responsibility in terms of budgetary obligations and other member states and the EU institutions are not allowed to bail them out. Secondly, in economic terms, the amount of resources necessary for bail-out were far bigger than the annual EU budget. Hence, the member states faced remarkable additional costs. As the costs without bail-outs were seen even bigger, it was seen rational to ignore the treaty articles and collect a bail-out fund, instead of relying on market process (Purju 2012, 16).

The nature of the crisis and the measures taken were expected to be temporary, although a need for a European level interference was admitted. The volume of the summarized stabilization capabilities grew fast to 750 million euros for year 2012, which is 500 percent more than annual EU budget.

At the institutional level it brought to the creation of the European Financial Stability Mechanism (EFSM) in May 2010 the Greece Loan Facility (GLF), and European Financial Stability Facility (EFSF) in May 2010, the European Stability Mechanism (ESM) in September 2012 (Purju 2012, 18-19). Some of these institutions were created in accordance with the existing treaty bases (EFSM); some were created outside the EU legal framework (EFSF) and some institutions needed additional legal mandate to be created by the member states (ESM).

Firstly, the European Financial Stability Mechanism (EFSM) was created in cooperation of the EU and the IMF with resources up to 60 billion euros. The EFSM used its financial tools mainly to provide loans to Ireland and Portugal. As a parallel process and as the second pillar, the Greece Loan Facility (GLF) was created by the same stakeholders (the EU, the IMF and the EU member states) with the amount of 110 billion euros to support refinancing Greece's debt (Purju 2012, 18). This institutionalization process was dominated by the EU member states and by the IMF.

As a third pillar of the stabilization measures, the European Financial Facility (EFSF) was created after intense debates in May 2010 (Christova 2011, 52). Here the technical solution was different; EFSF was created as a private fund and completely outside from treaty framework. What made it special was its scope – liabilities went up to 780 billion euros, guaranteed by the member states. The EFSF was also seen to take over of the liabilities of the EFSM and the GLF (Purju 2012, 18-19).

A vital part of the plan of creating stabilization mechanisms and institutions was to convince markets that bail-outs are conducted in a centralized way and would continue if needed. All three mechanisms were created outside of the usual treaty framework and beyond procedures by a special mandate of the member states and their political elites. Both Eurozone voters and its supranational institutions played a secondary role when the EFSM, the GLF and the EFSF were designed and launched.

The institutional build-up and the voting mechanism of the EFSF did not follow the logic of the European Union institutions, where small states are over-represented compared to bigger member states, but the logic of the IMF, where the representation is directly reflecting the financial participation. Accordingly, six bigger member states of the Eurozone which are also the biggest shareholders in the EFSF are able to control the financial decisions of the EFSF while small states and the EU supranational institutions have very low impact on decision making.

In October 2010, the European Stability Mechanism (ESM) was launched, ESM treaty was signed in 2nd February of 2012 and became effective in 27th of September 2012, to replace (take over) the obligations of the EFSF. The ESM with capital of 700 billion euros will offer in total 500 billion euros lending capabilities and is planned to take over the liabilities of the EFSF (Christova 2011, 52). The ESM was created based on a separate treaty amending article 136 of the TFEU (Treaty on the Functioning of the European Union). The ESM decision making followed the model of the IMF and not the EU, where every member has its governor on the board, but amount of votes reflects the amount of shares (Estonia has 0,186% of votes and shares while Germany has 27,146% of votes and shares). The ESM, even having 17 member states can in normal circumstances be controlled with the votes of three biggest shareholders Germany, France and Italy, having together over 65% of votes. The emergency voting procedure is based on qualified majority, requiring at least 80% of votes. (The ESM Treaty, chapter 2, article 4)

The European Central Bank (ECB) used its additional tools (the SMP, the LTRO and the OMT) to influence crisis' stabilization. The solution was seen in promoting budget austerity and offering refinancing programs for the indebted governments and commercial banks owning governmental debts. In this stage of the crisis management, political and economic elites of member states and supranational administrative elite were working in effective cooperation. Options which were taken were aimed at fast stabilization in the fiscal aspect, to push down lending costs and make more room for future reforms by national governments. Supporting the bond market also worked in the interests of the business elite.

In 2010 The Security Markets Program (SMP) was started by the ECB to support Greek and Portuguese governments' bonds in secondary market. Later, the program also supported the bonds of Spanish and Italian governments. In this period, the importance of European Central Bank started to grow and the importance of national political elites gradually started to decrease in policy making process.

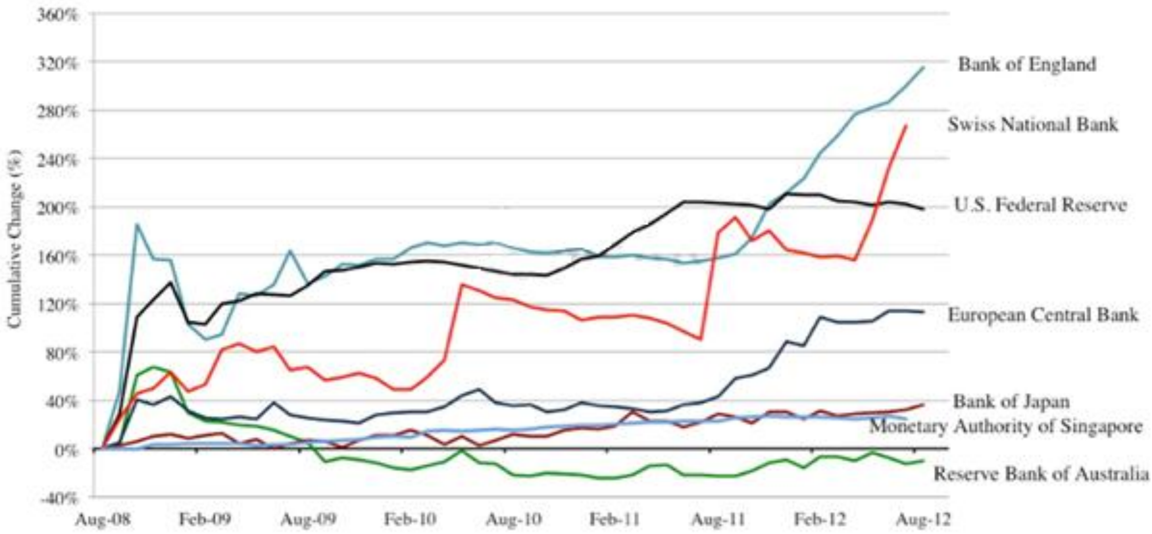
In December of 2011 additional Long Term Refinancing Operations (LTRO) were announced by the ECB, providing two rounds of cheap loans to Eurozone commercial banks which was intended to guarantee liquidity in financial markets that were refusing to lend money. Main aim of the 2011 LTRO was to provide liquidity in to the Eurozone banks. 2011 LTRO was offering 489 billion euros up to three years, with 1% interests for Eurozone commercial banks to buy Eurozone governments bonds. LTRO programs were intended as a short-term solution to buy time for the European political elite to carry out reforms and implement austerity measures while not suffering from even higher interest rates. As a result, 523 commercial banks participated and biggest amount of loans were distributed to the banks of Greece, Italy, Portugal and Spain. On 29th February additional LTRO2 was offered in amount of 529 billion euros.

The ECB was also ready to continue in growing amounts its Monetary Transactions Program (OMT) to replace the previously ended bond buying program, but this time the bond purchases will be conditional and will only take place if the Eurozone member state will apply for the OMT assistance. OMT was supported by Mario Draghi´s speech on 26th of July 2012: *"To the extent that the size of these sovereign premia hamper the functioning of the monetary policy transmission channel, they come within our mandate. Within our mandate, the ECB is ready to do whatever it takes to preserve the euro, believe me, it will be enough"* (Bloomberg 2012).

With the OMT, the ECB aimed to remove the political risk from the financial markets. The ECB succeeded with the LTRO, the OMT and president Mario Draghi´s convincing speeches to restore confidence in financial markets, to lower significantly interest rates for highly indebted countries and to restore lending ability for all national governments in Eurozone. Accordingly, the OMT effectively created a backstop, a firewall to European debt market which was convinced that the ECB is buying European debt in any necessary amount. In terms of lowering interest rates and stabilizing lending costs, the results were evident: German interest rates thus dropped below 2% and Greece's rates which in 2012 summer climbed to 16% (even reaching above 36% on ten-year debt have decreased to around 11% (Bloomberg 2013).

The ECB achieved stabilization on governments' bond prices, with quite moderate growth of money supply, when compared for example with the Bank of England, the U.S. Federal Reserve and the Swiss National Bank, as seen from figure 4 (Merk 2012). In this case, promise of Mario Draghi "to do whatever is needed" worked very well even without additional supply of euros. Accordingly there was no actual pressure for the growth of inflation in the Eurozone and the option of additional money supply is still available, if needed in next stage of crisis (Merk 2012). Figure 4 shows also, that most active growth of the ECB balance sheet took place in the period of July 2011- February 2012 and situation has stabilized since that for the ECB.

Figure 4. Balance sheets of selected central banks 2008-2012.



Source: Merk, 2012

This process indicates also, that the markets and investors were in the crisis situation more concerned about political decisiveness and consolidation, than about actual interference measures. When the clear and confident message was given to markets by Mario Draghi, interest rates started to drop.

The special aspect by the transfer of initiative and power form member states competence to the ECB competence, was the aspect that the ECB did not apply any power over member states or other EU institutions' fiscal or budgetary priviledges, but only the ability to create additional supply of money and loans to reduce the level of interests rates of governments bonds.

From the perspective of the businesses elite and voters, the options offered by the ECB were more in their favor as formerly proposed austerity measures or redistribution of debt by Eurobonds, which both would have created uncertainty regarding the future. Likely higher taxation levels would negatively influence hiring, investment and consumption. Together with spending cuts, which influences public sector payrolls and public sector employment level in addition to smaller social benefits, austerity measures would hurt economic fundamentals and outlook creating a vicious cycle of lower demand, lower economic growth and higher unemployment. There were of course exceptions, for example German public was critical about monetary measures chosen by the ECB.

As seen from actual initiatives and actions taken during the financial crisis, the level of participation of different stakeholders has changed significantly between the years 2008-2012. National political leaders (elite) were the dominant stakeholders group in 2008-2010, when Eurozone rescue options were debated in numerous European Council and G7 meetings. This was related to expectation, that regional and international cooperation would build sufficient confidence for markets. Dominance of the intergovernmental method was based also on British and Italian support to this method and good personal cooperation between Angela Merkel and Nicolas Sarkozy.

But financial developments of Eurozone also triggered social and political reactions and changes. In 2011, when it became more evident, that the intergovernmental method cannot produce necessary confidence for markets, political leaders started gradually to lose the support of voters and economic elite. It resulted differently: German chancellor Angela Merkel saved her position, but turned to more passive approach in terms of Eurozone decision making. French president Nicolas Sarkozy lost his popularity; lost also the elections and was replaced by socialist Francois Hollande in May 2012. Italian prime-minister Silvio Berlusconi was also forced to resign from office in November 2011 and was replaced by technocratic Mario Monti. British prime-minister David Cameron kept his popularity among the voters by turning openly against Eurozone stabilization program and the plans of fiscal union (Daily Mail 2011).

This process as combined with quite passive attitude from the European Commission and its president Manuel Barroso, lead to the logical transition of additional power and initiative to the hands of the European Central Bank. When national political elites were not any more interested and able to make necessary political decision and European Commission was restricted by the EU legal and budget limitations, the ECB was the main motivated and capable actor for taking initiative to develop sufficient counter crisis measures. Of course national governments did not withdraw completely and continued to influence stabilization process: Stability Plus Pact, second round of bail-outs and saving Cyprus are the main examples of their continuing efforts and participation to solve the Eurozone crises. In longer run also the importance and influence of European Commission may grow again, when budgetary deficit control tools with member states are agreed and implemented.

To conclude, despite the described efforts and optimism of the political elites of Eurozone member states, there are actually no indicators currently pointing towards improvement in economic conditions in Eurozone. On the contrary, according to core economic indicators of member states (unemployment, governments’ debt and industrial production), the situation in beginning of 2013 is worse than it was in 2009, when current crisis started and mainly temporary stabilization has been achieved. Accordingly, additional efforts of stakeholders to create effective stabilization and growth package for Eurozone are needed.

Conclusions

The research questions of this article have focused on the current Eurozone financial crisis and have been discussing which choices were available for decision makers, which stakeholder groups influenced the actual policy outcome, how the balance-of-power was changing during the crisis management, and how the supranational institutions like the European Central Bank participated in the process.

The research has indicated that the main gainer in the power division process between the stakeholders has been the supranational European Central Bank, whereas the main losers of power have been national political elites (national governments). The choice to become a passive actor for the national political elites was in some cases voluntary (the UK and Germany) and in some cases forced upon them by elections (Italy and France). The changes were initiated from the possibility to lose popularity among voters or actual loss of elections because of the economic pressure. Accordingly, in this respect the voters and the business elite as stakeholders controlled the choices of the political elite, but the final decision to delegate and transfer some executive executive power to non-electable institutions was made by the national political elites, when creating crisis management programs and institutions.

The decision-making space left from the national political elites was filled by the administrative supranational elite, having no direct democratic mandate and therefore also no direct pressure from the voters and no need to concern about public popularity. As a result, the stakeholders having democratic mandate decided to change for more passive approach while the stakeholders not having democratic mandate were offered more room to act. When in the beginning of Eurozone crisis national governments were the dominant group in strategy choosing and decision making, than for the end of the year 2012 the influence of supranational institutions (the European Commission and the ECB) and national governments have equalized, as both groups are having their parallel initiatives. This change has been effective when looking at market reactions to bond prices and credit ratings, but it has also included some loss of democratic control and weakened the inclusion of smaller member states.

Accordingly, in terms of the future institutional reform, the question how to build a democratic but economically sustainable Eurozone has become even more complicated than before the crisis. As a result of the developments in 2012, active changes will have to come from balanced cooperation of the national political elite, the ECB and the European Commission.

During the last four years reactions to financial crisis have been cyclically repeating, where every new bond market disturbance has been met by growing action of the EU institutions. As Cyprus banking crisis in March 2013 has indicated, financial complications are not yet over and the stabilization mechanism need additional development.

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