

This article was downloaded by: [Ben Gurion University of the Negev]

On: 27 June 2015, At: 07:47

Publisher: Routledge

Informa Ltd Registered in England and Wales Registered Number: 1072954 Registered office: Mortimer House, 37-41 Mortimer Street, London W1T 3JH, UK



## Contemporary Politics

Publication details, including instructions for authors and subscription information:

<http://www.tandfonline.com/loi/ccpo20>

### Perhaps this time it's different: ideas and interests in shaping international responses to financial crises

Arie Krampf<sup>a</sup>

<sup>a</sup> School of Government and Society, The Academic College of Tel Aviv-Yaffo, Tel Aviv-Yaffo, Israel

Published online: 20 Apr 2015.



CrossMark

[Click for updates](#)

To cite this article: Arie Krampf (2015) Perhaps this time it's different: ideas and interests in shaping international responses to financial crises, Contemporary Politics, 21:2, 179-200, DOI: [10.1080/13569775.2015.1030170](https://doi.org/10.1080/13569775.2015.1030170)

To link to this article: <http://dx.doi.org/10.1080/13569775.2015.1030170>

PLEASE SCROLL DOWN FOR ARTICLE

Taylor & Francis makes every effort to ensure the accuracy of all the information (the "Content") contained in the publications on our platform. However, Taylor & Francis, our agents, and our licensors make no representations or warranties whatsoever as to the accuracy, completeness, or suitability for any purpose of the Content. Any opinions and views expressed in this publication are the opinions and views of the authors, and are not the views of or endorsed by Taylor & Francis. The accuracy of the Content should not be relied upon and should be independently verified with primary sources of information. Taylor and Francis shall not be liable for any losses, actions, claims, proceedings, demands, costs, expenses, damages, and other liabilities whatsoever or howsoever caused arising directly or indirectly in connection with, in relation to or arising out of the use of the Content.

This article may be used for research, teaching, and private study purposes. Any substantial or systematic reproduction, redistribution, reselling, loan, sub-licensing, systematic supply, or distribution in any form to anyone is expressly forbidden. Terms &



## Perhaps this time it's different: ideas and interests in shaping international responses to financial crises

Arie Krampf\*

*School of Government and Society, The Academic College of Tel Aviv-Yaffo, Tel Aviv-Yaffo, Israel*

The experience of the recent two decades of financial crises shows that donor countries and international financial institutions (IFIs) can respond to a crisis in a peripheral open economy by either of two crisis management strategies: either they can impose harsh conditionality to fix the domestic economy and prevent future moral hazard problems, or they can provide last-resort credit to restore market confidence. In some cases, the crisis management strategy changes as the crisis evolves. What are the factors that determine the choice of key donor countries and IFIs? This article traces the processes by which the USA and the International Monetary Fund designed the crisis management strategy in respect to the Asian crisis, and how Germany and the European Central Bank designed the response to the eurozone crisis, in order to understand how ideas regarding the causes and solutions of a financial crisis interact with the interests of key donor countries. The article argues that in both cases ideas and interests are mutually constituted, but in each case the mechanism that linked ideas and interests was different: whereas in the Asian case US interests led to policy innovation and experimentation and to a change in the crisis management strategy, in the European case ideas played a greater role in shaping German interests. The article explains this difference on the basis of the lessons learned by IFIs from the Asian crisis, which were then implemented in the eurozone case.

**Keywords:** crisis management strategy; Asian crisis; eurozone crisis; IMF; ECB

... to identify the proper response to the crisis, it is necessary to determine its cause – which is no easy task. Attempts to identify the fundamental causes of a financial crisis always suffer from the problem of distinguishing insight from hindsight. (Yellen, 1998)

### 1. Introduction

A financial crisis is not only an economic event, but also an epistemic and a political event. As an epistemic event, a crisis calls into question past and prevailing epistemic frameworks by which policy-makers – politicians and technocrats – interpret the economic reality as well as formulate causal assumptions that allegedly explain its dynamics. Global financial crises are also political events in the sense that they reveal and often deepen conflicts between countries over the distributive consequences of the prevailing international financial order and over the perceived ways in which a crisis can be best and most fairly addressed. Therefore, to understand how crisis

---

\*Arie Krampf is Senior Lecturer in International Relations and Political Economy at the School of Government and Society at the Tel Aviv-Yaffo Academic College. His fields of expertise are political economy of monetary and financial institutions, the history of the European monetary integration and the history of central banking ideas in comparative perspective. He has published on the European Central Bank's response to the eurozone crisis, the Israeli central bank and central banking in developing countries. Recently, his book *The national origins of the market economy: Economic development during the formation of the Israeli capitalism* has been published (Hebrew). Email: [a.krampf@mta.ac.il](mailto:a.krampf@mta.ac.il)

management strategies are shaped and change over time, the interaction between ideas and politics has to be accounted for.

During the 1980s and the 1990s, when the debt problem of peripheral countries became a pressing international issue, the usual suspects for financial instability in the global periphery were domestic governments. The shifting of blame to peripheral governments was legitimized by first- and second-generation financial crisis models, according to which financial crises originate in corrupted governments (Flood & Garber, 1984; Flood & Marion, 1997; Krugman, 1979; Obstfeld, 1996) (see a more detailed discussion in Section 3). Accordingly, economists, policy-makers and international financial institutions (IFIs) believed that any response to crises in peripheral countries should include a strong and essential element of strict conditionality terms in order to impose on the crisis-ridden economies the implementation of market-oriented reforms.

Moreover, the economic technocracy's recommendations to impose market-oriented reforms were also consistent with the interests of the key donor countries. The donor countries had strong preferences in promoting globalization through the liberalization of peripheral economies to gain access to new markets. Therefore, from the historical perspective the 1980s and the 1990s were characterized by homogenous policy discourse regarding responses to crises, which was coupled by a global economy that was governed by the group of industrialized countries. In this context the interaction between ideas and interests was quite simple: the one-size-fits-all approach of the economic technocracy was consistent with the interests of the key donor countries and legitimized them.

Things changed after the Asian crisis and during the 2000s. The Asian crisis proved, to those who were willing to see, that financial crises can break out even in well-functioning economies with solid fundamentals due to systemic causes. During the first decade of the twenty-first century several IFIs, including the Bank for International Settlements (BIS), the Financial Stability Board (FSB) and the newly established G20, promoted a new approach to financial stability, which was based on a systemic conception of risk and instability. In this period, a third-generation crisis model was introduced, according to which financial instability is essentially a systemic global problem (Eichengreen & Hausmann, 1999; Eichengreen, Hausmann, & Panizza, 2007; Eichengreen, Rose, & Wyplosz, 1996; Krugman, 1999b; Radelet & Sachs, 1998). The systemic interpretation of financial crises undermined the effectiveness of the policy of harsh conditionality and it legitimized the use of last-resort lending in order to restore market confidence, even at the expense of creating moral hazard problems.

The emergence of the systemic crisis models changed the way ideas and interests interacted within the policy of financial crisis management. Policy-makers now had two policy alternatives, by which they could respond to crises and they had to make a choice between them. Moreover, the debate between the two economic approaches increased the uncertainty among policy-makers regarding the best policy response. This uncertainty could not have been minimized by economic experts, because the experts themselves did not reach an agreement. When the eurozone crisis broke out, the debates between the two schools of thought became a key policy question. Hence, the cases of the responses to the Asian crisis and the eurozone crisis provide an opportunity to investigate how economic ideas and interests interact within a situation in which there is no consensus among economists regarding best practices.

In this article, I am interested in the interaction between epistemic frameworks – ideas – and the interests of key donor countries in the processes of constructing responses to financial crises in small and open economies. I am interested in the question of to what extent economic ideas play a role in shaping the preferences and behaviour of donor countries at times of crisis, and what kind of role they exactly play.

In order to examine this question, this article focuses on the two most extensive global financial crises in recent times: the Asian crisis in 1997 and the eurozone crisis. I trace the factors that shaped the USA and the International Monetary Fund (IMF) response to the Asian crisis, and

those that shaped Germany's and the European Central Bank's (ECB) response to the eurozone crisis. The two crises, as Truman (2013) shows, shared many features: in both cases the crises first hit small, open and weak economies (Thailand and Greece, respectively), and then spilled over to higher income countries (South Korea and Spain) and put at risk entire regions;<sup>1</sup> in both cases the crises spread within the 'periphery' – the global periphery and the European periphery, respectively – and financial support was provided by key donor countries (the US and the G7 in the Asian case, and Germany and the European Union (EU) Member States in the eurozone case).

More important for this article is the fact that in both cases the donor countries and the respective IFIs started out with a strategy of harsh conditionality in exchange for financial support, and as the crisis deepened the strategy changed in the direction of more lenient conditionality and last-resort lending. The article traces the mechanism that explains the policy change in each case, and how ideas and interests mutually constituted each other.

## 2. Ideas and material interests

In recent years, there has been a growing interest in the role of ideas in institutional and policy change. Most scholars agree that ideas play a role in shaping institutions and policies but there is no agreement regarding the nature of this role: do ideas actually shape preferences and outcomes or are they merely used to legitimize interests?

John Campbell distinguishes between two roles that ideas play in such cases. Ideas may take the role of 'frames' when they are used to legitimize pre-determined interests and behaviour of actors (Campbell, 1998, p. 26). When ideas are used as frames they appear in the 'foreground' of the discourse, as they are expressed explicitly and formally by actors to promote their preferences and associated policy scripts (Seabrooke, 2007). This approach is associated with a 'strong' version of constructivism as ideas are used as social weapons rather than as vehicles of truth and effectiveness (Blyth, 2012).

In other cases, ideas affect outcomes through persuasion on the basis of their cognitive content, because they are perceived to offer better solutions to given problems. In such cases, certain types of ideas are considered to provide an advantage to policy-makers because they 'facilitate policy making among elites by specifying how to solve particular policy problems' (Campbell, 1998, p. 28). Good ideas can provide policy-makers with the 'clearest road maps out of troublesome or uncertain policy situations' (Campbell, 2002, p. 29).

Ideas play a more significant role in times of crisis. Due to the high level of uncertainty the demand for policy advice by politicians is greater (Abdelal, Blyth, & Parsons, 2010; Haas, 1992). When policy-makers face high levels of uncertainty they are more willing to make concessions regarding their interests in order to stabilize the situation, than at times of certainty, when actors stick to their preferences.

However, and this is a crucial point here, in times of crisis economic experts also do not share common views regarding the correct and best way to frame the material economic reality. Experts may hold different opinions regarding the causes of the crisis and the best way to treat it. Hence, in this article I argue that it is specifically in those cases when the community of experts is divided that ideas are likely to play a more significant role in shaping policies and outcomes. It is this epistemic pluralism that forces policy-makers to engage deeper into detailed and technical debates and update their interest accordingly.

## 3. Three generations of crisis models

When facing a crisis in a peripheral country policy-makers in donor countries search for policy solutions or roadmaps within prevailing standard economic theories. In other words, they seek

policy advice. Over the last three decades the kind of advice policy-makers received changed in time according to the type of fashionable crisis model. The economic literature on the causes of financial crises offers different ways to classify financial crises.<sup>2</sup> However, the most common way to classify a financial crisis model is according to the three generations (Claessens & Kose, 2013).

The first generation of financial crisis models explains crises on the basis of governments' budget deficits and public debt. This model is based on the work of Krugman (1979), and Flood and Garber (1984), and recently on the much-discussed book by Reinhart and Rogoff (2011). The first-generation model is termed 'fundamentalist' because it assigns crises to 'bad fundamentals', for which governments are responsible.

The second-generation model, developed during the early 1990s, suggests that financial crises in small open economies arise from a conflict between the government's preference for fiscal expansion and its attempt to maintain a fixed exchange rate (Obstfeld, 1996). In such a case, a crisis occurs when investors suspect that the country will not be able to sustain its exchange rate, and the crisis becomes a self-fulfilling prophecy when investors conduct a 'speculative attack' (Flood & Marion, 1997, p. 4). The second-generation model also assigns the responsibility for the crises to governments.

When the Asian crisis erupted the prevailing crisis models could not explain it, and a third-generation model was introduced. According to the third-generation model, crises are the product of over-borrowing and over-investment, which are caused by the governments' informal insurance for banks and borrowers (Dooley, 1997; Krugman, 1999a; McKinnon & Pill, 1996). This situation was termed 'crony capitalism'. This third-generation model was consistent with the fundamentalist approach as it also put the blame for the crisis on domestic governments.

Other economists introduced an alternative third-generation model that highlighted the systemic causes of crises (Eichengreen & Hausmann, 1999; Eichengreen et al., 1996, 2007). The systemic third-generation model lists a number of channels through which instability is transmitted from the financial sector to the real economy: mismatch between short-term liabilities and long-term assets, mismatch between domestically denominated and foreign currency-denominated assets and liabilities, as well as over-lending. These problems lead to a change from 'vulnerability to panic, as measured by high ratios of short-term debt to reserves' (Radelet & Sachs, 1998, p. 49).

The systemic crisis model assumes that speculative attacks affect not only the attacked currency but also other currencies. Therefore, systemic instability put at risk also countries with relatively solid 'fundamentals' (Eichengreen et al., 1996, p. 2). In hindsight, Radelet and Sachs argued that the Asian crisis was caused by such systemic factors: 'As international confidence in their initial strategies waned and it became clear that the economic contractions in the region would be much larger than originally thought, creditors withdrew even more funds' (Radelet & Sachs, 1998, p. 27). For the eurozone, the *monetarist school* underlined these systemic causes of the crisis (Wyplosz, Gros, & Belke, 2011, p. 25).

The distinction between the fundamentalist and the systemic models has immense consequences for policy and politics. If the crisis is caused by bad fundamentals then it is justified to impose harsh conditionality on governments in order to provide incentives to fix the underlying fundamentals; if the crisis is systemic it is more reasonable to provide infected governments and banks with last-resort credit to restore market confidence (see discussion in Eichengreen et al., 1996, p. 2).

The distinction between the fundamentalist and the systemic models, however, should be qualified: the fundamentalist and systemic interpretations are not mutually exclusive as systemic weaknesses are exacerbated by domestic weaknesses and vice versa. Moreover, most economists who adhere to the fundamentalist interpretation of crises would reject the assertion that there are different types of crises.<sup>3</sup> Reinhart and Rogoff have famously claimed that *all* financial crises

originate, at the bottom line, in the same causes and the usual culprits in relation to these causes are governments (Reinhart & Rogoff, 2011).

Nevertheless, this distinction is essential in order to understand the politics of crisis management strategy. At the bottom line the donor country has to make a choice to treat the crisis as a domestic event caused by bad fundamentals or as a systemic event.

The consequence of this analysis is that, when a small open economy is in crisis, policy-makers of donor countries face an inescapable dilemma: if they interpret the crisis as a domestic event caused by bad fundamentals and they respond to it by imposing harsh conditionality, they send negative signals to financial markets and increase the systemic risk of contagion; if they interpret the crisis as a systemic event and respond to it by providing last-resort credit, they are likely to create domestic moral hazard problems in the future. This is the essential dilemma associated with most crisis management strategy.

#### 4. Interests of key donor countries

Above, I surveyed the prevailing economic rationales regarding the causes of financial crises and the best way to treat them. I showed economic theories provided two interpretations of financial crises and two policy recommendations. However, policy-makers of a donor country, who provide the financial resources for the crisis management strategy, have their own interests. Therefore, irrespective of the advice of economists, they might have a tendency to choose harsh conditionality or last-resort lending, irrespective of the *actual* causes of the crisis. The literature identifies three types of interests that shape the preferences of a donor country in this respect.

(1) *Interest in promoting liberalization*: since the end of the Second World War and particularly since the dissolution of the Bretton Woods agreement, the USA and the G7 have been very active in promoting liberalization in peripheral countries (Helleiner, 1996; Strange, 2009). Such a process took place also in the European context. Since the 1950s Europe has been undergoing a process of economic integration and the construction of the Single Market. To a large degree this process has been driven by German preferences (Moravcsik, 1998). Therefore, when a small economy faces a sovereign debt crisis or a domestic banking crisis, the donor country may use it as an opportunity to impose liberal structural reforms, which are in the interest of the donor country irrespective of the crisis.

(2) *Non-economic and security interests*: whereas donor countries have an interest in promoting liberalization in the periphery, non-economic reasons may keep them from doing so. Imposing harsh conditionality on the infected country is likely to create domestic social and political instability in the target country, and may cause diplomatic tensions between recipient and donor countries.

As is well known, the USA refrained from using its full capacity to impose liberalization policies during the Cold War in South America and East Asia for political reasons (Helleiner, 2003; Strange, 2009, p. 553). In particular, the USA had strategic ties with Japan and South Korea that might have shaped the US response to the crisis (Beeson & Broome, 2010).

Non-economic factors may have also played a role in the behaviour of Germany during the crisis. Some argue that European integration is not only an economic project but also a political goal. Tommaso Padoa-Schioppa, an economist and central banker, argued in 2004: 'the European Union is an eminently political construct. Even readers primarily interested in economics would hardly understand the euro if they ignored its political dimension' (Padoa-Schioppa, 1999, p. 1). This assertion, however, has to be tested.



(3) *Stability interests*: finally, a donor country may resort to last-resort lending rather than harsh conditionality when it fears that the spread of the crisis will affect its own economy or the stability of the international system. In such a case the expected short-term costs of contagion overshadow the expected long-term benefits from promoting liberalization, and therefore last-resort lending is offered by the donor country in order to restore market confidence.

Stability interests differ from non-economic interests in the sense that they are shaped both by objective factors and by ideas. The way policy-makers of the donor country interpret the crisis affect the weight it relegates to the risks of contagion vis-à-vis its interests in promoting liberalization. If policy-makers interpret the crisis as a domestic event that is caused by bad fundamentals, the perceived risk of contagion is lower, and therefore the donor country has a stronger incentive to use it as an opportunity to impose market-oriented structural reforms. On the other hand, if policy-makers interpret the crisis as a systemic event, the perceived risks of contagion are higher, and the policy-makers' fear of global contagion would justify the provision of last-resort lending without insisting on harsh conditionality terms.

Hence, in this case ideas and interests are mutually constitutive in a very strong sense. It is not that policy-makers use ideas to legitimize interests, but that when adopting the systemic interpretation of a crisis due to persuasion of policy-makers by ideational entrepreneurs such as economic experts in IFIs or academic economists, the policy-makers are very likely to re-calculate their interests and shift from harsh conditionality to last-resort lending.

This schematic representation of the key factors that shape a donor country's interest in respect to the crisis management strategy can assist us in analysing the evolution of responses to financial crises. In the initial stages of a crisis, donor countries tend to use the crisis as an opportunity to impose market-oriented reforms. In this case, policy-makers of a donor country would prefer to impose harsh conditionality, irrespective of the actual causes of the crisis (domestic fundamentals or systemic) and to legitimize the policy by the fundamentalist interpretation of the crisis.

As the crisis, two scenarios are possible. According to one scenario the donor country is concerned by the political costs of the strategy of harsh conditionality and therefore shifts to the strategy of last-resort lending, irrespective of the actual causes of the crisis. In this case, we expect that the policy change is promoted by politicians at the highest level of the donor country (such as presidents, prime ministers or foreign affairs ministers) rather than by the economic technocracy.

According to another scenario policy-makers of the donor countries become concerned by prospective risks of contagion. In this case, policy-makers of donor countries change not only their behaviour but also their interpretation of the crisis. This is a scenario in which processes of persuasion are linked to processes of re-calculating the national interests of the donor country. In this case, we expect that economic technocracy would play a greater role in the policy change that it would shape the interest of the donor country through persuasion.

The aim of the historical analysis below is to trace the evolution of the international responses to the Asian and the Eurozone crises, and to examine how ideas and interest interacted in each of the two cases.

## 5. Constructing the response to the Asian crisis

### 5.1. *The IMF's crisis management strategy*

As soon as the Asian crisis erupted, Michel Camdessus, the Managing Director of the IMF, described the situation in Asia as 'crony capitalism'. The crisis was conceived to be 'a blessing in disguise', as it provided the IMF with the means to impose structural reforms on the Asian economies, something that the IMF and the G7 had long aimed for. He believed that after a 'period of adjustment, these economies will emerge stronger than before' (Camdessus, 1997b).



Camdessus's announcements were consistent with the IMF staff's conviction that the crisis originated in 'large prospective fiscal deficits stemming from implicit government guarantees to failing banking systems' (Burnside, Eichenbaum, & Rebelo, 1999, pp. 17–18). This portrayal of the crisis was consistent with the first-generation fundamental and the third-generation moral hazard models of financial crises.

The IMF crisis management strategy was based on its ready-made Extended Credit Facility (ECF) and the Stand-by Credit Facility (SCF). These instruments determined the conditions that recipient states had to fulfil in exchange for liquidity. As Fischer (1998) explained, 'our approach to these tasks is straightforward: it is to encourage all members to pursue sound economic policies and to open their economies to trade and investment.

The IMF used the ECF and the SCF in the cases of Thailand and Indonesia. In August 1997, the IMF approved Stand-by Credit for Thailand of about US\$3.9 billion over 34 months (IMF, 1997a). The payments were spread over five tranches, the last one in December 1998 (IMF, 1998b). The Stand-by Credit arrangement for Indonesia was signed in early November 1997 and it included around US\$10 billion over three years (IMF, 1997b).

The bailout agreements consisted of four elements: (1) provision of credit; (2) macroeconomic consolidation in terms of balanced budgets and high interest rates (a medium-term policy strategy); (3) financial sector reform and (4) structural reforms to promote competitiveness through privatization and liberalization of trade (IMF, 1997a, 1997b; see also Camdessus, 1997b; Fischer, 1998; Radelet & Sachs, 1998). Until December 1997, the IMF was very confident in its strategy. Camdessus (1997a) explained in October that whereas 'risks are significant ... it would be a mistake to conclude that they are insurmountable or to allow them to obscure the benefits of globalization'.

Early the following month, on 4 December, the IMF approved a Stand-by Credit agreement with South Korea. The wording of the agreement was different than that of the previous ones. It did not include the phrase 'medium-term policy strategy' as previous agreements had done, a term that signified fiscal and monetary discipline. Rather, it stated that the 'day-to-day conduct of monetary policy will be guided by movements in the exchange rate and short-term interest rates which will be used as indicators of the tightness of monetary conditions'. Moreover, the 'centerpiece' of the government's programme was a 'comprehensive restructuring and strengthening of the financial system to make it sound, transparent, and more efficient' (IMF, 1997c).

South Korea was the largest and the most developed economy of the infected Asian countries. The Korean GDP in 1996 stood at more than double that of Thailand and Indonesia, and its GDP per capita was more than 10 times higher than that of Indonesia and more than three times higher than that of Thailand.<sup>4</sup> The size of the South Korean economy and its higher level of development made the South Korean case different as it could not be categorized as an inefficient and corrupted economy. In other words, the crisis in Korea could not be explained on the basis of the fundamentalist crisis model.

At the same time, when the IMF approved the Stand-by Credit, the IMF's Policy Development, Review Department, Legal Department and the Treasurer's Department prepared a memo on a new IMF policy instrument: the Supplemental Reserve Facility (SRF) (IMF, 1997d). The new instrument was discussed at the Executive Board later that month in the context of the response to the Korean crisis.

On 15 December, Karin Lissaker, the US representative at the IMF Executive Board, called for a reconsideration of the IMF crisis management strategy. In the past, she argued, the IMF's policies had been designed to deal with 'balance of payments problems centered on macroeconomic imbalances and related structural problems'. The current Asian crises, she argued, 'had their origins in asset deflation arising from a loss of investor confidence, exacerbated by possible contagion effects rather than serious macroeconomic imbalances'. Therefore, Lissaker argued, the

‘problem may be in the private rather than in the public sector’ (IMF, 1997e). She called for the establishment of a ‘special facility’ that could deal with ‘confidence-based financial crises’. The special facility ‘would also provide greater flexibility in designing the terms and conditions specifically appropriate to the unique circumstances of financial crises’ (IMF, 1997e). Lissaker pointed out that the ‘principal beneficiaries [of the special facility] would be emerging market economies with extensive links to international capital markets’ (IMF, 1997f). It seems as if the new facility was tailored to the Korean case.

Two days after Lissaker’s statement, the IMF declared the establishment of the SRF. The facility was designed to address a ‘large short-term financing need resulting from a sudden and disruptive loss of market confidence reflected in pressure in the capital account and the member’s reserves’ (IMF, 1997g). The SRF was not attached to conditionality. Indeed, in order to be eligible for the SRF the infected country had to sign a Stand-by Credit agreement and make a *promise* regarding structural changes, but the SRF was granted *before* a review was carried out by the IMF.

After receiving the SRF tranche on 28 January 1998 the Korean government reached an agreement with foreign debtors regarding a voluntary debt exchange, in which \$24 billion in short-term debt was exchanged to claims with maturities of between one and three years (IMF, 1998a). The SRF contributed to the restoration of market confidence and paved the way to the debt restructuring agreement (Figure 1).

The change was also noticeable in the way the IMF treated the crisis in other countries. In January 1998, the Indonesian Bank Restructuring Agency (IBRA) was established in coordination with the IMF. The Indonesian government announced that it would guarantee banks’ liabilities. At that stage, the IMF allowed the Indonesian monetary authorities to reduce interest rates and to provide liquidity to private banks at interest rates only slightly above the market rate. Rather than using the interest rate as a penalty mechanism, the IBRA employed non-market sanctions on a case-by-case basis in order to address problems of moral hazard (Fane & McLeod, 2002; Harada & Ito, 2005; Pangestu & Habir, 2002, p. 20).

Hence, the evidence is quite conclusive that at the end of 1997 the USA and the IMF changed their approach to the Asian crisis. Although until November 1997 the IMF imposed harsh conditionality, towards 1998 the policy changed and infected countries received credit with more lenient conditions. The new crisis management strategy was less consistent with the

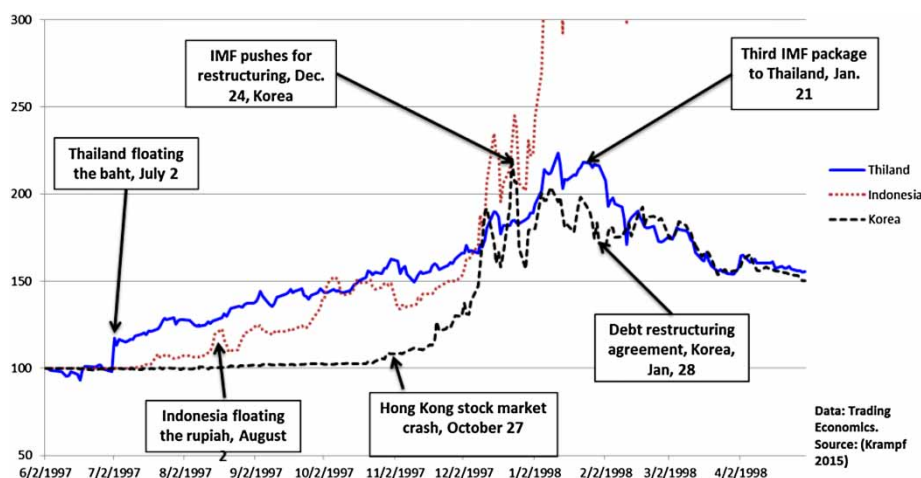


Figure 1. Exchange rates in Thailand, Indonesia and South Korea. (6/1997–1994/1998; 6/1997 = 100).

fundamentalist model and it shifted towards policy instruments that were consistent with the systemic models.

This analysis suggests that the policy change was not accompanied by a deep epistemic change as regards the causes of the crisis. Indeed, the US representative at the IMF argued that the Asian crisis was different but these claims were not based on a new crisis model. It should be noted that the third-generation systemic crisis models were developed only *after* the Asian crisis.<sup>5</sup> Therefore, policy-makers who sought a more lenient crisis management strategy had to experiment, rather than base their policy on a fully fledged theory. The question, therefore, is: what were the political factors that led to the policy change?

## 5.2. *US security interests*

The Asian crisis broke out at a period when the USA was involved in two security issues in the region. First, the US administration was dealing with the ongoing crisis between India and Pakistan, in which Madeleine Albright, the Secretary of State, was highly involved (Albright, 1998b); at the same time, and more importantly for the case under study, the USA was engaged in an attempt to decelerate the arms race between North Korea and South Korea (Cronin, 1998).

Until the end of 1997, US policy-makers kept their silence in respect to the Asian crisis. This changed after the Asia-Pacific Economic Cooperation (APEC) ministerial meeting held in Canada on 21 and 22 November. Less than a month after the convention the IMF Executive Board approved the SRF, after it was promoted by its US director, Lissaker. After this, the Asian crisis became a topic of high politics and of strategic importance for the USA (Cronin, 1998). In February 1998, Albright made an explicit link between the financial crisis and US security interests: 'The stability of the Asia-Pacific region is in our economic and national security interest', and therefore our 'support for the IMF also contributes to the national security of the United States' (Albright, 1998a).

To justify the policy change Albright adopted the terminology of the third-generation systemic crisis model – and this was before third-generation crisis models were formally formulated. Albright shifted the blame for the crisis from governments to the private sector: 'Several years of excessive speculative lending by private companies and financial institutions, partly funded by foreign borrowing, led to unsustainable levels of private debt', she explained. 'Weak financial supervision and poor accounting standards made it hard to measure the full extent of the problem. Industries and banks followed bad lending practices' (Albright, 1998a).

It is hard to determine what the sources of Albright's ideas regarding the crisis were. It is a possibility that she drew on arguments brought forward by the Council of Economic Advisors. Until February 1998 Joseph E. Stiglitz was the Chair and in February Janet Yellen replaced him. In April Yellen argued that 'we cannot afford to be indifferent to the East Asian crisis – because indifference and inaction would undermine our own interests' (Yellen, 1998).

Japan, the most senior major non-North Atlantic Treaty Organization ally of the USA in the region, also put pressure on the USA and the IMF to change their crisis management strategy. Due to its financial linkages with the other infected economies, Japan had a strong incentive to restore market confidence in the region (see Krapohl, 2015). As the IMF was slow to react to the crisis and conditionality clauses were perceived to be too harsh, Japan promoted the idea of an Asian Monetary Fund (AMF). The Japanese Minister of Finance made public his proposal at the G7 meeting in Hong Kong on 20 September 1997. This proposal alarmed both the USA and the IMF. The USA interpreted the proposal as a threat to US interests in the region and Camdessus feared that it would undermine the institution's global credibility (see Grimes, 2015).

The tension between Japan and the USA reached its climax at the APEC summit in Manila on 27 November. The proposal regarding an AMF enjoyed the support of the Association of

Southeast Asian Nations (ASEAN) countries, but the USA was determined to block it. The pressure of the USA was effective and Japan conceded and accepted the much more conservative ‘Manila Framework’ (Grimes, 2011; Lipsky, 2003; Schaede & Grimes, 2002, p. 59). It is difficult to determine why Japan conceded and gave up its proposal. Grimes (2015) argues that the regional leaders – Japan and China – preferred the IMF to be involved because it had better capacities to impose conditionality. The analysis presented here suggests that the Japanese concessions were made after the USA and the IMF changed the crisis management strategy.

### 5.3. US stability interests

A change in the response to the Asian crisis can also be explained on the basis of the financial exposure of the developed countries to the infected countries. As long as the crisis hit relatively small economies that were not linked to global markets, the crisis was not the primary concern of the USA, the G7 and the IMF. When it spilled over to Korea, the perception of risk changed.

The USA had relatively small exposure to Asian economies, but this exposure was not negligible. Its exposure to Korea was twice as large as its exposure to Thailand and Indonesia. The EU, however, was highly exposed to the Korean economy (around 40%) and its exposure to Thailand and Indonesia was around 5% each. Japan, on the other hand, was highly exposed to all the three Asian infected economies. Its exposure to Thailand was more than 25% (Table 1).

This pattern of exposure may explain two things: first, why the IMF changed strategy when the crisis hit Korea; and second, the conflict between Japan and the USA over the IMF crisis management strategy – Japan was highly exposed to the crisis from the beginning, whereas the USA and the other G7 countries were only exposed after it hit Korea.

Indeed, the concern of the G7 regarding a global crisis escalated towards the end of 1997. In the earlier stages of the crisis (September), the G7 finance ministers still expressed ‘satisfaction with international efforts to assist Thailand’ (G7, 1997a). Three months later, the G7 finance ministers and central bankers convened a special meeting ‘on the Korean Situation’, in which they endorsed the new strategy (G7, 1997b). In December, the World Economic Outlook (WEO, 1997) published a report containing the grim prediction that ‘the crisis of confidence may persist and continue to spread to other emerging market countries’ (p. 1). The report specified as an alarming turning point the spillover of the crisis from the small ASEAN-4 economies to Hong Kong and South Korea in mid-October 1997 (WEO, 1997).

The analysis of the response to the Asian crisis demonstrates several points: first, the crisis management strategy changed from harsh conditionality to a more lenient approach based on last-resort credit. Second, this change was associated with a change in the interpretation of the crisis: the crisis was now explained on the basis of lack of market confidence and systemic factors, rather than on the basis of bad fundamentals; however, this interpretation was presented mainly by US policy-makers rather than by IMF economists. Third, the USA had both economic

Table 1. Exposure of the USA, EU and Japanese banks to infected Asian countries (liabilities as a percent of Lender’s total liabilities, as of June 1997).

	USA (%)	EU	Japan
Thailand	3.51	4.53	25.40
Indonesia	4.04	5.15	15.58
South Korea	8.75	38.77	15.97

Source: Kaminsky & Reinhart (2001, p. 82; Table 3.3).

and non-economic reasons to change the crisis management strategy when it reached South Korea: Korea was a key ally of the USA and the Korean economy was also highly interlinked with the G7 economies.

However, the US policy-makers changed strategy without having an alternative crisis model to the IMF fundamentalist crisis models. The systemic crisis models were developed only after the Asian crisis and on the basis of lessons learned from that crisis. Therefore, I argue that this policy change was a case of policy experimentation that was driven by interests rather than a process of learning driven by ideas and persuasion.

## 6. Constructing the response to the eurozone crisis

### 6.1. *Germany's interests and the bailout agreements*

In the earlier stages of the eurozone crisis the EU members, led by Germany, adopted a conventional crisis management strategy that emulated the standard IMF approach. This strategy was consistent with the German pre-crisis preference, which prioritized fiscal discipline and liberalization in the EU peripheral countries in the context of the Single Market (Moravcsik, 1998).

The key instruments by which European creditor countries treated the crisis were the bailout agreements – the Memoranda of Understanding (MoUs). The MoUs were extra EMU agreement-like arrangements between the infected countries and the creditor countries. The first MoU with Greece contained four elements: fiscal reforms, which included fiscal targets and privatization; social welfare reform, which included reforming the pension, health and education systems; financial sector reforms, which included general recommendations for improved regulation and supervision and labour market reform to enhance competition (MoU Greece, 2011). In exchange, the Greek government received a liquidity package of €80 billion, to be distributed during a three-year period. The loans were provided by the member states and were pooled by the European Commission. In addition, the IMF contributed only €30 billion under the Stand-by Arrangement, the same instrument that was activated in the Asian crisis (EC, 2013).

Following the Greek crisis, eurozone governments negotiated the establishment of a more durable liquidity fund. The Eurogroup established the European Financial Stability Facility (EFSF), which had the capacity to guarantee up to €440 billion, raised from financial markets and supported by guarantees of eurozone governments. In addition, the European Financial Stabilization Mechanism provided an additional €60 billion from the Commission's budget.

The conditionality attached to the Irish and Portuguese bailouts followed more or less the same pattern as in the Greek case. The bailout package was provided in exchange for reforms in three areas: fiscal consolidation, industrial relations and reform in the financial sector (EU/IMF/Ireland, 2010). Up to that point, Portugal received the biggest package: €78 billion for three years from the EFSF, the European System of Financial Supervisors (ESFS) and the IMF. With regard to Portugal, the adjustment programme included, as in the case of Greece, explicit directives regarding cuts in social protection expenditure and the restructuring of the pension system, the health system and the education system (MoU Portugal, Sections 1.7–1.17).

The first change in the conditionality terms took place in the second Greek bailout. Following the Eurogroup summit of July 2011 the Commission stated that the second Greek bailout 'will be designed, notably through lower interest rates and extended maturities, to decisively improve the debt sustainability and refinancing profile of Greece' (MoU Greece, 2011). On the same occasion, the heads of state agreed to increase the flexibility of the EFSF by allowing it to act 'on the basis of a precautionary programme', to 'finance recapitalization of financial institutions through loans' and to 'intervene in the secondary markets' (Council, 2011).

A more decisive change in the crisis management strategy took place a year later, in the Eurogroup summit of June 2012, when the Spanish bailout agreement was negotiated. The Chancellor,

Angela Merkel, made four key concessions in that summit: (1) the role of the IMF in negotiating and monitoring of the bailout agreements was minimized, which meant that the agreements with the infected countries did not have to follow the standard Stand-by Arrangements; (2) conditionality terms were omitted from the Spanish agreement; (3) the European Stability Mechanism (ESM) – which had become operative at that stage – was allowed to recapitalize private banks directly, rather than through the mediation of governments and (4) the ECB, as the agent of the ESM, was allowed to purchase sovereign bonds in primary and secondary markets (EC, 2012).

Spain signed an agreement on 9 July 2012. The agreement stated that the Eurogroup would channel €100 billion for the recapitalization of banks through the *Fondo de Reestructuración Ordenada Bancaria* (Fund for Orderly Bank Restructuring). This implied that the Spanish government was not required to make any commitment in exchange for this amount. In addition, the agreement required the establishment of the Asset Management Company, in order to carry out the implementation of the agreement (MoU Spain, 2012). The Spanish adjustment programme did not include any fiscal consolidation requirement, or tax reform, social protection reforms or labour market reforms. The plan was based on a specific bank-by-bank test, which determined which bank would be closed and which would be recapitalized.

The wording of the agreement suggested that the crisis was systemic rather than domestic: ‘the global financial and economic crisis exposed weaknesses in the growth pattern of the Spanish economy’ (MoU Spain, 2012). The memorandum stated that the ‘main objective of the financial sector programme in Spain is to increase the long-term resilience of the banking sector as a whole, thus, restoring its market access’ (EC, 2012).

The survey of the MoUs shows that Germany made concessions regarding the bailout conditionality. Although the first three bailouts were based on the strategy of harsh conditionality, the second Greek bailout, and more significantly the Spanish bailout, included more lenient conditions and they were more consistent with the systemic crisis model. The question is: what made Germany change its position?

## 6.2. ECB policy

The ECB played two complementary roles in the crisis: it affected the EU countries’ policy through normative power and persuasion and it used its own powers to address the crisis. In this section, I focus on the second role.

The most important policy instrument used by the ECB during the crisis was the Long-Term Refinancing Operation (LTRO). Immediately after Mario Draghi entered office in November 2011, the ECB announced the ‘Big Bazooka’. The scope of the LTRO made it by far the most intensive instrument used by the ECB until that point. By March 2012, the scope of the LTRO was estimated to be around €1 trillion (Atkins, 2012).

The LTRO is a refinancing instrument, in which the ECB provided loans to credit institutions for three years at an annual rate of 1%, in exchange for collateral. The collateral included bad assets held by private banks and sovereign bonds. Therefore, by employing the LTRO the ECB indirectly recapitalized banks and signalled to markets that it was willing to use its resources to stabilize weak banking systems. Moreover, the LTRO had indirect fiscal implications as it absorbed sovereign bonds and brought the long-term rates down (Praet, 2012).

The LTRO provided last-resort liquidity to banks, and indirectly to governments. In that sense, it was more consistent with the recommendation of the third-generation systemic crisis model than with the fundamentalist models. It is hard to determine to what extent German policy-makers were supportive of the ECB policy. We know that the Bundesbank was very critical of the ECB non-standard measures, but Merkel and Schäuble were silent about it. One may



argue that the German government was happy that the ECB ‘saved the eurozone’, while Germany could maintain its initial position regarding harsh conditionality and thus satisfy domestic constituencies.

However, the inconsistency between the German and the ECB policies intensified as the crisis deepened. A clash was unavoidable. During the preparations for the summit of June 2012 the ECB, with the support of the Commission and some other heads of states, put pressure on Germany to change the bailout policy.

On that occasion, Merkel succumbed and agreed to provide liquidity from the ESFS and the ESM directly to Spanish banks, without any direct conditionality being imposed on the Spanish government. Moreover, the ECB was granted the power to purchase sovereign bonds ‘unlimitedly’ in the secondary market in the context of the Outright Monetary Transactions programme (Draghi & Constâncio, 2012). The powers relegated to the ECB made Draghi’s statement from 25 July 2012 that the ECB ‘was ready to do what it takes’ to save the eurozone more credible.

### 6.3. *Learning from the Asian crisis*

The clash between the ECB and Germany was a simple conflict of interests. It was a clash between two institutions that operated at different levels of governance. Germany obviously defended its own interests, and the ECB conceived of itself as defending the collective interests of the eurozone. At the same time, each of the two adopted a different set of ideas to legitimize its position.

Germany explained the crises in the European periphery by employing a fundamentalist interpretation. Axel Weber, the president of the Bundesbank (until April 2011), explained that the crises in the European periphery were caused by ‘domestic factors within the deficit countries’. Therefore, he argued, ‘it is mainly incumbent on them to act’ (Weber, 2010). According to Andreas Dombert of the Bundesbank’s Executive Board, the crises should be resolved by imposing ‘credible consolidation of public finances’ and ‘improvements in economic governance in EMU that ensure prudent fiscal policies in the medium to long run’ (Dombert, 2011). This view was supported by Wolfgang Schäuble, the German Minister of Finance, who argued repeatedly that the causes of the crises were domestic: ‘It’s more important to combat the real causes for the crisis ... high deficits’ (EUBusiness, 2011).

The ECB, on the other hand, interpreted the crisis as a systemic event. Already Trichet argued that the crisis should be addressed by ‘supra-national institutions and laws as well as the international relations between countries that have an effect on cross-border economic and financial transactions’ (Trichet, 2010a). After Draghi entered office, the systemic terminology became more pronounced in public speeches of the Governing Council members (Cœuré, 2012; Draghi, 2012; Praet, 2012).

In comparison to the discourse of the IMF staff during the Asian crisis, it is striking that ECB economists adopted the systemic interpretation of the crisis. This difference is even more striking given the fact that the ECB was considered an offspring of the Bundesbank, which persistently advocated the fundamentalist interpretation of the crisis. What, then, were the sources of the ECB perceptions of the crisis? Tracing the ideas advocated by the ECB back to their origins, it is possible to identify the transmission path that led from the Asian crisis to the policies of the ECB.

Following the Asian crisis the G7 finance ministers and central bank governors established the Financial Stability Forum (FSF, later to become the FSB) in 1999. Andrew Crockett, who was also the General Manager of the BIS, chaired the forum. Crockett used his two chairs to promote a new approach of global financial governance to achieve global financial stability. In his article *Marrying the micro- and macro-prudential dimensions of financial stability* he



argued that the objective of ‘macro-prudential’ policies is ‘limiting the likelihood of the failure, and corresponding costs, of significant portions of the financial system’. He added that this is ‘often loosely referred to as limiting “systemic risk”’ (Crockett, 2000). Crockett promoted this new approach during the early 2000s but it did not attract much attention (Baker, 2013).

It was one year prior to the outbreak of the sub-prime crisis that a report published by the BIS warned that capital flows and current account imbalances ‘can have potentially serious implications for the macro-economy and financial stability to the extent that they unwind in a disruptive way’ (Borio & Shim, 2007, p. 1). The authors called for a shift from a focus on the stability of individual financial institutions to a focus on the stability of the ‘system as a whole’. They also called for central bankers and regulators to address ‘the risk of excessive pro-cyclicality in the financial system’, and for the use of macro-prudential policies ‘paying special attention to the link between the macro-economy and the financial sector’ (Borio & Shim, 2007, p. 6).

Until 2008 these warnings did not reach the ears of policy-makers and the broader community of financial regulators. It was only after the sub-prime crisis that the global technocracy showed an interest in the BIS new agenda for financial regulation. Following the sub-prime crisis the Group of 30, comprising top policy-makers, including former central bankers and finance ministers, published a report titled *The structure of financial supervision: Approaches and challenges in a global marketplace*, in which they advocated a more integrated approach to financial regulation (G30, 2008). The report adopted the argumentation of the systemic school regarding the causes of financial instability, arguing that the key cause of financial instability is the loss of market confidence: ‘That confidence, taken for granted in well-functioning financial systems, has been lost in the present crisis, in substantial part due to its recent complexity and opacity’ (G30, 2009, p. 13).

As the global crisis spread, the new agenda attracted more and more supporters. In the London summit of April 2009, the G20 decided to reestablish the FSF ‘with stronger institutional basis and enhanced capacity’. On that occasion the G20 appointed Mario Draghi to chair the institution, which was renamed the FSB. The group instructed the FSB to:

collaborate with the IMF to conduct Early Warning Exercises to identify and report to the IMFC [International Monetary and Financial Committee, AK] and the G20 Finance Ministers and Central Bank Governors on the build up of macroeconomic and financial risks and the actions needed to address them. (G20, 2009)

The European Commission also became interested in the new agenda more than a year before the eurozone crisis actually hit Greece. In November 2008, José Manuel Barroso appointed Jacques de Larosière, who was a member of the Group of 30, to chair the Independent High-Level Group on Financial Supervision, with the aim of ‘establishing a more efficient, integrated and sustainable European system of supervision and also of reinforcing cooperation between European supervisors and their international counterparts’ (EC, 2008).

The report produced by de Larosière’s Group set out a ‘new regulatory agenda’ and it was very critical of the current European regulatory norms. It asserted that the Basel I framework ‘did not cater adequately for, and in fact encouraged, pushing risk taking off balance-sheets’ (De Larosière, 2009, p. 9). The problem was that supervisors focused on ‘micro-prudential supervision of individual financial institutions and not sufficiently on the macro-systemic risks of a contagion of correlated horizontal shocks’ (De Larosière, 2009, p. 10). Indeed, the report did not deny that governments’ deficits and debts and moral hazard problems contributed to instability, but the blame was shifted from governments to banking institutions and regulators. In that sense, the report represents a milestone in what can be understood as a social learning process: the adoption of new ideas which was not driven by short-term and immediate interests of states or private actors.

However, expressing new ideas alone is not enough for them to result in outcomes. Ideas result in outcomes when they are institutionalized and embedded in institutions. Following the publication of the de Larosi re report, the ECB established the Macro-prudential Research Network (Trichet, 2010b). The Network was a vast project that included hundreds of economists employed by the ECB in order to translate the macro-prudential approach into concrete policy instruments (Krampf, 2014). In the ECB report on the first two years of the Network, the ECB declared that the eurozone crisis occurred due to ‘financial agents (“banks”) losing confidence in other financial agents (“banks”) to whom they lend’. This is caused by ‘widespread endogenous imbalances’ (ECB, 2012, p. 16).

Hence, by the time the crisis reached its climax in 2012, the Macro-prudential Research Network had been already quite developed and the new agenda of financial regulation was institutionalized within the ECB. This conclusion is central to the argument of this paper, because it supports the hypothesis that for the policy change in the eurozone case ideas did not only legitimize pre-determined interests, but rather a process of social learning took place.

#### 6.4. *Germany re-calculating interests?*

The role played by ideas in the eurozone case does not imply that interests were not involved. It implies that key actors re-calculated their interests amid internalization of new ideational frameworks. The confrontation between Berlin and Brussels escalated in the year between the Eurogroup summit of July 2011 and the summit of June 2012. During that year the crisis deepened and spread. The Greek and Portuguese long-term interest rates rose above 20% and 10%, respectively, and the Italian and Spanish rates above 5%. Draghi, who was appointed president at the end of 2011, after heading the FSB for four years, brought a new spirit to the institution.

Draghi was much more active than his predecessor in the public ring and he was not shy about discrediting the German approach to the crisis. He asserted that the German vision of the EFSF and the ESM was deficient, and that these facilities were too small. According to his view these facilities should have been turned into flexible policy instruments that could be activated as precautionary measures (Draghi, 2012). The ECB sought to transform the ESM into a Lender of last Resort by broadening its powers to ‘intervene in secondary government bond markets in order to effectively combat contagion in situations of acute market instability’ (ECB, 2011, p. 77). The ECB attacks undermined the legitimacy of the German position, and they presented Germany as a leader that prioritized its own interests rather than the interests of the eurozone.

Germany faced pressure not only from the European technocracy but also from the global technocracy. By 2011 the new financial regulatory approach had become commonplace among the community of financial experts. Although the IMF supported the German insistence on fiscal consolidation, it argued that the EMU needed ‘to boost confidence’. This included ‘accommodative monetary policy for an extended period’ and ‘recapitalizing weak banks – including through direct support from the EFSF and ESM resources – to address the adverse feedback loop between sovereign and banking stress at the national level’ (IMF, 2012).

A change in the German discourse regarding the crisis can be identified after the June 2012 summit. Merkel, who had to justify its concessions, argued that ‘we have to restore confidence in the Euro as a whole, so that the international markets have confidence that member countries will fulfill their commitments’ (British Broadcasting Company, 2012).

Merkel was not the only German policy-maker that changed her tone after the summit of 2012. Wolfgang Sch uble, the German Minister of Finance, who was among the advocates of the fundamentalist school in the German political elite, softened his public statements. In March, Sch uble still emphasized Greece’s ‘high levels of indebtedness, high deficits, high public debt, inadequate growth figures and a lack of competitiveness’. The purpose of the

bailout and the ESM, according to Schäuble, was mainly to prevent a situation in which ‘one country with a share of two per cent of the eurozone’s total economic output [could] endanger the stability of the eurozone as a whole’ (Schäuble, 2012a). At that period Schäuble’s public speeches addressed the European and international community, and they were designed to discredit the Greek government and to impose pressure on it to implement ‘strong fiscal and structural adjustments’ (Wall Street Journal, 2012).

Around June 2012 Schäuble changed his framing of the crisis. In an interview to the *Handelsblatt* in early June he explained that ‘We stand by the euro because we are confident that this is the best route for Germany and Europe too.’ A change in policy, he explained, was needed because of ‘growing global interconnectedness and increasing international competition’ (Schäuble, 2012c). In a speech for ESCP business school in September he fully internalized the systemic school vocabulary, arguing that since 2008 ‘we are seeing a situation in which financial markets are increasingly uncertain’. The main problem in Europe, he continued, was that ‘people and investors lose confidence in Europe’ as they ‘do not understand why decisions in Europe take so long’ (Schäuble, 2012b).

Not all German policy-makers changed their views. The Bundesbank stood fast to the fundamentalist interpretation. Jens Weidmann continued to oppose the ECB’s policies even after June 2012 and he held fast to the fundamentalist interpretation of the crisis, including the crisis in Spain (Steen, 2012).

The analysis shows that the German concessions in June 2012 were followed by a change of language: the German policy-makers adopted the systemic framing of the crisis. This may suggest that a process of social learning took place, in which Germany updated its preferences amid an internationalization of a new set of causal beliefs. However, this is only part of the story. It may also be the case that Germany re-calculated its interest amid the development of the crisis.

### 6.5. German stability interests

Towards the summer of 2012 it was established that the long-term interest rates of Spain and Italy had risen in the last quarter of 2011 (Figure 2). The spillover of the crisis to Spain and its potential spillover to Italy put Germany and France, the two largest European economies, at great risk. The exposure of German banks to Spanish and Italian banks combined was 10%, in comparison to 5.6% exposure to Greece, Ireland and Portugal combined. The French case was more critical:

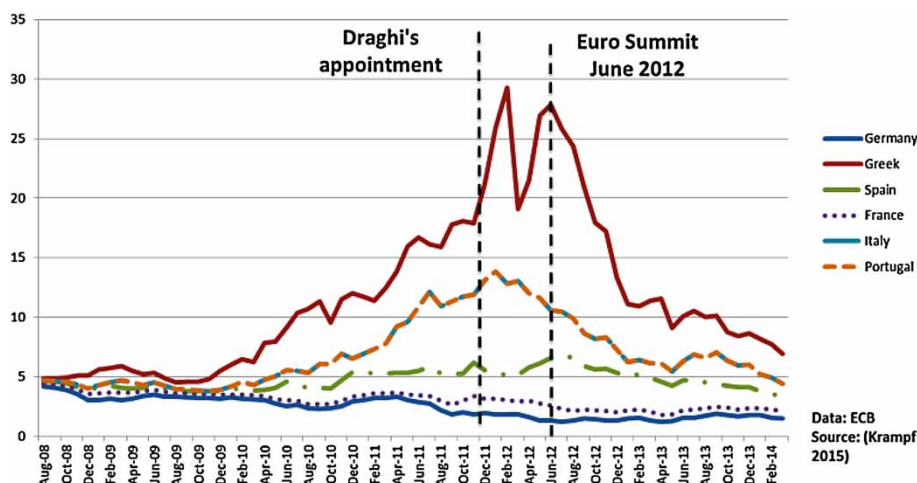


Figure 2. Long-term interest rates: selected EU countries (2008–2013).

Table 2. Exposure of German, French and UK banks to the European peripheral economies (2012 Q1).

Country	Germany		France		UK	
	US\$ m	(%)	US\$ m	(%)	US\$ m	(%)
Greece	26.6	1.1	36.7	1.2	8.9	0.2
Ireland	93.8	3.5	37.2	1.2	144.6	3.4
Italy	133.5	4.9	346.6	11.5	57.8	1.3
Portugal	27.2	1.0	20.3	0.7	19.8	0.5
Spain	139.9	5.2	127.9	4.3	86.4	2.0
All countries	2706.7	100.0	3007.6	100.0	4284.1	100.0

Note: The BIS-consolidated banking statistics on an immediate borrower basis (CIBL\_IB) track consolidated foreign claims of banks headquartered in individual reporting countries and for the reporting area as a whole. The data are from the creditor's perspective, and thus can be used to track the foreign exposure of banking systems to countries and sectors on an immediate borrower basis.

Source: BIS statistics.

more than 15% of the foreign exposure of French banks was to Italy and Spain combined, in comparison to 4.1% to Greece, Ireland and Portugal combined (Table 2).

According to this pattern of exposure the contagion of Spain was a game-changer from the German perspective. Until the Spanish crisis Germany operated according to the working hypothesis that the EMU organizations could build a 'firewall' between the inflected countries and the eurozone. However, the Spanish financial system was intensively linked with key eurozone economies and therefore the 'firewall' assumption did not hold.

Therefore, it is probable that the spillover of the crisis to Spain led to a re-calculation of German preferences. The contagion of Spain contributed to the concerns of Germany regarding a collapse of the eurozone's banking system. Given these developments Germany was more concerned about the scenario of a break-up of the eurozone than about the moral hazard problem.

It may be argued that the change of the German position can be either explained on the basis of the persuasiveness of the ideas promoted by the ECB or by an increased fear of regional contagion. But this either/or approach misses the essential point that the two mechanisms were linked: as German policy-makers were persuaded that the crisis was systemic, the perceived risk of a eurozone break-up increased too; at the same time, as Germany was more concerned about its own banking system it had an incentive to adopt the systemic interpretation in order to legitimize the policy change. In that sense, we may argue that in this case ideas and interests were mutually constitutive.

## 7. Conclusion

When donor countries and IFIs respond to financial crises in a peripheral country they take into account both prevailing ideas regarding causes of crises and their solutions as well as their own interests. In this article I sought to understand how ideas and interests interact.

The point of departure of the article was that ideas and interests are mutually constitutive but they may constitute each other in two different ways. In some cases, economic ideas are used to legitimize pre-determined interests, whereas in other cases ideas shape preferences through persuasion. In this article I examined the interaction of ideas and interests in the consolidation of international responses to the Asian and eurozone crises.

The analysis of the response to the Asian case showed that indeed the policy shift of the US and the IMF was driven primarily by the interests of the USA: its security interests in the region and the fear of contagion. This change was driven by US policy-makers rather than by the IMF

technocracy. The policy change was legitimized by arguments made by US policy-makers that the Asian crisis was ‘different’ and that it originated in systemic factors. However, this argument was not based on a fully fledged systemic crisis model. Therefore, in this case the US interests were the key driver change rather than policy ideas promoted by economists.

In the eurozone case the process was different. The eurozone did not have a full-fledged formal mechanism to deal with the crisis (Braun, 2013; Krampf, 2014). However, this article shows that during the period from 2008 and until the Greek crisis the ECB prepared itself for this kind of scenario. The preparedness of the ECB was based on lessons learned from the Asian crisis. These lessons led to the consolidation of the macro-prudential agenda by the BIS and the FSB. The ECB, which institutionalized the macro-prudential approach, had the capacity to discredit the German position on the basis of the alternative interpretation of the crisis.

Hence, the change in the European crisis management strategy could not be explained if we do not recognize the mutual constitution of ideas and interests: it is impossible to explain the shift in the German position in June 2012 by either power or persuasion alone. It was a case in which ideas and power were deeply interlinked.

The reason for this mutual constitution is that the preferences of Germany depended on the type of ideas they employed to interpret the crisis: if the crisis was framed as a domestic event, then it was reasonable for Germany to insist on a strategy of harsh conditionality; however, if German policy-makers were persuaded that the crisis was systemic, then they had to update their position amid growing perceived risk of contagion.

Hence, the article highlights the fact that responses to crisis do not depend only on material factors but also ideational factors. The crisis causes not only economic uncertainty but also epistemic uncertainty in the sense that the epistemic community of economists and policy-makers does not have one agreed way to frame the economic reality. Therefore, in this case debates regarding best policies involve also ideational debates regarding the best way to frame the economic reality. In these cases, experts and technocrats have a significant capacity to shape outcome through the process of persuasion.

The article also presents a quite optimistic view regarding the capacity of the international community to learn. The analysis leads to the conclusion that the international community has a capacity to learn from past experience and that progress actually takes place. This conclusion is not as trivial as it might sound. This conclusion implies that institutions such as the G20, the Group of 30, the BIS and the FSB were quite effective in drawing lessons from the Asian crisis and in transmitting them across space and time. Moreover, the article also showed that policy innovation does not only take place within the global technocracy, but that in some cases it is the policy-makers – the heads of states and ministers – who are playing the role of creative ideational entrepreneurs.

However, this optimism has to be qualified. Learning would probably not take place unless it is in the interest of a dominant actor. Indeed, in some cases dominant actors can be persuaded, within limits, to change their position and behaviour. Hence, perhaps the unsurprising conclusion is that an effective response to a policy problem can take place only when good ideas meet the right powerful actor.

## Acknowledgements

I would like to thank the participants in the three-workshop series *The Financial Crises in Comparative Regional Perspective: Can Europe Learn from Other Regions?*, which was hosted by the KFG ‘The Transformative Power of Europe’ at the Freie Universität Berlin for their instructive and insightful comments (in alphabetical order): Benjamin J. Cohen, Barbara Fritz, William W. Grimes, Sebastian Krapohl, Laurissa Mühlich, Sonja Puntischer Riekmann, and Doris Wydra.

## Disclosure statement

No potential conflict of interest was reported by the author.

## Notes

1. I refer here only to countries that applied for and received financial support from external actors.
2. For literature surveys of the Asian and eurozone crises see Claessens and Kose (2013) and Pesenti and Tille (2000).
3. Goldstein and Turner (2004), for example, argue that currency mismatch originates in “past and present weaknesses in economic policies and institutions in emerging markets themselves, rather than the imperfections of international financial markets” (p. 2).
4. The GDP of Korea, Thailand and Indonesia was \$516 billion, \$182 billion and \$227 billion, respectively, and the GDP per capita was \$12,250, \$3019 and \$1124, respectively (World Bank Database).
5. Except for the article by Eichengreen, Rose, and Wyplosz (1996), in which the authors warned against the risk of contagion, all other third-generation systemic models were devised after the Asian crisis and on the basis of the Asian experience.

## References

- Abdelal, R., Blyth, M., & Parsons, C. (2010). Introduction: Constructing the international economy. In R. Abdelal, M. Blyth, & C. Parsons (Eds.), *Constructing the international economy* (pp. 1–19). Ithaca, NY: Cornell University Press.
- Albright, M. K. (1998a). *Op-Ed 'the economic crisis in Asia' for Diario Las Americas, Miami, Florida*. U.S. State Department of State Archive. Retrieved from <http://1997–2001.state.gov/www/statements/1998/980201b.html>
- Albright, M. K. (1998b). *Albright Newscon on South Asia*. Retrieved from <http://1997–2001.state.gov/www/statements/1998/980604.html>
- Atkins, R. (2012, March 13). Bundesbank steps up pressure on Draghi. *Financial times*. Retrieved from [www.ft.com](http://www.ft.com)
- Baker, A. (2013). The gradual transformation? The incremental dynamics of macroprudential regulation. *Regulation & Governance*, 7(4), 417–434. doi:10.1111/rego.12022
- Beeson, M., & Broome, A. (2010). Hegemonic instability and East Asia: Contradictions, crises and US power. *Globalizations*, 7(4), 507–523.
- Blyth, M. (2012). Paradigms and paradox: The politics of economic ideas in two moments of crisis. *Governance*, 26(2), 197–215.
- Borio, C., & Shim, I. (2007). *What can (macro-) prudential policy do to support monetary policy?* (Working Paper No. 242). Retrieved from the BIS' website: <http://www.bis.org/publ/work242.htm>
- Braun, B. (2013). Preparedness, crisis management and policy change: The Euro area at the critical juncture of 2008–2013. *The British Journal of Politics & International Relations*. Advance online publication. British Broadcasting Company. (2012, September 6). ECB's Mario Draghi unveils bond-buying Euro debt plan. *BBC News Business*. Retrieved from [www.bbc.co.uk](http://www.bbc.co.uk)
- Burnside, C., Eichenbaum, M., & Rebelo, S. (1999). What caused the recent Asian currency crisis? In W. C. Hunter, G. G. Kaufman, & T. H. Krueger (Eds.), *The Asian financial crisis: Origins, implications and solutions* (pp. 17–26). Boston, MA: Springer.
- Camdessus, M. (1997a, October). *The Asian financial crisis and the opportunities of globalization*. Address at the Second Committee of the United Nations General Assembly, New York.
- Camdessus, M. (1997b, November). *The Asian crisis and the international response*. Address at the Institute of Advanced Business Studies (IESE) of the University of Navarra, Barcelona.
- Campbell, J. L. (1998). Institutional analysis and the role of ideas in political economy. *Theory and Society*, 27(3), 377–409.
- Campbell, J. L. (2002). Ideas, politics, and public policy. *Annual Review of Sociology*, 28, 21–38.
- Claessens, S., & Kose, M. A. (2013). *Financial crises explanations, types, and implications* (Working Paper WP/13/28). Retrieved from the IMF's website: <http://www.imf.org/external/pubs/ft/wp/2013/wp1328.pdf>
- Cœuré, B. (2012, February). *Global liquidity and risk Appetite: A re-interpretation of the recent crises*. Speech at the BIS-ECB Workshop on Global Liquidity and Its International Repercussions, Frankfurt.



- Council. 2011. *Statement by the heads of state of government of the Euro area and EU institutions*. Council of the European Union. Retrieved from [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/123978.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/123978.pdf)
- Crockett, A. (2000, September). *Marrying the micro-and macro-prudential dimensions of financial stability*. Speech hold at the BIS, Basel.
- Cronin, R. P. (1998, January 28). *Asian financial crisis: An analysis of U.S. foreign policy interests and options* (CRS Report for Congress). Washington, DC: Federation of American Scientists.
- De Larosière, J. (2009, February). Speech hold at the high level expert group on EU financial supervision in the EU, Brussels.
- Dombert, A. (2011). *Securing financial stability: The contribution of economic policy*. Speech at the New Year's reception of Deutsches Aktieninstitut. Brussels: Deutsche Bundesbank.
- Dooley, M. (1997). *A model of crises in emerging markets* (Working Paper No. 6300). Retrieved at the NBER's website: <http://www.nber.org/papers/w6300>
- Draghi, M. (2012, March). *Competitiveness of the Euro area and within the Euro area*. Speech at the Colloquium Les Défis de La Compétitivité, Paris.
- Draghi, M., & Constâncio, V. (2012). *Introductory statement to the press conference*. Frankfurt am Main: European Central Bank.
- EC. (2008). *High level expert group on EU financial supervision to hold first meeting on 12 November*. IP/08/1679. European Commission. Retrieved from [www.ec.europa.eu](http://www.ec.europa.eu)
- EC. (2012). *Financial assistance programme for the recapitalisation of financial institutions in Spain*. European Commission. Retrieved from [www.ec.europa.eu](http://www.ec.europa.eu)
- EC. (2013). *Financial assistance to Greece*. European Commission. Retrieved from [http://ec.europa.eu/economy\\_finance/assistance\\_eu\\_ms/greek\\_loan\\_facility](http://ec.europa.eu/economy_finance/assistance_eu_ms/greek_loan_facility)
- ECB. (2011, July). The European stability mechanism. *ECB Monthly Bulletin*, 71–84.
- ECB. (2012). *Report on the first two years of the macro-prudential research network*. European Central Bank. Retrieved from [www.ecb.europa.eu](http://www.ecb.europa.eu)
- Eichengreen, B., & Hausmann, R. (1999). *Exchange rates and financial fragility* (Working Paper No. 7418). Retrieved from the NBER's website: <http://www.nber.org/papers/w7418>
- Eichengreen, B., Hausmann, R., & Panizza, U. (2007). Currency mismatches, debt intolerance, and the original Sin: Why they are not the same and why it matters. In S. Edwards (Ed.), *Capital controls and capital flows in emerging economics: Policies, practices and consequences* (pp. 121–169). Chicago, IL: University of Chicago Press.
- Eichengreen, B., Rose, A. K., & Wyplosz, C. (1996). *Contagious currency crises* (Working Paper No. 5681). Retrieved from the NBER's website: <http://www.nber.org/papers/w5681>
- EUbusiness. (2011, September 23). High deficits the top crisis priority: Schäuble. *EUbusiness*. Retrieved from <http://www.eubusiness.com/news-eu/imf-worldbank.cew>
- EU/IMF/Ireland. (2010). EU/IMF programme of financial support for Ireland. Retrieved from <http://www.finance.gov.ie/documents/publications/reports/2011/euimfrevised.pdf>
- Fane, G., & McLeod, R. H. (2002). Banking collapse and restructuring in Indonesia, 1997–2001. *Cato Journal*, 22(2), 277–295.
- Fischer, S. (1998, January 22). *The Asian crisis: A view from the IMF*. Paper presented at the midwinter conference of the bankers' association for foreign trade, Washington, DC.
- Flood, R. P., & Garber, P. M. (1984). Collapsing exchange-rate regimes. *Journal of International Economics*, 17, 1–13.
- Flood, R. P., & Marion, N. (1997). *Policy implication of second generation crisis models* (Working Paper WP/97/16). Retrieved from the IMF's website: <http://www.imf.org/external/pubs/ft/wp/wp9716.pdf>
- G7. (1997a). Statement of G7 finance ministers and central bank governors, Hong Kong. Retrieved from <http://www.g8.utoronto.ca/finance/fm970920.htm>
- G7. (1997b). *G-7 statement on Korean situation, finance ministers' meeting*. Group of seven. Retrieved from [http://www.g8.utoronto.ca/finance/fin\\_dec2497.htm](http://www.g8.utoronto.ca/finance/fin_dec2497.htm)
- G20. (2009). Statement issued by the G20 leaders: London Declaration on Strengthening the Financial System. Retrieved from <http://www.g20.utoronto.ca/2009/2009ifi.html>
- G30. (2008). *The structure of financial supervision: Approaches and challenges in a global marketplace*. Washington, DC: Group of Thirty.
- G30. (2009). *Financial reform: A framework for financial stability*. Washington, DC: Group of Thirty.
- Goldstein, M., & Turner, P. (2004). *Controlling currency mismatches in emerging markets*. Washington, DC: Peterson Institute for International Economics.



- Grimes, W. W. (2011). The Asian monetary fund reborn? Implications of Chiang Mai initiative multilateralization. *Asia Policy*, 11(1), 79–104.
- Grimes, W. W. (2015). East Asian financial regionalism: Why economic enhancements undermine political sustainability. *Contemporary Politics*, 21(2). doi:10.1080/13569775.2015.1030169
- Haas, P. (1992). Introduction: Epistemic communities and international policy coordination. *International Organization*, 46(1), 1–35.
- Harada, K., & Ito, T. (2005). Rebuilding the Indonesian banking sector-economic analysis of bank consolidation and efficiency. *JBICI Review*, 12, 32–57.
- Helleiner, E. (1996). *States and the reemergence of global finance: From Bretton Woods to the 1990s*. Ithaca, NY: Cornell University Press.
- Helleiner, E. (2003). The southern side of ‘embedded liberalism’: America’s unorthodox money doctoring during the early post 1945 years. In M. Flandreau (Ed.), *Money doctors: The experience of international financial advising* (pp. 249–275). New York, NY: Routledge.
- IMF. (1997a). *IMF approves stand-by credit for Thailand* (Press Release No. PR/97/37). Retrieved from the IMF’s website: [www.imf.org/external/np/sec/pr/1997/pr9737.htm](http://www.imf.org/external/np/sec/pr/1997/pr9737.htm)
- IMF. (1997b). *IMF approves stand-by credit for Indonesia* (Press Release No. PR/97/50). Retrieved from the IMF’s website: <http://www.imf.org/external/np/sec/pr/1997/pr9750.htm>
- IMF. (1997c). *IMF approves SDR 15.5 billion stand-by credit for Korea* (Press Release No. PR/97/55). Retrieved from the IMF’s website: <http://www.imf.org/external/np/sec/pr/1997/pr9755.htm>
- IMF. (1997d). *Supplemental reserve facility* (No. EBS/97/225). Retrieved from the IMF’s website: <http://www.imf.org/external/np/sec/pr/1997/PR9759.HTM>
- IMF. (1997e). *Minutes of executive board meeting* (No. 97/121, 12/15/97). Retrieved from the IMF’s website: <http://www.imf.org/external/np/arc/eng/archive.htm>
- IMF. (1997f). *Republic of Korea – Report by staff* (No. EBM/97/121–1 – Final). Retrieved from the IMF’s website: <http://www.imf.org/external/publications/>
- IMF. (1997g). *Minutes of executive board meeting* (No. 97/123, 12/17/97). Retrieved from the IMF’s website: <http://www.imf.org/external/np/arc/eng/archive.htm>
- IMF. (1998a). *Republic of Korea – Negotiations with commercial banks – Status report* (SM/98/34). Retrieved from the IMF’s website: <http://www.imf.org/external/publications/>
- IMF. (1998b). *IMF completes review and approves US\$140 million credit tranche for Thailand* (NB/98/54). Retrieved from the IMF’s website: <http://www.imf.org/external/np/arc/eng/archive.htm>
- IMF. (2012, June). IMF urges eurozone to make more determined, collective response to crisis. *IMF Survey Magazine: Countries & Regions*.
- Kaminsky, G., & Reinhart, C. M. (2001). Bank lending and contagion evidence from the Asian crisis. In T. Ito & A. O. Krueger (Eds.), *Regional and global capital flows: Macroeconomic causes and consequences* (pp. 73–99). Chicago, IL: University of Chicago Press.
- Krampf, A. (2014). From the Maastricht treaty to the post-crisis Europe: The changing role of central bankers in the EMU. *Journal of Contemporary European Studies*, 22(3), 303–317.
- Krapohl, S. (2015). Financial crises as catalysts for regional cooperation? Chances and obstacles for financial integration in ASEAN+3, MERCOSUR and the eurozone. *Contemporary Politics*, 21(2). doi:10.1080/13569775.2015.1030171
- Krugman, P. (1979). A model of a balance of payments crisis. *Journal of Money, Credit and Banking*, 11(3), 311–325.
- Krugman, P. (1999a). What happened to Asia? In R. Sato, R. V. Ramachandran, & K. Mino (Eds.), *Global competition and integration* (pp. 315–327). New York, NY: Springer US.
- Krugman, P. (1999b). Balance sheets, the transfer problem, and financial crises. *International Tax and Public Finance*, 6(4), 459–472.
- Lipsy, P. Y. (2003). Japan’s Asian monetary fund proposal. *Stanford Journal of East Asian Affairs*, 3(1), 93–104.
- McKinnon, R. I., & Pill, H. (1996). Credible liberalizations and international capital flows: The overborrowing syndrome. In T. Ito & A. O. Krueger (Eds.), *Financial deregulation and integration in East Asia* (pp. 7–50). Chicago, IL: University of Chicago Press.
- Moravcsik, A. (1998). *The choice for Europe: Social purpose and state power from Messina to Maastricht*. Ithaca, NY: Cornell University Press.
- MoU Greece. (2011). *Greece: Memorandum of understanding on specific economic policy conditionality*. Retrieved from <http://www.minfin.gr/content-api/f/binaryChannel/minfin/datastore/58/33/f4/5833f491b7eab345921ef31cc7696fa947cddae4/application/pdf/MoU+2011-07-07.pdf>

- MoU Portugal. (2011). *Portugal memorandum of understanding on specific economic policy conditionality*. Retrieved from [http://ec.europa.eu/economy\\_finance/eu\\_borrower/mou/2011-05-18-mou-portugal\\_en.pdf](http://ec.europa.eu/economy_finance/eu_borrower/mou/2011-05-18-mou-portugal_en.pdf)
- MoU Spain. (2012). *Spain: Memorandum of understanding on financial-sector policy conditionality*. Retrieved from [http://ec.europa.eu/economy\\_finance/eu\\_borrower/mou/2012-07-20-spain-mou\\_en.pdf](http://ec.europa.eu/economy_finance/eu_borrower/mou/2012-07-20-spain-mou_en.pdf)
- Obstfeld, M. (1996). Models of currency crises with self-fulfilling features. *European Economic Review*, 40, 1037–1047.
- Padoa-Schioppa, T. (1999). *EMU and banking supervision*. Retrieved from the ECB's website: <http://www.ecb.europa.eu/press/key/date/1999/html/sp990224.en.html>
- Pangestu, M., & Habir, M. (2002). *The boom, bust, and restructuring of Indonesian banks* (Working Paper WP/02/66). Retrieved from the IMF's website: <http://www.imf.org/external/pubs/ft/wp/2002/wp0266.pdf>
- Pesenti, P., & Tille, C. (2000, September 3). The economics of currency crises and contagion: An introduction. *FRBNY Economic Policy Review*, 6(3), 3–16.
- Praet, P. (2012). *Monetary policy at crisis times*. Geneva: Lecture at the International Center for Monetary and Banking Studies.
- Radelet, S., & Sachs, J. D. (1998). The East Asian financial crisis: Diagnosis, remedies, prospects. *Brookings Papers on Economic Activity*, 29(1), 1–90.
- Reinhart, C. M., & Rogoff, K. (2011). *This time is different: Eight centuries of financial folly*. Princeton, NJ: Princeton University Press.
- Schaede, U., & Grimes, W. W. (2002). *Japan's managed globalization: Adapting to the twenty-first century*. Armonk: M.E. Sharpe.
- Schäuble, W. (2012a, March). *Speech hold during the deliberations on the European stabilisation mechanism in the German bundestag (Extracts)*. Abstract retrieved from <http://www.bundesfinanzministerium.de/Content/EN/Reden/2011/2011-09-08-german-bundestag-esm.html>
- Schäuble, W. (2012b, September). *Eurozone – Exit strategy from the crisis*. Speech hold during the ESCP Start@Europe 2012 Seminar, Strasbourg. Abstract retrieved from <http://www.bundesfinanzministerium.de/Content/EN/Reden/2012/2012-09-03-which-way-out.html>
- Schäuble, W. (2012c, June 5). There's no easy way for Europe, an interview with Wolfgang Schäuble. *Handelsblatt*. Retrieved from [www.handelsblatt.com](http://www.handelsblatt.com)
- Seabrooke, L. (2007). Legitimacy gaps in the world economy: Explaining the sources of the IMF's legitimacy crisis. *International Politics*, 44(2–3), 250–268.
- Steen, M. (2012, September 6). Weidmann isolated as ECB plan approved. *Financial Times*. Retrieved from [www.ft.com](http://www.ft.com)
- Strange, S. (2009). The persistent myth of lost hegemony. *International Organization*, 41(4), 551–574.
- Trichet, J.-C. (2010a). *Shaping a new world: The crisis and global economic governance*. Lecture at Bocconi University, Aula Magna, Milano.
- Trichet, J.-C. (2010b). *Macro-prudential regulation as an approach to contain systemic risk*. Speech by Jean-Claude Trichet, President of the ECB, at the 13th conference of the ECB-CFS Research Network, Frankfurt am Main.
- Truman, E. (2013). *Asian and European financial crises compared* (Peterson Institute for International Economics Working Paper No. 13–9). Rochester, NY: Social Science Research Network.
- Wall Street Journal*. (2012, January 30). German finance minister takes on critics. *Wall Street Journal*. Retrieved from [www.wsj.com](http://www.wsj.com)
- Weber, A. (2010, September 22). *Macroeconomic imbalances in European monetary union: Causes and policy challenges*. Speech at the Kangaroo-Group/EPIC Lunchin Strasbourg, Strasbourg.
- WEO. (1997). *World economic: Interim assessment*. Washington, DC: International Monetary Fund.
- Wyplosz, C., Gros, D., & Belke, A. (2011). *The ECB, the EFSF and the ESM – roles, relationships and challenges*. Monetary dialogue. Brussels: Directorate General for Internal Policies.
- Yellen, J. L. (1998, April). *The impact of the East Asian crisis on the U.S.* Speech at the Council of Economic Advisers, Hartford. Abstract retrieved from <http://pages.stern.nyu.edu/~nroubini/papers/HARTFORD.pdf>