The Politics of Bad Options

Why it has been difficult to resolve the Eurozone's problems

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Chapter 6

Distributive conflict and interest group preferences in surplus countries

One of the most puzzling aspects of the Eurozone crisis has been the lack of burden sharing amongst the members of the monetary union (Blanchard, Erceg, and Lindé 2017; Frieden and Walter 2017b). Rather than write-off accumulated debt, boost domestic demand to revive economic growth in the Eurozone, and rebalance their export overhangs, surplus countries were content to see the crisis-ridden deficit countries shoulder the pain of crisis resolution. Most strikingly, surplus countries have been reluctant to rebalance their current account. In theory, such rebalancing could be achieved in two ways. In practice, surplus countries never seriously entertained the first option, external adjustment, which would have involved a breakup of the Eurozone and, subsequently, an appreciation of their nominal exchange rates. However, surplus countries were also reluctant to engage in internal adjustment as a second option—that is a boost in domestic demand, for example through more public investment or wage increases—which leads to more domestic consumption, more imports, and, as a result, a reduction of the export overhang. Instead they opted for a very restrictive type of financing: they provided deficit countries with bailouts. What explains this resistance to rebalancing in surplus states?

Research on the sources of this reluctance has only recently begun to emerge. Some authors have argued that surplus countries have been led by ordoliberal ideas—that is, to address the Eurozone's problems, deficit states needed to reform their economies to regain competitiveness. Stimulating growth and inflation in surplus countries, however, would only risk surplus countries' hard-earned standing in international markets and endanger price stability (Matthijs and McNamara 2015; Young 2014; D. Schäfer 2016; Brunnermeier, James, and Landau 2016; Dullien and Guérot 2012). Some even argue that these ideas were so strong that they trumped surplus states' material interests in a more cooperative approach (Matthijs 2016). A second strand of research strongly contests this notion and argues that surplus countries refused to share the adjustment burden precisely because it benefitted the economic interests of core economic sectors in these countries, such as the financial and the export industries (Hall, 2012; Leupold, 2015; Steinberg & Vermeiren, 2015). This structural perspective is rooted in the literature on the varieties of capitalism, especially research on different growth models (Hall and Soskice 2001; Baccaro and Pontusson 2016a). It argues that the need to preserve export competitiveness in surplus countries creates a large coalition of policymakers, employers, and workers, all of whom are opposed to measures that would lead to internal adjustment, expanded domestic demand, higher inflation, and a increased domestic wages (Hall 2014; Mahnkopf 2012; Höpner and Lutter 2014; Thompson 2015; Leupold 2016; Hall 2012). In international negotiations about the terms of the bailouts, the adjustment programs, and the economic policy reforms, surplus country governments, therefore, acted in line with the dominant concerns of their domestic economies (Schimmelfennig 2015; Streeck and Elsässer 2016; Thompson 2015).

The structural approach strongly suggests that economic interest groups played a key role in the domestic politics of the Eurozone crisis. In most surplus countries in the Eurozone, economic interest groups are traditionally deeply involved in economic policymaking. Countries such as Germany, Austria, Finland, and the Netherlands are often characterized as neo-corporatist or coordinated market economies (Hall and Soskice 2001; Nölke 2015; Schmitter and Streeck 1991; Streeck and Thelen 2005). In these countries, close and often institutionalized networks exist between state actors, unions, and business groups. To overcome collective-action problems, these networks provide market actors with privileged access to policymakers. Organized interest groups are actively integrated into national policy-making processes and, in turn, help with the implementation of reforms and other economic policy outcomes (Cathie Jo Martin and Thelen 2007). Many of the economic questions underlying the management of the Eurocrisis in surplus countries directly affected the core interests of trade unions, employer associations, or industry groups, and they often had an important voice in important economic political decisions in the crisis years. When discussing whether to expand domestic public investment, the German government in 2014, for example, established a commission that included major trade unions, industry groups, and insurance associations to discuss existing needs and priorities.[31] Given the institutional context in coordinated market economies, economic interest groups were, thus, in prime positions to have an active say in how their governments approached key policy questions of the crisis.

But even for the ideas argument, interest groups matter because voters often use heuristics, such as cues by economic interest groups, to form opinions on complex matters, such as financial crises (Kim and Margalit 2016; Mcdermott 2006). Metal industry workers will likely not invest their evenings reading into the macroeconomics of balance-of-payments crises. However, they may consider the position of their trade union when thinking about whether their government should support international bailouts or not. There are numerous examples of such clue rendering in the crisis. During the run-up to the Dutch parliamentary elections of 2012, for example, a large coalition of Dutch employer associations ran a large public campaign emphasizing the importance of Europe for the Dutch economy and to counter widespread skepticism about the bailouts and integration more generally.[32] Economic interest groups, thus, often provide important information to broader electoral groups; they transport their ideas and interests into the wider electoral politics.

Despite broad agreement that organized interests played an important role in surplus countries' management of the Eurozone crisis, virtually no systematic and comparative empirical research on the specific preferences of these groups exists. A deep understanding of these preferences and the constraints they impose on policymakers is important, however, for a substantive analysis of the role of interest groups in Eurozone politics. This chapter addresses this lacuna. It analyses interest groups' policy preferences on Eurozone policies using unique data we collected with an online survey of more than 350 employer associations, trade unions, and social policy groups in Germany, Austria, and the Netherlands. In addition, it leverages information from more than 30 in-depth interviews with interest group representatives and policymakers in these three countries.

Employing the vulnerability profile framework developed in this book, we show that analyzing the distributional conflicts amongst different societal groups in surplus countries helps to understand some important features of the management of the crisis. We find that a large majority of economic interest groups in all surplus countries opposed a breakup of the Eurozone (i.e., external adjustment) and supported internal adjustment through strengthened domestic demand. However,

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31 https://www.bmwi.de/Redaktion/DE/Pressemitteilungen/2016/20160914-expertenkommission-zur-steigerung-der-investitionen-in-deutschland-zieht-bilanz.html

32 https://www.vno-ncw.nl/campagnes/europa

while interest groups uniformly rejected all of Eurozone breakup scenarios, they disagreed heavily about the policies through which internal adjustment should be achieved. The resistance against macroeconomic adjustment in surplus states was largely rooted in distributive struggles about the design of possible adjustment policies. In contrast to the highly politicized issues of external and internal adjustment, financing was a low-salience issue. The polarized views on the specificities of internal adjustment, the broad consensus to avoid breaking up the Eurozone, and the low-salience quality of financing, thus, turned financing into an attractive strategy for surplus country governments.

Domestic trade-offs, vulnerability profiles and adjustment in surplus countries

To study the domestic politics of adjustment in surplus countries, we once more use the general vulnerability profile concept developed in this book to analyze the preferences and trade-offs faced by economic interest groups. Mirroring our analyses of deficit country interest group politics discussed in chapter 3, we expect domestic economic interest groups to form their crisis preferences based on the relative costs and benefits they associate with each of the two possible adjustment strategies that surplus countries have in a balance-of-payments crises: internal adjustment and external adjustment—in the case of the Eurozone crisis, a breakup of the monetary union—and the net costs of engaging in financing. Their policy preference will be for the adjustment strategy that benefits them the most or, if all options are costly, the one that costs them the least.[33]

Grouping interest groups by their net vulnerability to the two possible adjustment strategies, we can distinguish between four main ideal types. The first type (quadrant I) is vulnerable to internal adjustment but not to external adjustment. As an example, one could think of an interest group representing the poor—a highly inflation-averse group whose purchasing power is enhanced by an appreciated currency. This first type is likely to prefer external adjustment over any other form of crisis management. The second type (quadrant III) would be hurt by a Eurozone breakup but is likely to benefit from a boom in domestic demand. Because internal adjustment creates net benefits for the group but its financing is costly, interest groups of this type will favor internal adjustment over external adjustment or financing. The third type (quadrant II) is vulnerable to both internal and

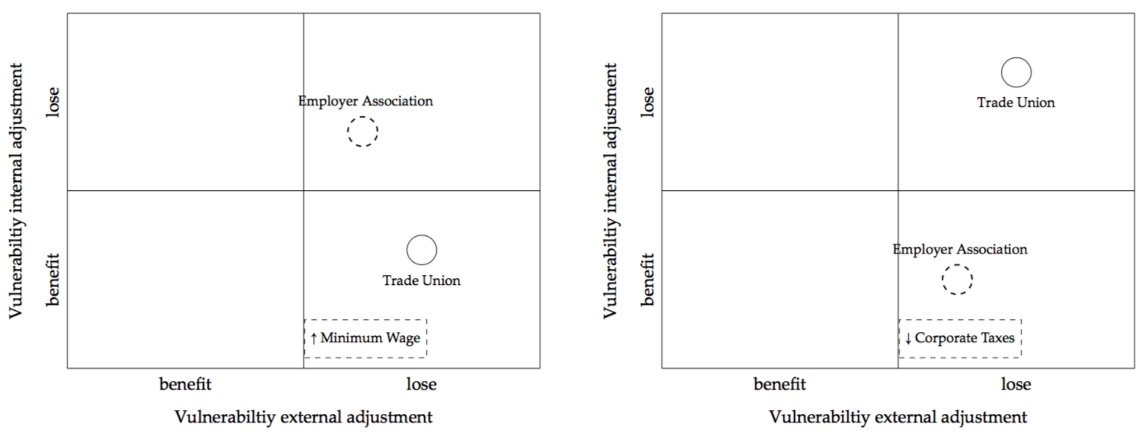
[33] We use a stylized example in which governments must choose between the three types of strategies. Of course, combinations of these options are also possible (e.g., some policies increasing domestic demand, some exchange rate appreciation, and some financing). The underlying distributional considerations are likely to be the same in these situations, however.

external adjustment. An example for an interest group in this "misery corner" is a group that represents export-oriented firms, who would lose out from both a reorientation towards the non-tradable sector and an appreciated exchange rate. This type of interest group should be the most willing to provide deficit countries with some form of financing rather than supporting macroeconomic adjustment in their own country. Finally, groups that are neither vulnerable to internal nor external adjustment constitute the fourth ideal type (quadrant IV). For these groups, macroeconomic adjustment should be a low-salience issue, and they are likely to prefer adjustment over financing.

These straightforward predictions face one major complication. Each of the three main crisis strategies—internal adjustment, external adjustment, and financing—can be achieved in a variety of ways. Take, for example, internal adjustment, in which the range of possible policies is largest, because it can be achieved in very different ways in surplus countries (Bernanke 2015; Eichengreen 1992). For example, policymakers' intent on boosting domestic demand might increase public investment in infrastructure and schools; these policymakers could also reduce corporate taxes or cut red tape for businesses to incentivize private investment. Or they could raise the minimum wage, increase pensions, or expand unemployment benefits. Even though all these measures help to rebalance the economy, their distributional implications differ widely. As a result, interest group vulnerabilities to internal adjustment are likely to be policy-specific (Redeker and Walter 2018). While one group may benefit from one type of internal adjustment policy, the same group could, at the same time, be hurt by another policy aimed at boosting domestic demand. Depending on the specific policy under consideration, groups will, therefore, end up in different quadrants of our vulnerability profile.

Figure 6.1 illustrates this point with a stylized example. It shows the vulnerability profiles of two hypothetical groups—one group representing employers and one group representing low-wage workers, for example a service sector trade union. We assume that both of our fictional groups are vulnerable to the breakup of the monetary union, putting them on the right-hand side of the vulnerability profile. Whether or not they support internal adjustment will then depend on the specific policy under consideration. In Panel A, internal adjustment is achieved through an increase in the minimum wage. Because members of our hypothetical trade union would benefit from higher minimum wages, the group falls in quadrant III and is likely to support internal adjustment. The employer association, on the other hand, is vulnerable to this form of internal adjustment, perhaps because it represents firms that rely on low-paid workers. This puts it in quadrant II. Since it is vulnerable to both a breakup and to the specific form of internal adjustment on the table, we expect it to oppose both external and this type of internal adjustment, and to be more supportive of financing instead. The situation is reversed when the internal adjustment policy under consideration is a reduction in corporate taxes meant to stimulate private investment. Panel B shows that the trade union now finds itself in quadrant II because it is likely to oppose the loss in tax revenue associated with tax cuts for businesses, whereas the employer association is now located in quadrant III and turns into a proponent of internal adjustment.

Figure 7.1: Policy-specific vulnerability profiles to internal adjustment



(A) Adjustment through higher minimum wage (B) Adjustment through corporate tax cuts

In the same vein, interest group vulnerabilities towards financing, and to a lesser extent external adjustment, are also policy-specific. The costs that financing puts on different societal groups in surplus countries depend on how exactly funds are provided to deficit states. Bailout packages, for example, are largely borne by the taxpayer, whereas debt relief and haircuts on private surplus country loans to deficit country governments and market actors impose costs on surplus country investors. (Frieden and Walter 2017a; Copelovitch and Enderlein 2016). However, for many forms of financing, it is much more difficult to predict who exactly is going to have to pay the costs of these policies and how high these costs will actually be. The distributive consequences of Eurobonds, the provision of emergency liquidity assistance by the European Central Bank, or its bond buying program for surplus country interest groups are likely to be much more opaque. Even for bailout packages, many question marks remain as to which taxpayers and at what point in time will have to pick up the bill. In sum, none of the financing measures are free, but a majority of them do not produce well-defined groups that will be clearly hurt by these measures. Politically, this means that many of these policies are likely to be less contested than adjustment policies with clearer distributive consequences.

Policy options for external adjustment, in contrast, are much less diverse. Of course, it will make a difference whether a crisis-ridden deficit country, such as Greece, leaves the monetary union, whether the Eurozone as a whole breaks down, or whether a surplus country leaves the club. But despite these different breakup scenarios, any change in the composition of the Eurozone membership would result in some form of market upheaval and an appreciation of surplus countries' exchange rate (Åslund 2012; Eichengreen 2010). Few groups are, therefore, going to benefit from one form of external adjustment but hurt by another.

Overall, this discussion suggests that we should expect some variation in how interest groups evaluate different policy options for internal adjustment and financing, and less variation regarding to external adjustment. Especially concerning internal adjustment, policy proposals will garner support from some groups but will also provoke fierce opposition from others based on their policy-specific vulnerability profile. Moreover, we expect the two possible strategies leading to macroeconomic adjustment and rebalancing—internal and external adjustment—to be much more salient for interest groups than financing policies.

The expectation that interest group preferences about surplus country crisis management and especially internal adjustment are policy-specific and polarized differs both from the expectations of the growth model and the ideas-based approach. Both of these approaches suggest that rebalancing in surplus states is blocked by a broad societal coalition that shares either the common goal of safeguarding the country's export competitiveness (Iversen and Soskice 2018; Hall 2012) or a general skepticism towards political demand management (Dullien and Guérot 2012; Brunnermeier, James, and Landau 2016; Matthijs 2016). Although our argument shares this prediction for external adjustment, it makes a different prediction for internal adjustment. Here, our argument suggests that for most types of internal adjustment, some economic interest groups will be supportive, whereas others will be opposed. Rather than representing a general opposition to internal adjustment, interest group preferences diverge on how to adjust internally.

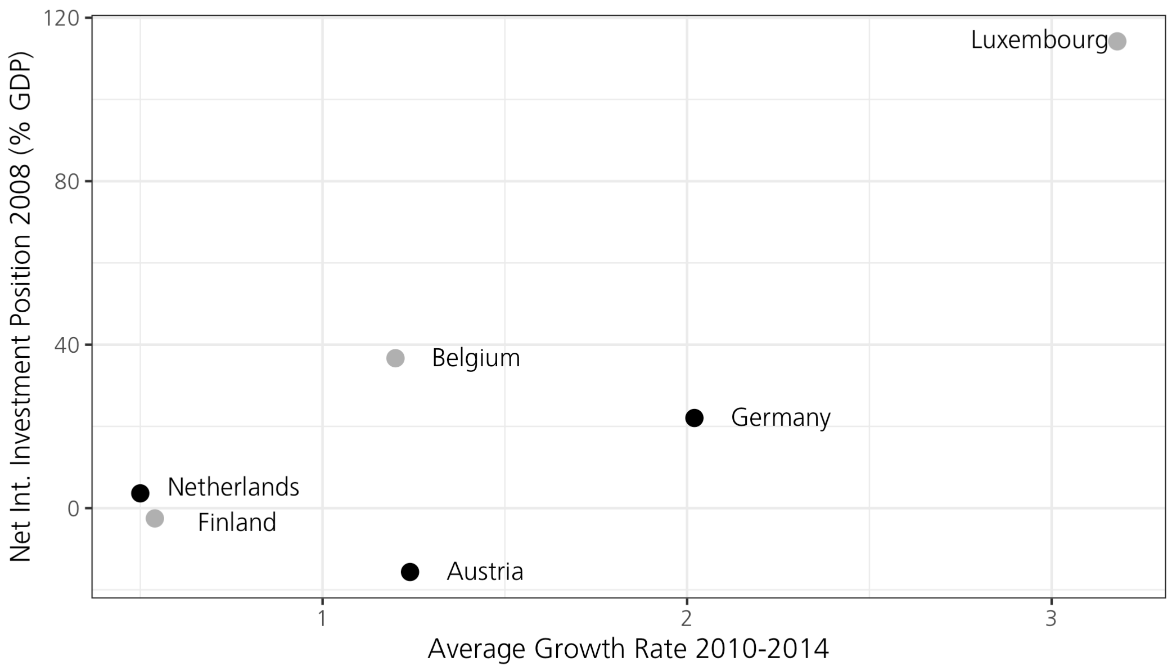
Research design: Studying interest group preferences in surplus countries

To examine how the distributional concerns of interest groups shaped their preferences on crisis resolution strategies for the Eurozone crisis, we pursue a two-pronged, mixed-method empirical approach that uses data from an original online survey of interest groups and in-depth interviews with interest group representatives and policymakers in Germany, Austria, and the Netherlands. In the next section, we justify our case selection, describe the sample of interest groups we contacted, and provide detailed information on the design of our survey.

Our empirical analysis concentrates on Germany, Austria, and the Netherlands. We selected these cases from all Eurozone countries running a current account surplus in the years to the crisis based on two considerations. Because the attractiveness of internal adjustment depends on how well the economy is running in the first place, the first consideration is how well surplus countries' own economy did during the Eurozone crisis. Some of the surplus countries experienced robust GDP growth throughout the crisis years, whereas others faced economic problems of their own. It is plausible to assume that the situation of the national economy shapes groups' evaluation of the different crisis strategies. Measures aimed at boosting domestic demand, for example, are likely to seem much more attractive if business at home is doing poorly than if domestic markets are humming. Second, interest group support for or opposition to providing deficit countries with financial support is likely to be influenced by whether a surplus country ends up on the receiving end of international financing in the future. While some surplus countries in the Eurozone have run persistent trade surpluses for decades, others have a history of running both surpluses and deficits (Manger and Sattler 2017). Countries that are more likely to run deficits again in the future are also more likely themselves to need some financing support in a future crisis. Interest groups in such countries, thus, might be more generous than interest groups in countries with persistent current account surpluses.

To compare interest group preferences and politics across these different contexts, we select countries that differ with regards to these two issues. Figure 6.2 plots the countries' position regarding their average growth rates between 2010 and 2014 and their net international investment positions in 2008 (i.e., prior to the crisis). Because countries with a current account surplus are by definition always capital exporters, they will over time accumulate financial assets in the rest of the world. The net international investment position—the stock of foreign assets an economy has with the rest of the world—will, therefore, be higher the longer a country has been running a current account surplus. Thus, it proxies for how long countries have been running a current account surplus. Figure 6.2 shows that Austria, Germany, and the Netherlands vary on both of these dimensions. Austria's economy was doing moderately well between 2010 and 2014. However, its current account had only turned positive at the beginning of the 2000s, so its international investment position remained negative until 2012. Germany showed robust growth throughout the

Figure 7.2: Net international investment positions and average growth rates for Eurozone surplus countries



Source: Eurostat (2018)

Eurozone crisis and has had a persistent current account surplus for decades.[34] Germany is also a substantively important case, as it was one of the most prominent and powerful actors involved in managing the Eurozone crisis and was widely criticized for running massive current account surpluses. Finally, the Netherlands also had a stable current account surplus, but the country struggled with stagnating growth rates and rising unemployment during the Eurozone crisis.[35]

Much research on the role of societal interests in economic policymaking makes strong

[34] A short exception to this was Germany's period as a deficit country in the 1990s as result of German reunification. See Sattler and Manger (Manger and Sattler 2017) for a discussion.
[35] Although Luxembourg would maximize variation on these two indicators, the country's unusual and small economy limits the inferences we can draw from this case.

assumptions about the preferences of different interest groups, but either they do not empirically examine these assumptions (Hall 2018; Iversen and Soskice 2018; Nölke 2015) or they use only broad proxies to operationalize these preferences (e.g., Frieden 2002). We follow a different approach. Rather than inferring policy preferences on theoretical grounds, we conducted large-scale online surveys of Austrian, German, and Dutch interest groups in which we asked them about their specific policy preferences and reactions to the trade-offs inherent in crisis management. The surveys were conducted between September 2016 and October 2017—that is, after the crisis had calmed down but at a time when discussions over different financing approaches, Eurozone reforms, and macroeconomic imbalances were still ongoing in all three countries. Nonetheless, several of our questions asked respondents to answer retrospectively about their policy preferences at the peak of the crisis. To ensure that this did not systematically skew the responses, we validated survey answers with press releases, reports, and other interest group publications on similar topics between 2010 and 2015 whenever possible. We did not find any evidence that interest group responses differed due to the timing of our survey.

We contacted "sectional interest groups", i.e. groups that represent the interest of a well-defined subset of societal interests (Giger and Klüver 2016). We concentrated on interest groups that engage with economic or social policy issues and disregarded all other groups, such as environmental groups, civil rights, and religious groups. We also contacted only groups organized at the national level where most policy decisions regarding the crisis were made.[36] Respondents were contacted via email, through three rounds of reminder emails, and finally by an individual phone call. Among the contacted interest groups, 357 interest groups completed our questionnaire (136 from Germany, 116 from the Netherlands and 105 from Austria), resulting in response rates of 28% in Germany, 26% in Austria, and 29% in the Netherlands, which corresponds to typical response rates for interest group survey research (Marchetti 2015). Among the interest groups who responded to our survey, 54% are employer associations, 30% are professional associations, 8% are trade unions, and 8% are social policy groups. As we show in the appendix, this distribution comes close to the overall distribution of these types of interest groups within the three countries. For ease of exposition, we present the operationalization.

We also conducted 30 in-depths interviews with interest group representatives and policymakers in Germany (13 interviews), Austria (9 interviews), and the Netherlands (8 interviews).

[36] The details of the sample construction in our three cases can be found in the online appendix.

[37] The main goal of our conversations was to understand what motivated their preferences regarding possible policy responses to the Eurozone crisis and how they pursued these interests politically. We selected groups based on their size and the importance of their members to the overall economy; we made sure to cover groups representing a wide range of sectors, including manufacturing and services, domestic- and export-oriented associations, and trade unions representing workers at different income levels. A complete list of interview partners can be found in the appendix.

Our analysis examines the preferences of economic interest groups about the management of the Eurozone crisis in surplus countries. It proceeds in three steps. The next section explores how interest groups evaluate different policy options within internal adjustment, external adjustment, and financing. We analyze not just how these preferences vary but also to what extent they are related to material considerations. Our results show that, overall, a large majority of groups opposes a Eurozone breakup and are positive towards internal adjustment, although groups strongly diverge in policy-specific preferences for internal adjustment. Moreover, most economic actors are relatively indifferent about various measures of international financing. We then turn to the inherent trade-offs of crisis management and apply the vulnerability profile framework empirically to investigate the preferences of economic interest groups when confronted with policy-specific trade-offs. We show that internal adjustment is the strategy of choice for a large majority of interest groups, especially when a reduction of the current account surplus is achieved through policies suiting their interests. It is only in scenarios in which all adjustment strategies are costly that financing becomes an attractive alternative. In the third step of our analysis, we finally explore the salience of the different crisis strategies and find that financing carries much less salience for interest groups than strategies aimed at macroeconomic adjustment.

Policy-specific preferences on Eurozone crisis management

How did surplus country interest groups evaluate the different policy options within the three general strategies—external adjustment, internal adjustment, and financing—available to resolving the Eurozone crisis? To examine this question empirically, we presented interest groups in our survey with a set of policies that were actually discussed in policy circles during the Eurozone crisis as options to achieve a rebalancing or to finance deficit states. Among these policies, we chose those

[37] The interviews in Germany took place between November 27 and December 8 2017. Interviews in Austria and the Netherlands took place between June 18 – 22 and July 02 – 06 2018.

policies that were actively discussed in all three of our country cases and that are general enough to remain comparable across the three countries.

Table 6.1 provides an overview of the different policies included in our survey. The possible scenarios for external adjustment all involve the breakup of the Eurozone, and we presented respondents with three variants of how such a breakup could come to pass: Eurozone exit by a deficit country such as Greece; dividing the monetary union into a “Southern” and a “Northern” Eurozone, or their own country’s exit from the Eurozone—a policy that was touted, for example, by the German populist-right party Alternatives for Germany (AfD).

Table 7.1: Policy options by crisis strategy

Internal Adjustment Policies	Financing Policies	External Adjustment Policies
Public infrastructure spending ("Expand public investment, for example in education or infrastructure.")	**Provision of bailouts** ("Provide financial assistance and loans through the European rescue funds.")	**Deficit countries leave the EMU** ("Deficit countries like Spain or Greece leave the Eurozone")
Higher minimum wage ("Increase low wages, for example by raising the minimum wage")	**European unemployment insurance** ("Introduce European unemployment insurance.")	**North/ South division** ("The EMU divides into a North and a South block with different currencies.")
Public spending on welfare ("Expand public spending on social welfare programs.")	**ECB bond purchases** ("Purchases of government bonds and other assets by the European Central Bank.")	**Germany leaves the EMU** ("[DE, AT, NL] leaves the Eurozone")
Decreasing VAT ("Reduce the rate of the value added tax")	**Haircuts on public sector debts** ("Grant reliefs on debt that crisis countries' owe the [DE, AT, NL] state as a result of the European bailout packages.")	
Decreasing corporate taxes ("Reduce taxes for companies")	**Haircuts on private sector debts** ("Grant reliefs on debt that crisis countries' owed the [DE, AT, NL] private banks at the beginning of the crisis.")	

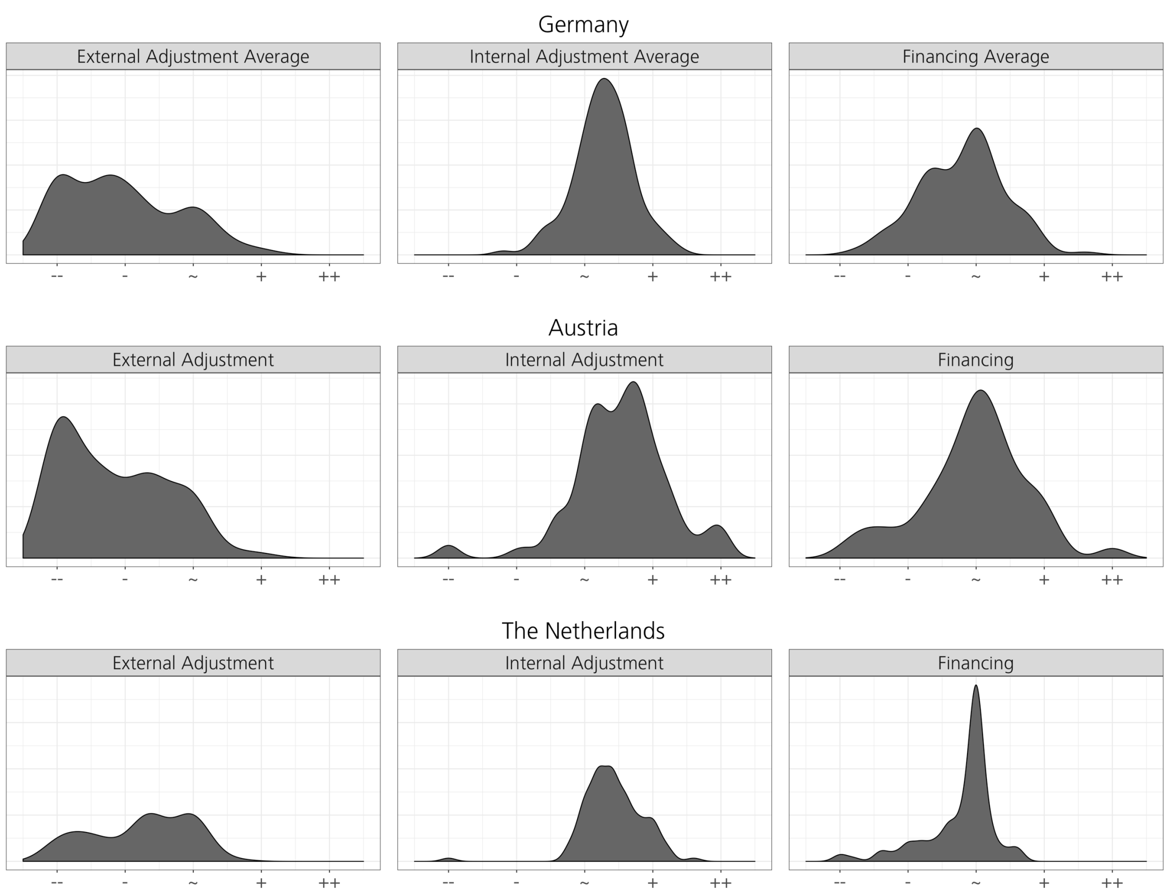
Regarding internal adjustment, for example socialist and social democratic parties in Austria, Germany and the Netherlands, all pushed for policies that aimed at raising the incomes of low-wage workers. We, therefore, included “higher minimum wage” as a possible adjustment policy that captures group preferences towards low-wage policies more generally. Likewise, the IMF and the European Commission repeatedly called for overhauls of the corporate tax systems in surplus countries to boost private investment. While the specific tax recommendations differed slightly across countries, we included "decreasing corporate taxes" to measure preferences towards corporate tax incentives more generally.

Policy options for financing also covered very different approaches. They included government-based financing in the form of sovereign bailouts and loans; more indirect forms of financing, such as ECB bond purchases; long-term EU-wide schemes, such as the introduction of a European unemployment insurance, to a bail-in of private investors. As discussed above, the policy options for internal adjustment and financing range much more widely than policy options for external adjustment, and we presented interest groups with a selection of five different policies for both of these crisis strategies. Respondents were asked to evaluate each policy on a scale from 1 (strongly oppose) to 5 (strongly support). Interest groups' evaluations of each of these policies allow us to explore in considerable detail how they evaluated not only the overall crisis strategies available to policymakers but also the concrete policies associated with each of these policies.

We begin by analyzing interest groups' average assessment of the different policies that were discussed during the crisis as possible ways to rebalance the economy or finance deficit countries. Figure 6.3 shows the average policy support or opposition to these policies for each of the three crisis strategies in Austria, Germany, and the Netherlands. This analysis suggests that, overall, most interest groups opposed any breakup of the Eurozone, took a rather benevolent view of internal adjustment, and were quite indifferent with regards to financing. In contrast to both the ideas-based (Brunnermeier, James, and Landau 2016; Matthijs and McNamara 2015) and the growth-model-based research strands (Iversen and Soskice 2018; F. Steinberg and Vermeiren 2015), which both assume a broadly shared opposition to internal adjustment among surplus country interest groups, we find a generally positive attitude towards internal adjustment.

This finding is corroborated by our interviews. In Germany especially, a large number of interest groups felt that the country's large current account surplus was problematic. These groups are not only major trade unions but also a wide range of employer associations, including those representing export-oriented industries, such as the association of the metal industry (Interviews DE2; DE7; DE8). Even groups that rejected the notion that Germany's export overhang had played a role in the Eurozone crisis stated that the German economy had underperformed in terms of private and public investment in recent years and voiced their support for specific policies that would serve to counter this trend (Interviews DE3; DE6). Debates about the general effects of current account surpluses were more muted in Austria and the Netherlands. In both countries, most major economic interest groups did not perceive their national trade balances to be problematic. Discussions about the macroeconomic imbalances within the Eurozone were largely seen as a German problem; the surpluses of the Netherlands or Austria played only a minor role (Interviews AT1; AT4; NL1; NL4). However, most interest groups similarly pointed at the lack domestic demand as well as the shortage of private and public investments as major policy concerns that needed to be addressed (Interviews AT1; AT4; AT5; NL1; NL4; NL3). Instead of building a unified front in favor of preserving export surpluses, most of the actors we interviewed were in favor of some measures that would increase domestic demand and reduce current account surpluses.

Figure 7.3: Average policy evaluations for the three possible crisis strategies



While these average assessments are insightful, our argument suggests that interest groups' preferences about macroeconomic adjustment should be policy-specific. We, therefore, next turn to a more disaggregated analysis.

External adjustment preferences

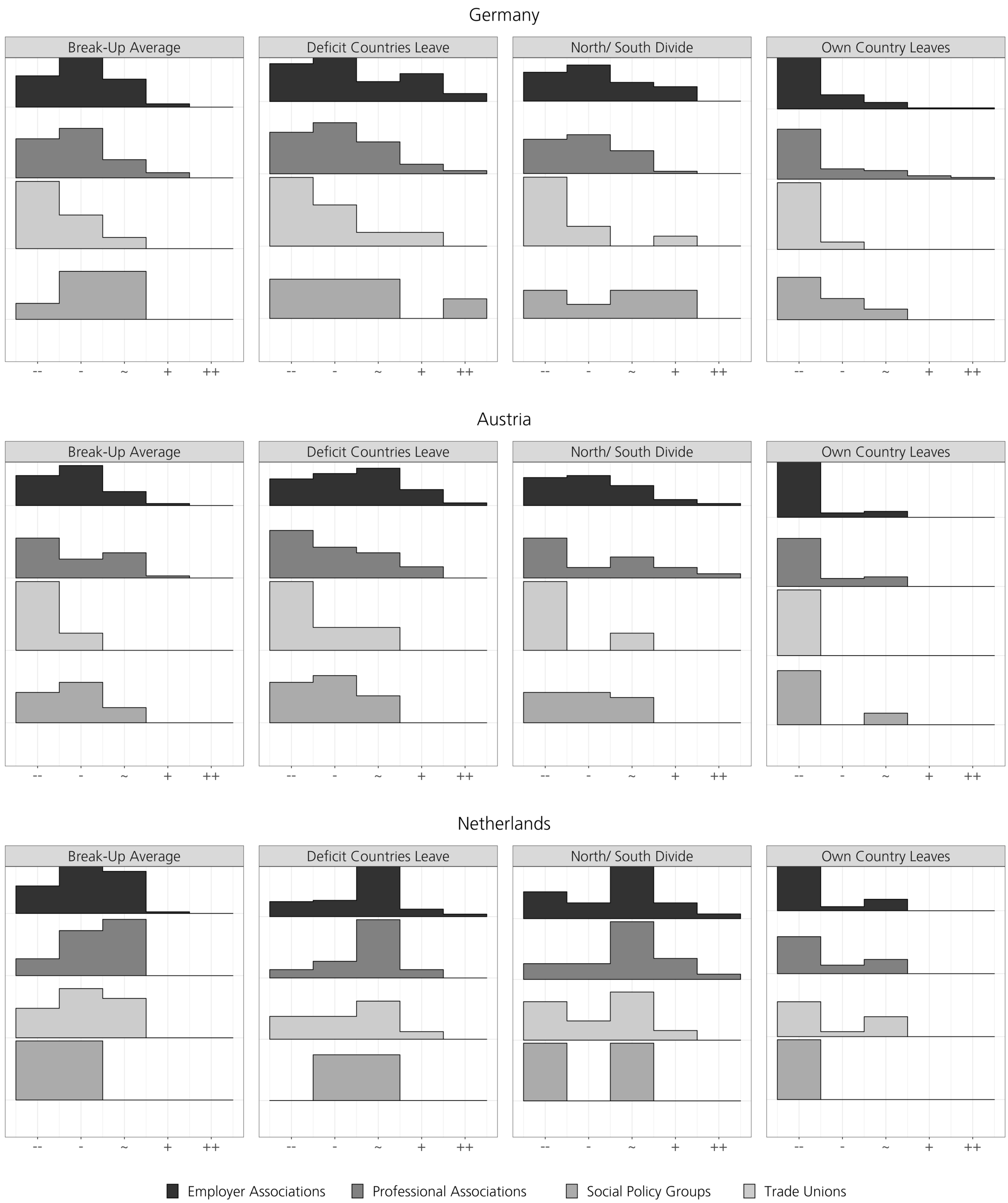
How did interest groups evaluate different breakup scenarios for the Eurozone? Figure 6.4 displays density plots of groups' assessment of each of the three options of external adjustment. In all our analyses, we distinguish between the four main types of interest groups—employer associations, professional associations, social policy groups, and trade unions—because the material interests of these groups are likely to differ.

Our analysis shows that on average all interest groups in all three countries opposed a breakup of the Eurozone in any form, even though Dutch interest groups were slightly less opposed than Austrian and German groups. There is some variation regarding the various breakup scenarios. While groups unequivocally rejected a Eurozone exit of their own country and mostly opposed dividing the Eurozone into a Northern and a Southern block, the assessments of a deficit country exit were slightly more mixed. Nonetheless, only about 21% of all the groups in our sample stated that they would support some form of a Eurozone breakup.

These findings are consistent with qualitative evidence on interest group preferences on external adjustment. In our interviews, major employer associations and trade unions in all three countries univocally stated that their members depended crucially on the stability of the monetary union in its current form. Groups in tradable sectors mainly feared that a breakup would lead to unforeseeable exchange rate and market volatilities, disruptions on financial markets, as well as threats to European economic integration more generally. They also often mentioned the return of trade barriers as a possible long-term consequence of a Eurozone breakup (Interviews DE1; DE2; AT1; AT4; NL1).[38] However, even non-tradable sector interest groups, such as those focused on retail or construction, emphasized that a breakup would have extensive negative effects on their members. Main concerns were a general depression of the economic climate as well as higher credit and refinancing costs for their members due to insecurity and friction in the financial markets (Interviews DE5; NL3). One important exemption to this general opposition to a Eurozone breakup

[38] For press statements confirming this position see (Meyer 2011; Inacker 2012; Habit 2011; VNO-NCW 2014)

Figure 7.4: Interest group evaluations of different Eurozone-breakup scenarios



Note : Density plots. Ratings range from -- (strongly oppose) to ++ (strongly support).

was a potential exit by Greece. While almost all trade unions and employer associations we interviewed said that they had supported keeping Greece in the Eurozone at the beginning of the crisis—mainly due to potential contagion effects on other member states under stress—most of them also pointed out that the potential economic costs of a Grexit for their members had become negligible by 2017.

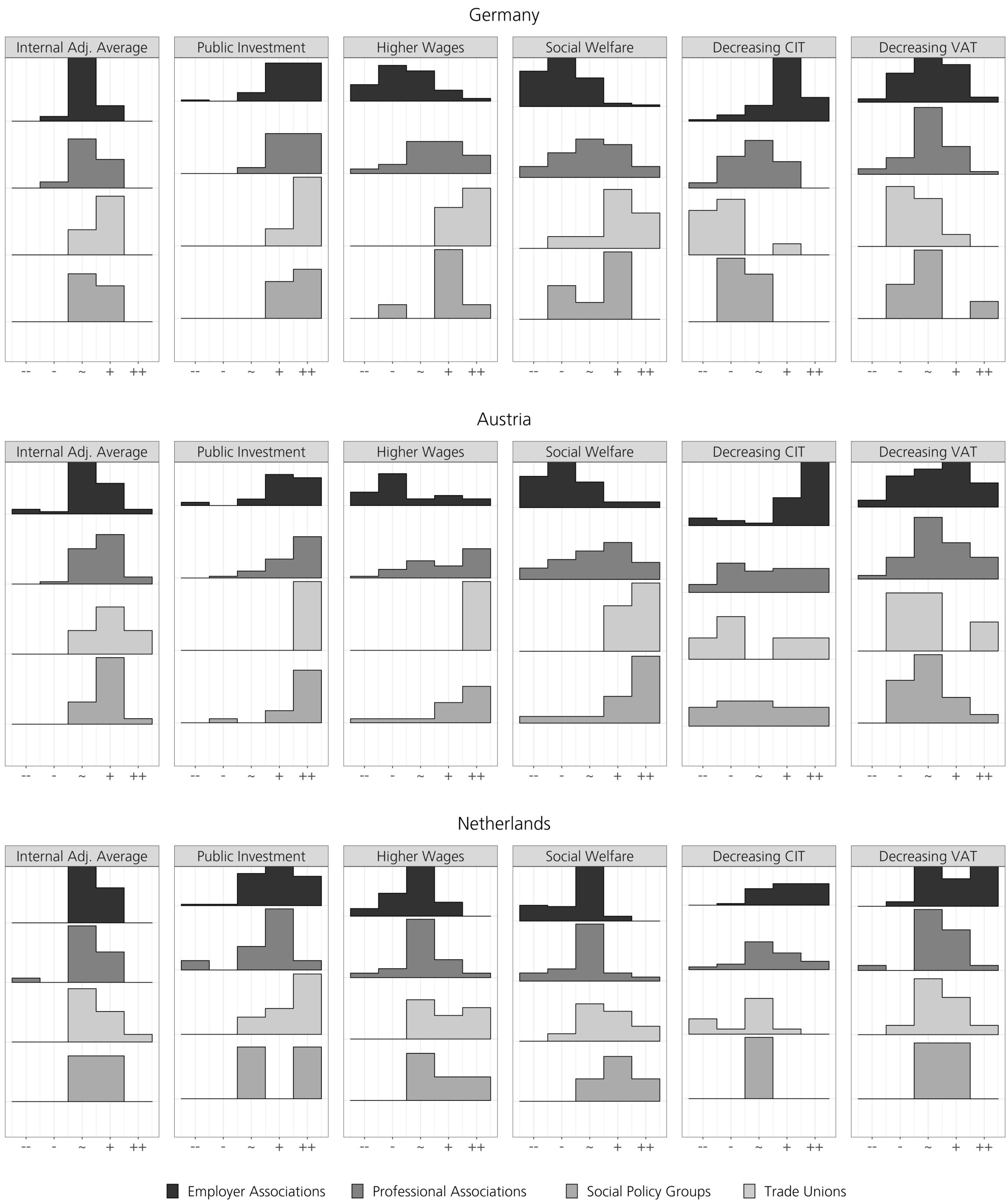
Nonetheless, the overall picture confirms research that assumes a general opposition among surplus country interest groups to external adjustment (Hall 2018; Iversen and Soskice 2018; Nölke 2015). During the Eurozone crisis, an important objective of these groups was to safeguard the EMU.

Internal adjustment preferences

The picture is decidedly more mixed when it comes to internal adjustment. Despite the rather favorable overall assessment of internal adjustment, 6.4 shows that there are clear differences in interest groups' evaluations when it comes to the specific policy alternatives. While, for example, a large majority of trade unions, social policy groups, and professional associations in Austria, Germany, and the Netherlands stated that they would support a higher minimum wage or more spending on social welfare, most employer associations were clearly opposed to such policies. The picture looks exactly the opposite way when it comes to lower taxes for businesses. Our analysis shows that every policy is supported by some groups, but also opposed by others. The only exception is a policy of increasing public investment, which almost no interest group rejected and for which support was particularly high in Germany. These findings corroborate our argument that interest group evaluations of different internal adjustment strategies are likely to be policy-specific because the costs and benefits of internal adjustment for a socioeconomic group depend on the specific policy under consideration.

While we find a generally positive attitude towards internal adjustment, we also find a considerable degree of variation in policy-specific assessments, which results in rather polarized policy preferences regarding internal adjustment. This finding is corroborated by our interviews. All the trade unions we talked to stressed the need to increase wages—for example through a higher minimum wages, expanded coverage of the negotiated tariff commitments, and a re-regulation of

Figure 7.5: Interest group evaluations of internal adjustment policies



Note : Density plots. Ratings range from -- (strongly oppose) to ++ (strongly support).

opt-out clauses and temporary employment contracts (Interviews DE7; DE8; AT4; AT5; NL4).[39] At the same time, they fiercely rejected any form of tax break for companies or any efforts to deregulate the service sector in order to stimulate private investments—the last one being a concern that they shared with representatives of the craft association. Many employer associations, on the other hand, emphasized the expansive effects of corporate tax cuts, the reductions of red tape in service industries, and the less regulated credit provisions (Interviews DE1; AT1; NL1)[40] At the same time, most German industry groups had fought the introduction of the minimum wage in 2013, and employer associations in three countries said that they would lobby against further attempts to strengthen the bargaining positions of employees in wage negotiations. As a representative of a large umbrella organization put it, "of course the main employer associations, for microeconomic reasons, have to come out against such measures [such as higher minimum wage or re-regulating contracts]. But then in tripartite exchanges, trade unions say 'But that's exactly what we want.' [...] Nobody is thinking about these things in an overall economic context. So that's what makes it difficult (Interview, DE1)."

One of the most surprising findings from our survey is the strong support for public investment by almost all interest groups. This support was also evident in our interviews, where all interest groups agreed that more public investment was needed. However, opinions again diverged on what kind of public investments should be prioritized and on how these investments should be financed. While some groups stressed the need for more public services, such as investment in education and daycare, others prioritized investments in road, energy, and digital infrastructure. Regarding the financing of more investments, similar distributional conflicts arose. Whereas trade unions and craft associations demanded financing through tax money and possibly new public debt, many employer associations insisted they be financed by private-public partnerships, which would also provide new investment opportunities to large institutional investors (Interview DE13; DE8).

In sum, our analysis shows that surplus country interest groups are not per se opposed to internal adjustment, as theoretical approaches emphasizing the power of ordo-liberal ideas and the structural influence of surplus country export sectors suggest. In fact, among all three potential crisis strategies, internal adjustment was the strategy that interest groups viewed most favorably on average. However, our analysis also shows that interest groups were heavily divided on how such adjustment should be achieved.

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[39] See also (DGB 2013; ORF 2012)

[40] See also (BDI 2014; Christoph Schneider 2013; VNO-NCW 2014; VNO-NCW 2016)

Financing preferences

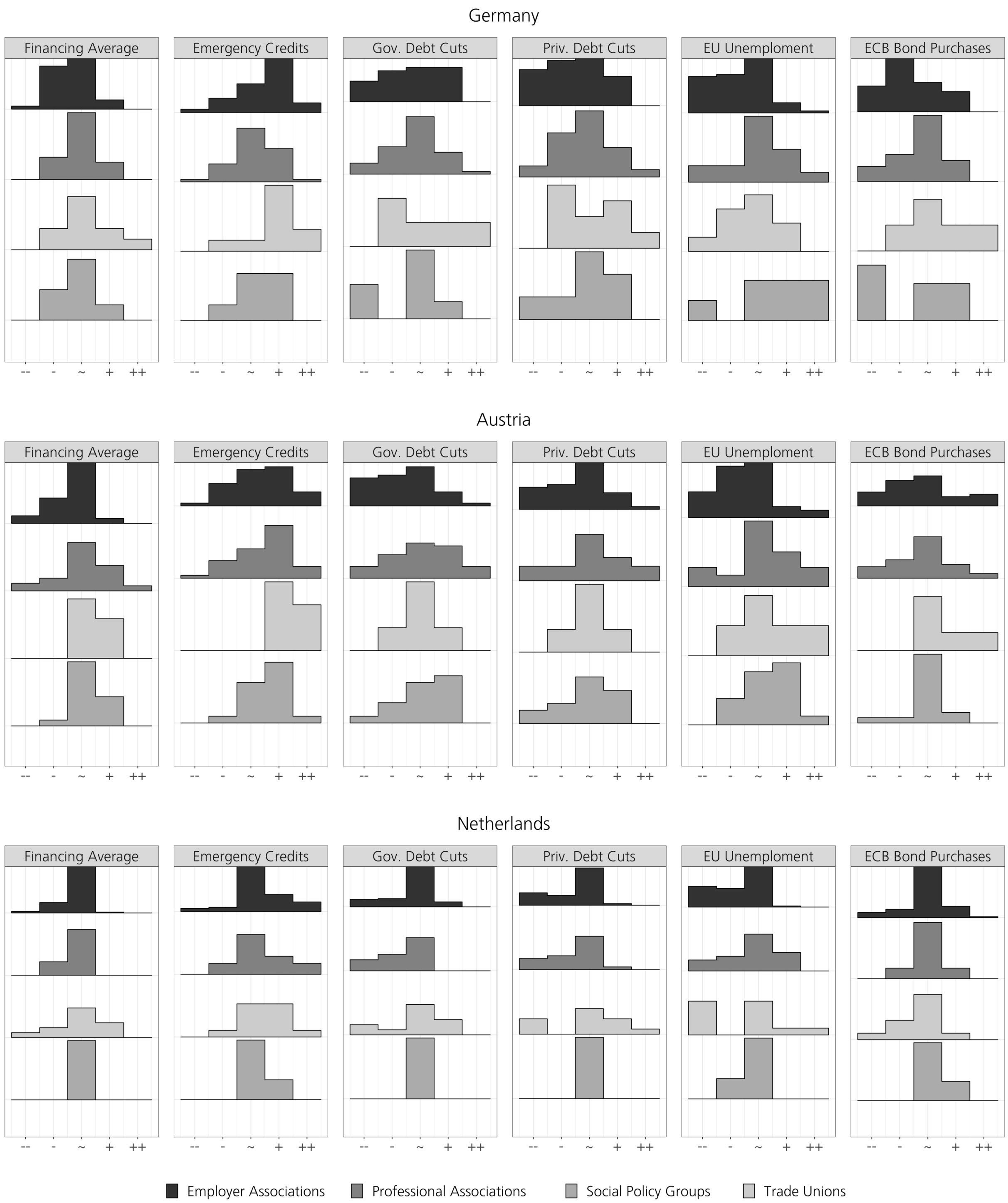
Given that interest groups were opposed to any form of a Eurozone breakup and were deeply polarized on how to achieve internal adjustment, we now turn to their assessments of the third possible crisis response: financing. Figure 6 shows how Austrian, German, and Dutch interest groups evaluated different forms of international transfers. As in the case of internal adjustment, we see that interest groups' assessments were once more policy-specific. The dominant financing policy pursued by surplus country governments in the Eurozone crisis—the provision emergency credits to deficit states in the form of bailouts—was viewed rather favorably and supported or at least not opposed by a majority of interest groups. In contrast, evaluations of haircuts on loans extended to deficit countries by private investors, the ECB bond buying scheme, and the introduction of an EU-wide unemployment schemes were much more contested.

However, Figure 6.6 also shows that groups were much more indifferent about most forms of financing than they were about the various Eurozone breakup scenarios or internal adjustment policies. A majority of interest groups stated that they neither opposed nor supported any financing option. As discussed above, this indifference may reflect the fact that financing policies can often be designed in ways that make it difficult to predict who exactly is going to bear their cost. Of course, some options produce clear-cut winners and losers, and those are the policies where we see more polarization. For example the choice to bailout crisis countries with emergency credits instead of haircuts on private sector investments clearly benefitted exposed banks in surplus countries at the expense of taxpayers. In many cases, however, it is hard to say in advance which domestic actors are going to pay the bill for interstate redistribution and when that bill will come due. Hence, interest groups have few incentives to form opinions, let alone fight, for or against, such financing policies.

Material interests and policy preferences

The huge divergence in the interest groups' policy preferences seems surprising, both from an ideas-based and a growth-model perspective, because both of these approaches suggest that interest groups should be far more homogenous in their opposition towards macroeconomic rebalancing. However, it is far less surprising from a political economy perspective, which assumes that interest groups form policy preferences based on their material interests (Frieden 1991b; Rogowski 1989; Walter 2013; Lake 2009).

Figure 7.6: Interest group evaluations of different forms of financing



Note: Density plots. Ratings range from -- (strongly oppose) to ++ (strongly support).

However, Figure 6.6 also shows that groups were much more indifferent about most forms of financing than they were about the various Eurozone breakup scenarios or internal adjustment

To corroborate this assumption, which also underpins the theoretical approach in this book, we next examine empirically how well objective measures of interest groups' material interests explain their stated policy preferences in our online survey. Do interest groups' subjective evaluations of policies broadly correspond to some rough estimates of their objective exposure to different adjustment strategies? For this analysis we use both broad measures of how much interest groups are likely to be helped or hurt by a macroeconomic rebalancing and information on the type of people or firms they represent to gauge their material exposure to different crisis strategies. For the former, we classify groups according to their main sector of economic activity and use this classification to collect data on two measures of exposure: interest groups' trade dependence and demand elasticity.[41] A group's trade dependence is measured as the share of the output that it exports to other countries in the Eurozone.[42] It proxies the degree to which a group would be hurt by a breakup of the monetary union. The more a group exports to other European countries, the more negatively it should be affected by the exchange rate volatility and market insecurity that is likely to follow a breakup (Frieden 2002). For demand elasticity, we assess how much a group would benefit from the general expansion of domestic demand that internal adjustment implies. We focus on the income elasticity of demand for the goods the members of an interest group produce, because it reflects how sensitive the demand for a specific good or service is to increases in aggregate income. We construct an ordinal variable that ranges from 1 for very inelastic goods (e.g., food and tobacco) to 6 for very elastic goods (e.g., financial services and personal care activities).[43] The higher the income elasticity of demand for the main good an economic group provides, the more it should benefit from internal adjustment.

The interest groups in our sample also represent very different sets of members, and we

[41] We use the statistical classification of economic activities in the European community (NACE) for this purpose. At the two-digit level, this categorization scheme allows us to differentiate between 99 distinct fields of economic activity. For groups that represent actors from more than one sector, we take the unweighted averages of all the sectors present among their members.

[42] NACE-level data on both measures stems from the input-output tables provided by national statistical offices (Destatis, 2018; Statistik Austria, 2018; CBS, 2018). All variables are measured by the average values between 2010 and 2013.

[43] When people have more money to spend, the income elasticity of demand tells us how much of this money they spend to buy more of a specific good or service. We make use of several empirical studies (European Union, 2007; European Union, 2008) as well as the COICOP categorization of the UN Statistics Division to arrive at our categorization. The details of our coding scheme can be found in the online appendix.

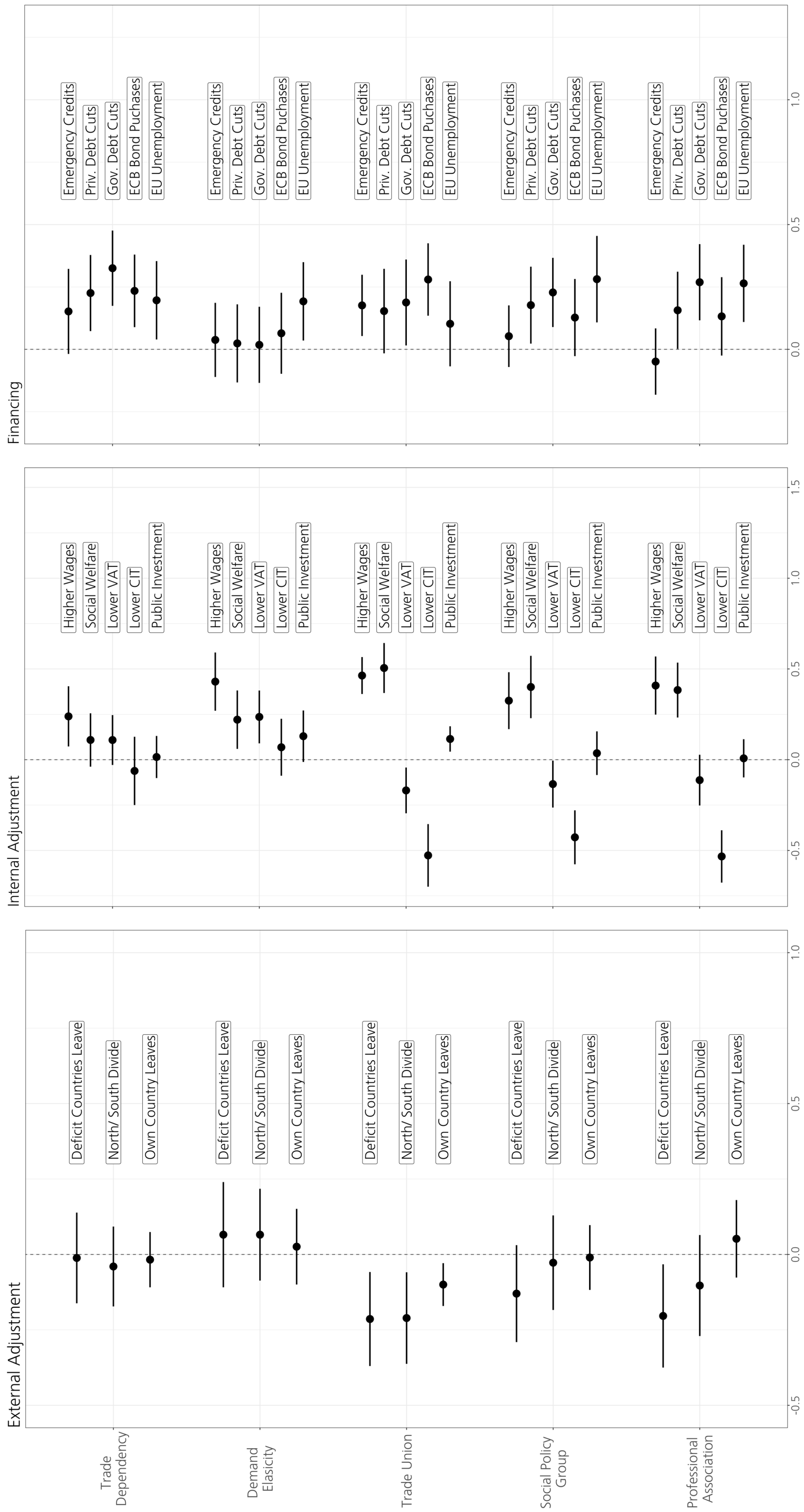
expect this variation in material interests to be reflected in how they evaluate different policies. Trade unions and social policy groups, for example, represent individuals who benefit from progressive, redistributive policies, whereas employer organizations are more likely to benefit from policies aimed at incentivizing private firms to invest. Likewise, social policy groups are likely to be the group least exposed to a breakup of the Eurozone. Of course, it is difficult to pinpoint how exactly interest groups are affected by specific policies. For example, in general, trade unions are likely to support higher minimum wages. However, the extent to which they do so will also depend on whether they represent workers from lower or higher ends of income distribution, whether they fear that higher minimum wages could lead to layoffs in the specific sectors they represent, and whether their members are already covered by tariff wages and, thus, would not benefit from universal minimum wage increase. But on average, we should see differences in how these groups evaluate the different policy options discussed in the context of the Eurozone crisis.

To examine to what extent interest groups' policy preferences are related to these proxies of their material interests, we run regression analyses in which we examine how an interest group's policy evaluation is related to its exposure to these policies. Figure 6.7 summarizes the main findings from thirteen OLS regression analyses (one for each policy option listed in Table 6.1). All models include all 343 interest groups that answered our survey as well as robust standard errors and country fixed effects. For the group types, we compare the effects of interest group type relative to the policy evaluations of employer associations.

Our findings in Figure 6.7 confirm that groups' policy evaluations were related to their material exposure. First, it shows that groups, which provided goods and services with higher levels of demand elasticity, evaluated internal adjustment policies more positively. Hence, the more groups benefited from an increase in domestic incomes, the more they supported internal rebalancing. Similarly, the groups' evaluation of different forms of internal adjustment also reflected the material interests of the type of members they represented. Compared to employer associations, trade unions and social policy groups were more supportive of measures to increase lower wages and social spending, whereas they oppose tax cuts, especially for private companies.

Second, material interests also underpin support for financing policies. The more groups relied on exports to other members of the Eurozone, the more positively they evaluated different options for providing deficit countries with financial resources. Interestingly, these effects were most pronounced for the option to grant debt relief for deficit countries' governments. Somewhat surprisingly, trade unions, social policy groups, and professional associations tended to evaluate some

Figure 7.7: Effect of interest groups' material exposure on their policy evaluations



Note: OLS Regression coefficients. All variables are standardized; all models include robust standard errors as well as country fixed effects. The baseline category for interest group dummies is employer associations.

forms of financing more positively than industry groups. While some of this could reflect material considerations—for example, trade unions' support for the monetary expansion of the ECB could be interpreted as prioritizing employment over price stability—norms of international solidarity were also likely to play a role.

Finally, counter to our intuition, we do not find that trade exposed groups feel more vulnerable to different breakup scenarios than groups that focus mostly on the domestic economy. As we have seen above, this is likely to stem from the fact that all groups, independent of their market orientation, were deeply concerned about the material repercussions of external adjustment. Taken together, these findings suggest that the interest groups' evaluations of crisis policies reflect real material considerations.

Policy salience

So far, our analysis has shown that in line with our theoretical expectations, policy preferences about possible adjustment policies varied widely—especially regarding internal adjustment and, to a lesser extent, financing—and were related to interest groups' material interests. What about policy salience? We have argued above that policies that lead to rebalancing through internal or external macroeconomic adjustment are likely to be much more salient for interest group than financing policies because the distributional effects of most forms of financing are more opaque and too long-term for interest groups to strongly care about them.

Our initial assessment of policy preferences regarding financing indeed suggested that distributional conflicts about financing were much more limited than those regarding internal adjustment. Figure 6.8a confirms this finding with a more systematic analysis. It shows boxplots of the average share of policies that interest groups stated to being indifferent about for each crisis strategy. While, on average, groups supported or rejected about 71% of the internal adjustment and 75% of the external adjustment policies included in the survey, the same was true for only about 56% of financing measures.

To explore this finding in more detail, Figure 6.8b presents further evidence in line with this characterization. To assess policy salience directly, we asked respondents how important each policy was for their organization's political work. Figure 6.8b shows a stark contrast in salience between internal adjustment, external adjustment, and financing. Almost 80% of the groups stated that policies related to internal adjustment were important or rather important for their political work.

Only 19% of them said the same for financing policies, whereas the large majority characterized these policies as unimportant or rather unimportant for their political work.

Figure 7.8: Salience of adjustment strategies

Figure 6.8a: Share of indifferent policy positions by crisis strategy

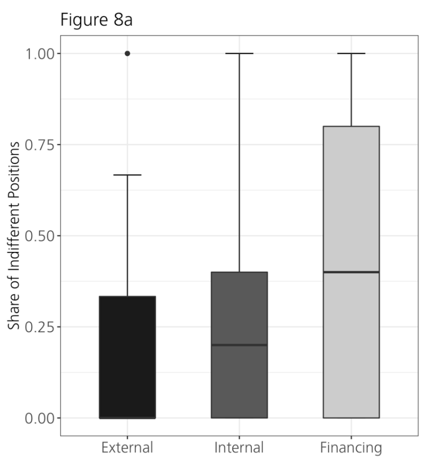
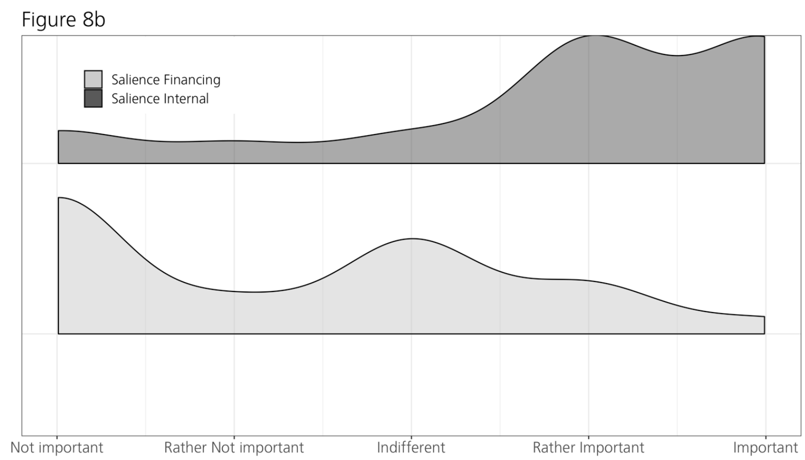


Figure 6.8b: Salience of different crisis resolution strategies



Note for Figure 6.8b: Based on the question "How important were the following policies for the political work of your organization?"

Qualitative evidence confirms this picture. While most groups we interviewed supported financial rescue measures, the specificities of the bailout regime or the further steps to institutionalize transfers ranked very low on their political agenda (Interviews DE1; DE2; AT1; NL1). Even within large and encompassing employer associations—such as the Federation of German Industries (BDI), the Austrian Economic Champers (WKÖ), or the Confederation of Netherlands Industry and Employers (VNO-NCW)—there was no formal consultation about the specificities of financing policies. As a representative of a large umbrella association for business groups put it: "The potential costs of these measures were never really thought of or discussed. [...] There are simply 50 other topics that are of much greater importance to our members (Interview DE1)."[44] In line with this characterization, none of the policymakers we talked to could remember any consultations with

[44] The financing questions were more important to trade unions. However, here they were mainly discussed with reference to the effects of the attached conditionality to workers in deficit countries and not so much regarding the potential distributional effects in Germany.

interest groups about the nature of different financing measures (Interviews DE11; AT9; NL7).

Trade-Offs and difficult choices between external adjustment, internal adjustment, and financing

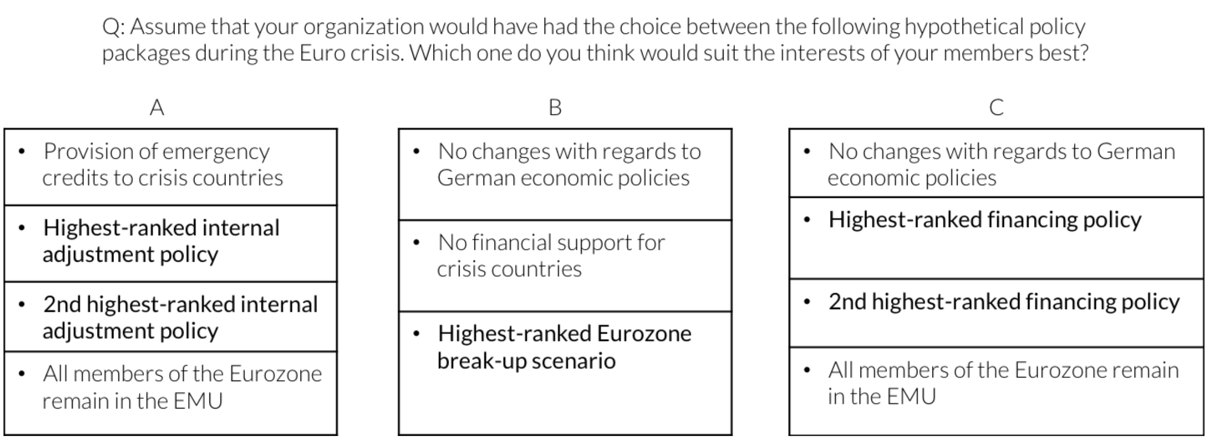
Until now, we have studied interest groups' evaluations and the salience of different forms of internal adjustment, external adjustment, and financing separately. Our analysis has shown that almost all interest groups opposed any form of a Eurozone breakup. At the same time, they were quite open towards an internal rebalancing of their economies, contrary to what research emphasizing the power of ordo-liberal ideas and the structural influence of export sectors in surplus countries suggests. Yet at the same time, they were deeply divided on how such internal adjustment should be achieved, and, overall, surplus countries did show a great reluctance to adjust internally. Regarding financing, most groups were rather indifferent about different options for financing, and, in general, interstate transfers ranked low on their political agenda.

A key argument in this book, however, is that crisis politics needs to be understood as choices among bad options, which are characterized by trade-offs. In a setting in which groups strongly disagree about the desirability of different policy options, it is hardly possible to implement forms of domestic expansion suiting everybody's interests. Understanding what drives decisions between costly alternatives is especially important in such contexts. We, therefore, now turn to a closer analysis of how interest groups responded to the trade-offs inherent in Eurozone crisis management. To examine how interest groups weighed the different policies and adjustment strategies relative to one another, we asked them to choose between different customized crisis responses that embodied these trade-offs. Respondents were asked to choose between three policy packages that correspond to the three adjustment strategies: internal adjustment (internal adjustment policies, limited financing, and no external adjustment), external adjustment (no internal adjustment, no financing, and external adjustment, i.e., a breakup of the Eurozone), and financing (no internal adjustment, extensive financing, and no external adjustment).

Because both our theoretical argument and our empirical analysis so far suggest that interest groups' choices between these options should vary by policy, especially within the internal adjustment and the financing options, we constructed two different choice sets and asked respondents to indicate their preferred policy package for each of the two scenarios. A first set included those policies that interest groups had evaluated most favorably and, thus, presented them with a setting in which trade-offs were relatively small. A second set, however, confronted respondents with a much more difficult choice; it included only bad options—that is those policies that interest groups had opposed most strongly.

To customize the choice sets, we asked interest groups not only to rate the different policies listed in Table 6.1 but also to rank these policy options within each crisis strategy from their most to their least-preferred option. We then used these rankings to build customized policy packages that reflected internal adjustment, external adjustment, and financing. Figure 6.9 shows how the different packages were presented to respondents. For each of the two choice sets, respondents were shown three hypothetical policy packages and were asked to choose one package. We use this exercise to generate two categorical variables: one that records interest groups' choice of crisis strategy in a less constrained context and one that records their choice in a highly constrained context, where interest groups are forced to choose between bad (i.e., their least preferred) policy packages.

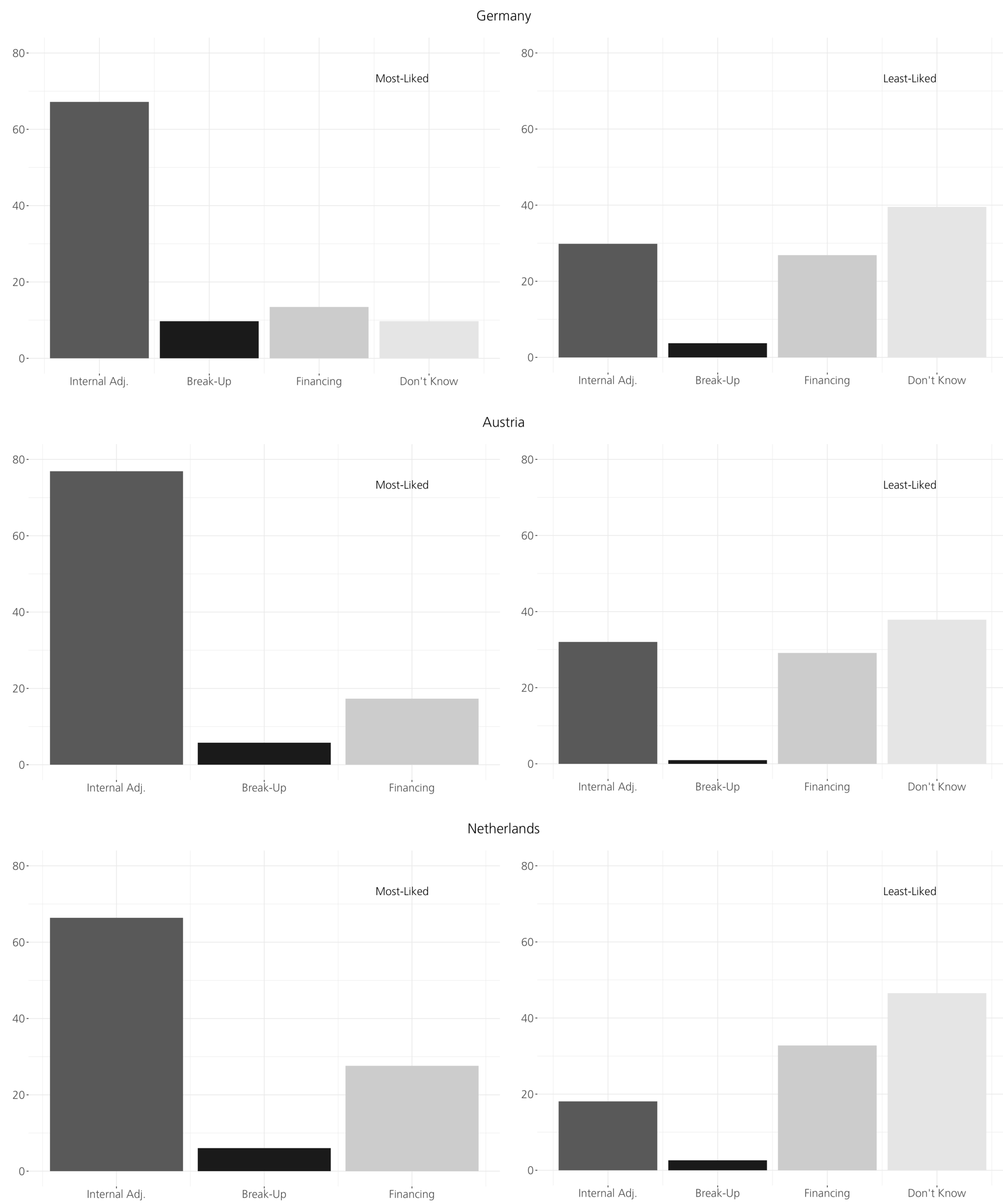
Figure 7.9: Customized construction of choice set for the three different crisis strategies



How did interest groups choose when confronted with these different choice sets? Figure 6.10 shows their choices in each of the two scenarios. On the left hand side, we see interest groups' preferred crisis strategies in all three countries when the policy packages include those policies that the interest group had previously ranked as its most preferred among the different options for internal adjustment, financing, and a breakup of the Eurozone. In contrast to much existing work that assumes economic interest groups in surplus countries uniformly oppose any policies that might undermine export competitiveness (Baccaro and Pontusson 2016b; Iversen, Soskice, and Hope 2016;

Hall 2012; F. Steinberg and Vermeiren 2015), we find that an overwhelming majority of groups actually favored such internal adjustment, as long as it comes in forms meeting their interests. Support for internal adjustment ranges from about 67% in Germany and the Netherlands to more

Figure 7.10: Choice between most-preferred (left) and least-preferred (right) crisis strategies



Note: Choice between customized policy packages containing most-preferred (left) and least-preferred (right) policies.

than 80% in Austria. Support for financing, on the other hand, remains below 20% in both Germany and Austria and below 30% in the Netherlands. Echoing our findings above, less than 10% of the interest groups in the three countries would support a breakup of the monetary union—even if it comes in the form they rated as the least objectionable among the different options for external adjustment. This picture changes dramatically in the highly constrained scenario, in which we asked groups to select their preferred crisis strategy among policy packages containing only bad options. The panels on the right-hand side of Figure 6.10 show that the popularity of internal adjustment drops substantially when the policy packages contain only the options least preferred by the interest groups.

In Germany and Austria, only 30% of the respondents remain supportive of internal adjustment in this scenario, whereas in the Netherlands support drops below 20%. At the same time, external adjustment becomes even less popular. Less than 5% of interest groups in all three countries would support their least-preferred form of a Eurozone breakup in this scenario. While support for internal and external adjustment is reduced, financing becomes significantly more attractive. In Germany and Austria, it is almost as high as support for domestic expansion, and in Netherlands, it turns into the most popular crisis response. When the trade-offs are difficult and all choices are bad, interest groups also find it significantly harder to voice clear preferences. In all three countries, the modal response is "don't know"—many interest groups simply declined to choose in such a highly constrained context.

Our analysis underscores once more that support for different adjustment strategies is policy specific. Whether or not an interest group supports internal, external rebalancing, or financing hinges on how these crisis strategies are designed. When internal adjustment comes in the form of policies they support, most groups support such a rebalancing. But when they are confronted with difficult choices among bad options, support for internal adjustment drops and financing becomes more attractive.

Vulnerability profiles and preferred crisis responses

Rather than exhibit a fundamental opposition to internal rebalancing of the economy, surplus country interest groups seem finely attuned to the distributive consequences of different possible crisis policies and strategies. To explore how interest groups deal with the trade-offs inherent in crisis management, we next explore how interest groups' vulnerability profiles shape how interest groups make difficult choices among bad options. As discussed above, we expect domestic economic interest groups to form their crisis preferences based on the relative net costs or benefits of internal and external adjustment and the net costs of engaging in financing. This suggests that when pressed to choose, they should opt for the policy package that benefits them the most and costs them the least. As long as groups benefit from the internal adjustment policy under consideration, we expect them to support domestic rebalancing. Financing, on the other hand, should become attractive when interest groups are confronted with trade-offs between bad options that push them into the "misery corner" of the vulnerability profile in which they are vulnerable to both the specific policies proposed for internal adjustment and a Eurozone breakup.

To explore how the interest groups' vulnerability profiles are related to how they make difficult choices, we, thus, need to construct these profiles in a policy-specific way. To proxy the interest groups' policy-specific vulnerabilities, we construct their vulnerabilities to their most-preferred and least-preferred policy options, drawing more on their ratings and rankings of the policy options shown in Table 6.1. Because our analysis has shown that interest groups' policy evaluations are related to their material interests, we use their policy evaluations of their most-preferred and least-preferred policy options, respectively, as proxies for these policy-specific vulnerabilities. We assume that groups would benefit from policies they support and are vulnerable to policies they oppose, which allows us to plot each group's vulnerability profiles for its most-preferred and its least-preferred policy options.

Figure 7.11: Vulnerability profiles for highest-ranked (left) and lowest-ranked (right) policies

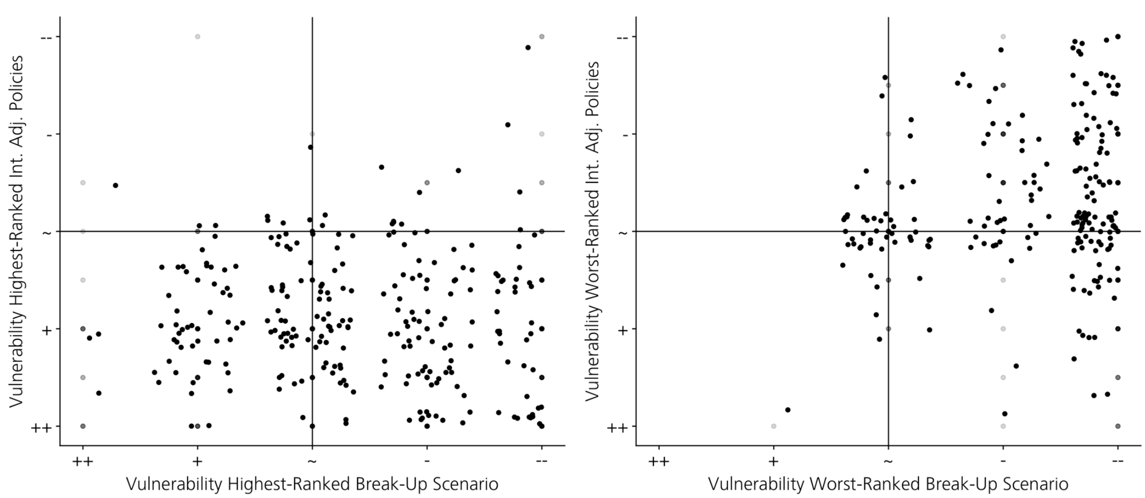


Figure 6.11 shows the results of this exercise. It plots interest groups' policy-specific vulnerability to external adjustment on the horizontal axis and plots vulnerability to internal adjustment on the vertical axis. The left-hand panel shows interest groups' vulnerability profiles vis-à-vis their most-preferred types of internal and external adjustment. This panel illustrates that almost 52% are located in quadrant IV and would thus benefit from internal adjustment but be hurt by the proposed form of a breakup. Another 28% combine benefitting from internal adjustment with being indifferent about the suggested form of external adjustment. Taking these groups together, it is not surprising that almost seven out of ten interest groups support a macroeconomic rebalancing through domestic expansion in this scenario.

The picture changes drastically, however, when we examine vulnerabilities towards the interest groups' least-preferred policies for internal and external adjustment. We see not only a strong increase in those that are very vulnerable to external adjustment but also a significant increase in interest groups who are vulnerable to internal adjustment. As a result, a large number of interest groups (42%) cluster in quadrant II, the misery corner, and would be hurt by both internal and external adjustment. Not surprisingly, as we have seen in Figure 6.10, this scenario corresponds to a massive drop in support for boosting domestic demand and an increase in support for financing.

Our data also allows us to analyze the relationship between interest groups' vulnerabilities and their choices between different crisis strategies more systematically. For this analysis, we focus on choices in the constrained trade-offs scenario in which groups have to choose between crisis strategies that contain their least-preferred policies. Because not even 3% of our respondents chose a Eurozone breakup in the least-preferred scenario, we focus on analyzing interest groups' choices for internal adjustment and financing. We recode our dependent variables into two dummy variables that take the value of one if a group chose internal adjustment or financing, respectively, and zero if it did not. Because our argument suggests that adjustment decisions are driven by policy-specific vulnerabilities, our main independent variables are each group's policy-specific vulnerabilities (proxied by the respective rating) towards the least-preferred policies in the trade-off scenario. To make sure that our findings are not driven by a group's general position towards internal and external adjustment, we control for their average evaluations of all remaining policy options within each crisis strategy (i.e., all policies that are not included in the hard trade-off scenario). Because ideas-based approaches emphasize the importance of ideology, we also control for the general opinion about

Table 7.2: Probit regression: Vulnerabilities and likelihood of choosing adjustment strategies

	Adjustment Choice - Least-Liked Packages			
	Internal Adjustment		Financing	
	(1)	(2)	(3)	(4)
Vulnerability to lowest-ranked internal adjustment policies	-0.357***	-0.380***	0.227**	0.246**
	(0.100)	(0.108)	(0.095)	(0.101)
Vulnerability to other internal adjustment policies	0.057	0.069	-0.210*	-0.201
	(0.114)	(0.131)	(0.120)	(0.140)
Vulnerability to lowest-ranked external adjustment option	0.262**	0.194	0.237**	0.149
	(0.123)	(0.136)	(0.111)	(0.128)
Vulnerability to other external adjustment options	0.138	0.141	0.110	0.100
	(0.088)	(0.098)	(0.086)	(0.091)
Market liberalism		0.039		-0.005
		(0.080)		(0.085)
European integration		0.116		0.009
		(0.086)		(0.090)
Austria dummy	-0.035	0.045	0.066	0.149
	(0.185)	(0.204)	(0.189)	(0.202)
Netherlands dummy	-0.417**	-0.293	0.201	0.219
	(0.195)	(0.217)	(0.186)	(0.203)
McFadden R-Square	0.13	0.25	0.12	0.23
Observations	333	282	333	282
Note:	*p<0.1; **p<0.05; ***p<0.01			

European integration[45] of the groups and their overall attitude towards the role of the state in the economy.[46] We also control for the country and the type of interest group.

Table 6.2 presents the results of probit regression analyses in which interest groups are more likely to choose internal adjustment (models 1 and 2) and in which they are more likely to choose financing (models 3 and 4) when confronted with difficult choices. The results show that in line with our argument, interest groups' vulnerabilities are, indeed, related to the choice of crisis strategies. The more vulnerable groups are towards the internal adjustment policies in question, the less likely they are to support domestic expansion, whereas a higher vulnerability towards external adjustment

[45] Now thinking about the European Union, some say European integration should go further. Others say it has already gone too far. Where does your organization stand on this question? (1 "Has gone too far"; 5 "Should go further")

[46] It's a fundamental question of economic policy, whether the government should actively intervene in the economy and regulate the economy or whether economic processes should be left to the market only. Where does your organization stand on this question? (1 "Comprehensive interventions"; 5 "No interventions at all")

increases the propensity to support internal adjustment.[47] In contrast, interest groups' evaluations of the other internal and external adjustment policies do not have an effect. This is not surprising to the extent that these policies are not on offer, but it also suggests that the choice for internal adjustment is not driven by a general support for macroeconomic rebalancing. Interestingly, ideology has no statistically significant effect on this choice, neither regarding the interest groups' evaluation of European integration nor of state interventions more generally.

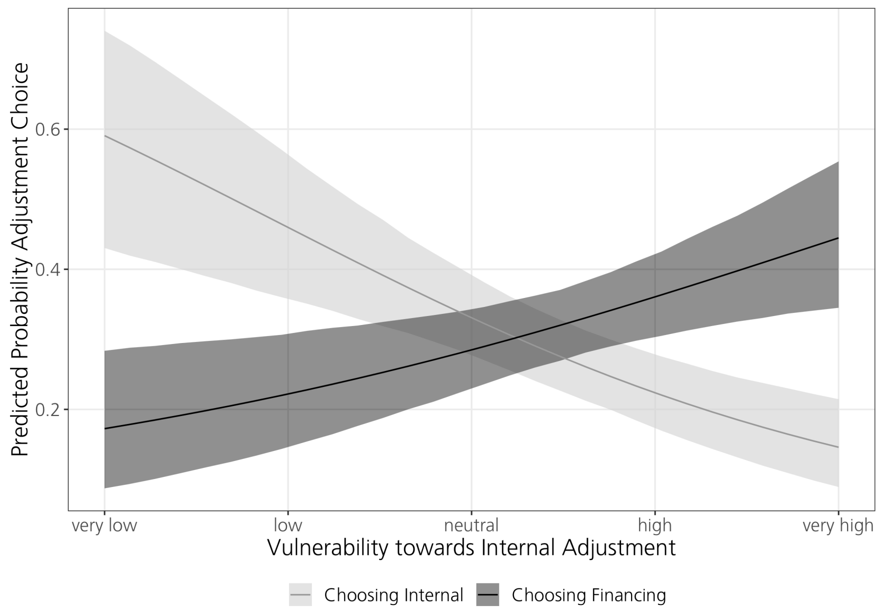
For groups that find themselves with a vulnerability profile in the "misery corner," which has a high vulnerability to external and internal adjustment, financing should be an attractive alternative. And, indeed, the more an interest group is vulnerable to internal adjustment, and to a lesser extent external adjustment, the more likely it is to choose financing as its preferred crisis strategy (models 3 and 4). As before, we do not find a significant effect of interest groups' vulnerability to those internal and external adjustment policies not included in the policy packages or ideological factors.

To illustrate these results, Figure 6.12 plots the predicted probabilities of choosing internal adjustment and financing across different levels of policy-specific vulnerability towards internal adjustment. Given that virtually all interest groups opposed external adjustment, these plots assume that groups' vulnerability to external adjustment is high.

Figure 6.12 shows that the probability a group prefers financing increases the more vulnerable it is to the proposed form of internal adjustment. When an interest group strongly supports all internal adjustment policies, including its least-preferred one, it will choose domestic rebalancing with a predicted probability of almost 60%, which is in line with its vulnerability profile in quadrant III. In contrast, the likelihood that the group will opt for financing stands at less than 20 %. Results are reversed for interest groups in the "misery corner," who are very vulnerable to both the internal and external adjustment policies in the proposed policy packages. As expected, these interest groups are predicted to select internal adjustment with a probability of only about 10%, whereas the likelihood that they will opt for financing rises to over 40%.

[47] The latter effect is not always statistically significant. Recall that most groups opposed external adjustment, so this variable varies much less than the internal adjustment variables.

Figure 7.12: Predicted probabilities of choosing internal adjustment and financing at different levels of vulnerability towards internal adjustment.



Our analysis so far has shown that a majority of groups prefer internal adjustment other possible crisis responses as long as domestic expansion is achieved through policies that serve their interests. The costs and benefits of different internal adjustment policies, however, differ across groups. Distributional conflicts about how to rebalance the economy, thus, make it a politically difficult strategy to pursue. However, opposition to specific internal adjustment policies is also associated with more support for financing, even in its unpopular variants, which is especially true, since a large majority of groups feel vulnerable to external adjustment. Together with the low salience of financing policies, this makes international transfers attractive.

Conclusion

Domestic economic interests have played a key role in the way surplus countries in the Eurozone approached the Eurozone crisis. Knowing how different economic interest groups positioned themselves during the crisis, what kind of adjustment strategies they supported, and which options they opposed is crucial to gain a thorough understanding of the politics of the crisis. In this chapter, we have used a wide range of newly collected quantitative and qualitative data to study the preferences of interest groups in Germany, Austria, and the Netherlands.

Our results show that different types of interest groups, such as employer associations, trade unions, or social policy groups, varied significantly in their support for and opposition to specific possible crisis policies, especially regarding internal adjustment and a to a lesser extent financing. Whereas a large majority of interest groups supported internal adjustment via policies that were to their advantage, support dropped significantly when internal adjustment involved policies to which they were opposed. At the same time, interest groups' vulnerability profiles informed their choice among crisis strategies, especially when confronted with difficult choices involving only bad options. For those interest groups who were vulnerable to both internal and external adjustment, financing turned into an especially attractive option.

Several findings stand out. First, we find that a large majority of economic interest groups reject any kind of Eurozone breakup. While there is some variation in the perception of different scenarios of external adjustment, most groups operate under the impression that any change in the composition of the monetary union would have enormous costs for their members. Just like in deficit states, the support for EMU also remained strong among surplus country interest groups throughout the crisis. Second, the lack of internal adjustment in such countries as Germany, Austria and the Netherlands is largely rooted in distributional conflicts about the design of possible adjustment policies. Although we find strong general support for strengthening domestic demand, different groups disagree heavily about how to achieve this goal, which turns internal adjustment into a politically difficult crisis strategy. At the same time, many interest groups are willing to support financing as a way to resolve the Eurozone's problems, especially as the salience of this crisis response is surprisingly low. These findings highlight new aspects of the politics of non-adjustment surplus countries and suggest that distributional conflicts about the specific forms of internal adjustment, together with a large consensus to avoid a breakup of the union, made financing the politically most attractive alternative.

However, our results also pose a number of new questions. If interest groups were so impassionate about the costs of engaging in bailouts, debt forgiveness, or more institutionalized forms of international redistribution, why did surplus country governments, nonetheless, take such hawkish positions in international negotiations? And why did some countries, such as Austria, implement expansionary policies despite the fact that distributional conflicts about the design of such measures were similar as in the Netherlands and Germany? To answer these questions, the next chapter digs deeper into how interest group preferences interacted with public opinion and the general economic climate in shaping domestic politics in surplus countries.

Chapter 7

Crisis Politics in Surplus Countries

Why have surplus countries been so unwilling to carry a larger share of the adjustment burden in the Eurozone crisis? In the previous chapter, we showed that domestic distributional conflicts among interest groups were a key factor impeding internal rebalancing in core countries. Based on the first systematic empirical study of interest group preferences in Austria, Germany, and the Netherlands, we showed that although most interest groups supported internal adjustment in the abstract, they were deeply divided on how to achieve it. At the same time, they also agreed that a breakup of the monetary union should be avoided, but were much less opposed to financing. Moreover, this structure of interest group preferences was very similar in all three surplus countries under investigation. We therefore concluded that this constellation of interest group preferences turned financing coupled with very limited domestic adjustment into the politically most expedient strategy for surplus country policymakers.

However, this conclusion seems at odds with two characteristics of surplus country policy responses to the Eurozone crisis. First, international transfers were not at all seen as "politically expedient" by policymakers. Rather, surplus countries, and especially Germany, were initially quite hesitant to provide bailouts and emergency loans (Sandbu 2015; Christina Schneider and Slantchev 2017). Throughout the crisis, they rejected most calls for more extensive transfers or the establishment of more permanent risk-sharing mechanisms at the European level and insisted that any financial support was granted only in exchange for harsh fiscal cuts and deep structural reforms in recipient countries (Armingeon and Cranmer 2017; Schimmelfennig 2015; Wasserfallen and Lehner 2018). If important domestic interest groups were so accepting of financing measures directed towards rescuing the monetary union, why were surplus country governments so reluctant? Second, despite a similar structure of interest group preferences, Germany, Austria, and the Netherlands differed substantially in the extent to which they engaged in internal adjustment during the crisis. Despite enormous international pressure, successive German governments did little to expand domestic demand. Austria, on the other hand, implemented a surprisingly large range of policies to strengthen domestic consumption and investment. Finally, instead of boosting domestic demand, the Dutch government initially implemented contractionary (rather than expansionary) policies and did very little to reduce the country's rapidly growing current-account surplus. If interest group preferences were similar in all three countries, what explains these differences?

To address these questions, this chapter takes a closer look at the politics of crisis management in these three surplus countries. We argue that to understand surplus country crisis policies, we also need to take into account the role of voters and how their preferences about all three available crisis strategies – internal adjustment, external adjustment, and financing – interacted with interest group pressures to shape the policy decisions made by governments. A wide range of authors have emphasized that public opinion played an important role in shaping Eurozone crisis politics (Bechtel, Hainmueller, and Margalit 2017; Beramendi and Stegmueller 2016; Howarth and Rommerskirchen 2013; Bernhard and Leblang 2016; Christina Schneider and Slantchev 2017). This chapter builds on this work and provides a systematic analysis of how domestic voters in general evaluated the different forms of internal adjustment, external adjustment, and financing, how their preferences interacted with those of organized interests, and how contextual factors determined whether voters or interest groups had more influence on the way surplus country governments approached the management of the crisis.

We argue that both interest groups and voters shaped crisis outcomes but that their vulnerability profiles and preferences differed substantially. Given these differences, issue salience was a key factor determining whether interest group politics or public opinion had a greater influence on governments' choices between different forms of external adjustment, internal adjustment, and financing. Although both voters and interest groups opposed a breakup of the monetary union,, voters were much more skeptical about most forms of international transfers than were interest groups. Given the high salience of financing issues in national debates and electoral campaigns, this skepticism trumped the more open stance of interest groups and led surplus country governments to adopt very restrictive positions in international negotiations. At the same time, most voters were very open to measures that would stimulate the domestic economy, whereas interest groups were gridlocked and could not agree on how internal adjustment should be pursued. As long as good economic conditions reduced the salience of domestic economic reforms, this gridlock among interest groups resulted in non-adjustment. But in contexts in which the state of the domestic economy became a salient issue, the public's support for internal adjustment led policymakers to disregard interest group conflict and to engage in certain forms of internal rebalancing.

We conduct comparative case studies of crisis politics in Germany, Austria, and the Netherlands and consider a wide range of quantitative and qualitative evidence to examine this argument in detail. Our analysis proceeds in two steps. First, we draw upon a rich set of available public opinion data that allows us to trace how voters in surplus countries evaluated different policies that fell into the categories of internal adjustment, external adjustment, and financing. Based on this analysis, we show that voter preferences were remarkably similar across the three countries but that their preferences differed substantially from those of surplus country interest groups. Second, we conduct in-depth case studies of Eurozone crisis politics in our three surplus countries. Building on existing studies of the interplay between voters and interest groups, we use evidence from over 30 in-depth interviews with policymakers and interest group representatives, numerous primary sources, and a rich set of existing academic studies to trace the dynamics and contextual factors that determined whether voters or interest groups were more influential in guiding how policymakers approached different crisis strategies.

Overall, our analysis shows that given the broad opposition of both voters and interest groups, external adjustment never became a politically viable option for surplus countries. Vocal and clear opposition from voters in all three countries blocked the route towards more encompassing financing approaches. Finally, more accommodating economic policies were pursued only in Austria, where the salience of the state of the domestic economy made expansionary policies electorally expedient and led the government to force economic interest groups to accept domestic reforms.

Voter preferences about how to resolve the Eurozone crisis

Our book's central premise is that a full understanding of the politics of the Eurozone crisis requires an understanding of how key societal actors and policymakers evaluated all potential crisis responses, including those not chosen. For surplus countries, these options were threefold: first, external adjustment in the form of a breakup of the monetary union, second, internal adjustment via a boost to domestic demand that would increase imports and domestic inflation, and third, financing the current-account deficits of countries in the Eurozone's deficit countries through financial transfers. In the previous chapter, we showed that interest group preferences about the desirability of each of these strategies differed considerably.

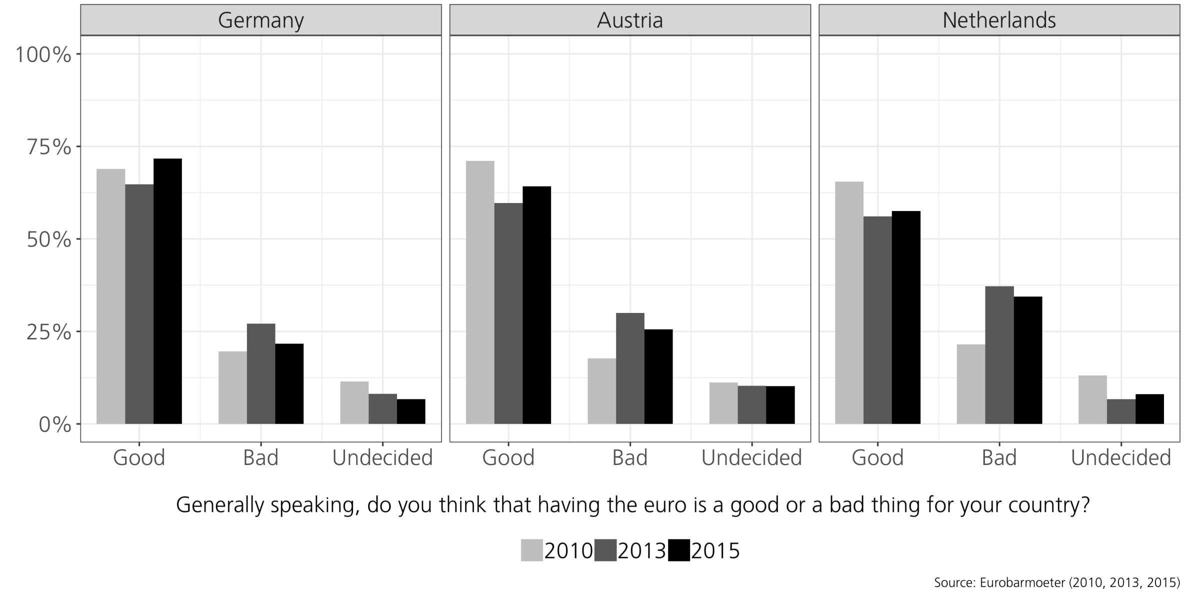
We now turn to voters and examine how surplus country voters evaluated these different policy options for managing the crisis, focusing on the same three surplus countries (Austria, Germany, and the Netherlands). To generate a comprehensive picture of voters' policy preferences, we combine data from multi-country surveys, such as the Eurobarometer, with a large number of national surveys that allow us to gauge voter preferences with respect to more specific issues in the domestic arena and as well as to trace the trajectory of public opinion over time. We first discuss voter preferences regarding each crisis strategy, starting with their positions on external adjustment and moving on to their positions on domestic rebalancing and finally financing. We then draw together this evidence and discuss what it means in the context of the book's vulnerability profile framework. We find that voters largely opposed a breakup of the monetary union, were quite supportive of a wide array of measures that could have contributed to internal adjustment, and remained deeply skeptical of virtually any form of international financing.

External adjustment: Surplus country voters and a breakup of the Eurozone

How did surplus country voters evaluate external adjustment? How did they view different scenarios of how the Eurozone might break up? To answer these questions, we explore three aspects of public opinion about the Euro in our three surplus countries: the public's overall support for the Euro, voters' support for their own country's exit from the common currency, and the public's views about an exit of individual deficit and debtor countries from the Eurozone.

In line with existing research (Hobolt and Leblond 2013; Roth, Jonung, and Nowak Lehmann 2016), Figure 7.1 shows that an overwhelming majority of voters in surplus countries viewed the Euro positively and retained this positive view of the common currency throughout the crisis. On average, about 68% of voters in Germany, 65% in Austria, and 60% in the Netherlands stated that overall the Euro was a good thing for their country. That said, there was a sizeable increase in the share of surplus country voters who believed that the Euro was a bad thing for their country between 2010 and 2013, when the Eurozone crisis peaked. Nonetheless, throughout the crisis those with a generally positive view of the Euro remained the clear majority in Germany, Austria, and the Netherlands over the entire period.

Figure 0.1: Overall evaluation of the Euro between 2013 and 2015

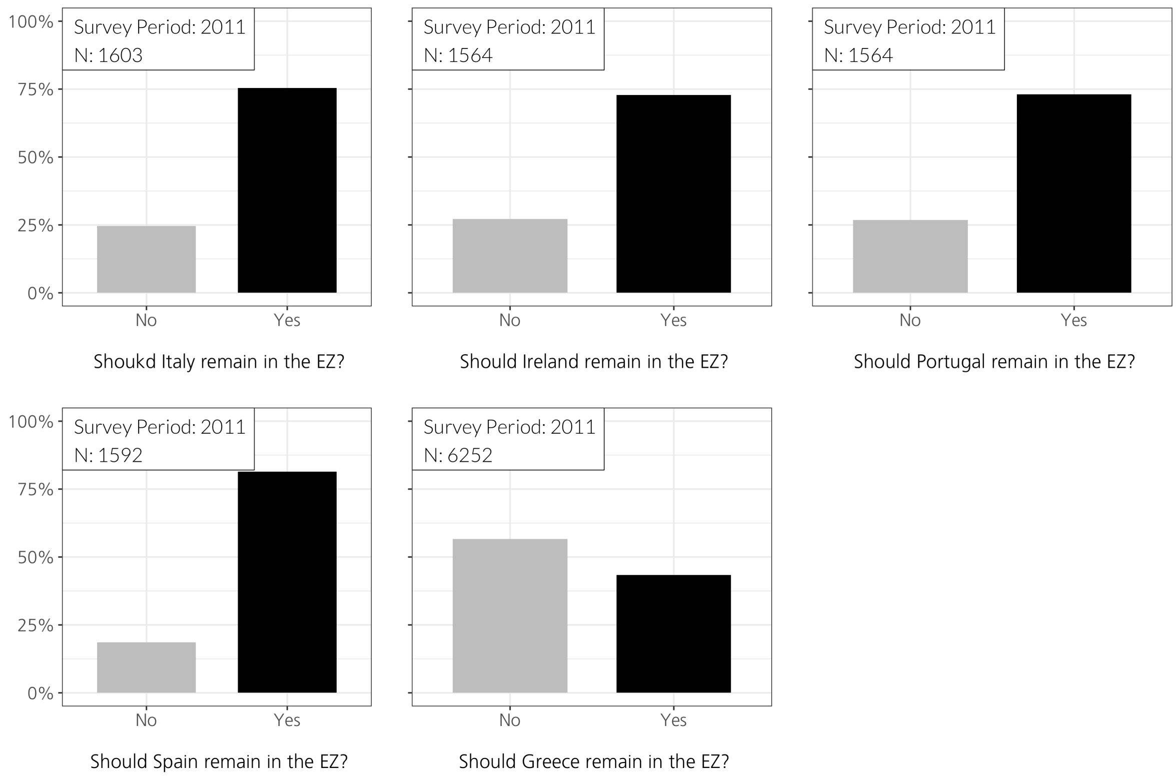


This positive of evaluation of the Euro was also mirrored by the fact that a clear majority of surplus country voters wanted their respective countries to keep the Euro. A wide range of studies has emphasized that Euroskepticism in Northern Europe increased throughout the crisis (De Vries 2018; Hobolt and de Vries 2016a; Braun and Tausendpfund 2014). Nonetheless, this did not translate into broad support for an exit from the common currency. Various national surveys show that those who actually wanted their country to leave the Eurozone remained the clear minority. Yet that minority was not negligible, and it was much more pronounced than among interest groups. For example, every third respondent in both a 2011 survey in the Netherlands (Maurice-De-Hond 2011b) and a 2012 survey in Austria (OGM 2012) stated that their country should abandon the Euro and return to a national currency.[48] And in Germany, every fourth respondent favored a German exit from the Eurozone in 2013 (Jung, Schroth, and Wolf 2015). Importantly, however, this support for a national withdrawal from the common currency was more concentrated among supporters of far-right parties such as the Alternative for Germany (AfD), the Freedom Party of Austria (FPÖ), and the Dutch Party for Freedom (PVV). In contrast, 79% of those voting for the government parties Christian Democratic Union (CDU) and Free Democratic Party (FDP) in Germany in 2013, and 65% of those voting for the People's Party for Freedom and Democracy (VVD) and the Labor Party (PvdA), which governed the Netherlands in 2011, wanted to remain in the Eurozone. To the extent

[48] In the Netherlands, 32%; in Austria, 35%.

that policymakers pay particular attention to the preferences of their own party's voters (Walter 2016), this means that surplus country governments confronted voters that overwhelmingly supported a continuation of their country's membership in the Eurozone.

Figure 0.2: Should crisis countries remain in the Eurozone? Responses from Germany



Source: Jung, Schroth, and Wolf (2013)

Overall, voters in surplus countries also opposed an exit of other countries from the Eurozone. Rather than supporting an "external adjustment through the backdoor" by allowing or asking deficit countries to leave the Economic and Monetary Union, surplus country voters exhibited a strong aversion to such proposals. The best data available on this issue stems from a July 2011 poll in Germany. Figure 7.2 shows that a large majority of German respondents supported the continued membership of almost all crisis countries in the common currency.[49] Greece is the only case in which opinions on a potential exit from the Eurozone were more divided. But even in the case of Greece, there was not a clear popular push for Grexit. In 2012, a slight majority (53%) of German respondents stated that Greece should abandon the common currency. This sentiment remained

[49] Although we lack surveys that asked similar questions about deficit countries to respondents in Austria and the Netherlands, given the consistency voters from the three countries showed on other items, we have little reason to believe that public opinion in these countries was dramatically different.

quite stable over time, and the number of Grexit supporters did not even change during the spectacular negotiations about the third bailout in the summer of 2015 (Forschungsgruppe-Wahlen 2016). Surveys from Austria and the Netherlands point in a similar direction. In the Netherlands, supporters of a Grexit varied around 45% throughout the crisis period (Maurice-De-Hond 2011a; Maurice-De-Hond 2012; Maurice-De-Hond 2015). In Austria, the share of citizens that supported a Grexit actually decreased throughout the crisis. In 2012, more than 60% of Austrian respondents – a clear majority – were in favor of Greece leaving. However, by 2015 the share had significantly decreased to 45% (OGM 2015).

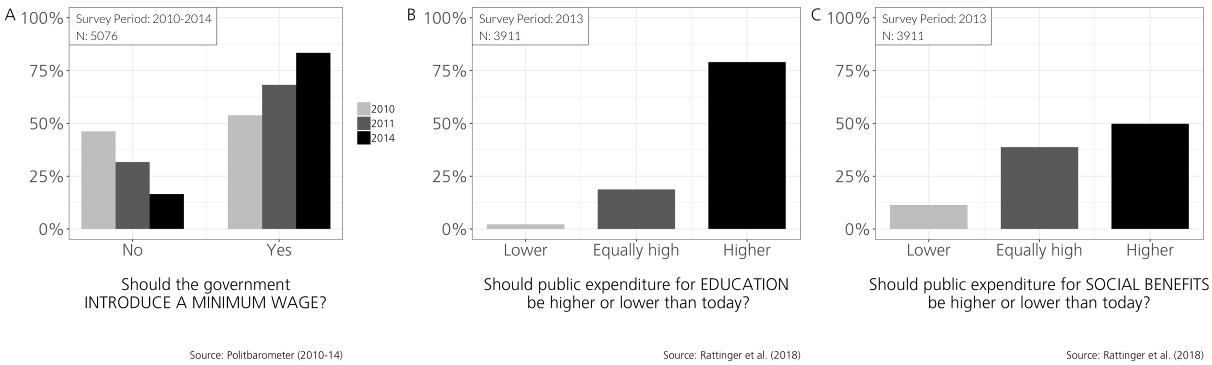
Our analysis thus leads us to conclude that in the Eurozone's three major surplus countries, public support for external adjustment was quite limited. Even though sizeable minorities supported a breakup of the monetary union in one form or another, this support was concentrated among those who voted for populist-right opposition parties. The parties in government, in contrast, were confronted with voters who – in line with surplus country interest groups – overwhelmingly rejected external adjustment.

Internal adjustment: Public opinion on domestic rebalancing

What did public opinion on internal rebalancing look like? Research emphasizing the role of ideas has often argued that the road towards an expansion of domestic demand in surplus countries is blocked by fiscally austere voters, who subscribe to the argument that domestic wage restraint is necessary to safeguard their country's export competitiveness (Sattler and Haas 2018; Bulmer 2014a) and who love low government debts (Haffert 2016; Blyth 2013; Matthijs 2016; Howarth and Rommerskirchen 2013). This suggests that during the Eurozone crisis, voters in surplus countries should on average have opposed any expansionary measures designed to rebalance the economy, such as increases in government spending, efforts to increase wage growth, tax cuts, or new incentives for generating more private investment in the domestic economy.

However, national polls show that at the policy level, voters in surplus countries actually seemed to be very open to different forms of domestic expansion. Figures 7.3-5 depict public opinion on potentially expansionary policies, which were discussed in Germany, Austria, and the Netherlands over the course of the Eurozone crisis. It shows that voters are actually quite supportive of a wide range of possible measures for domestic expansion.

Figure 0.3: Public opinion on various forms of internal adjustment in Germany



In Germany, for example, public opinion was not overly orthodox in terms of public spending. In a 2010 survey, more than half (55%) of respondents stated that additional tax revenues should be used for tax cuts or more government spending, whereas only 43% were in favor of using such revenues to repay debts (Infratest-dimap 2016). The public also supported various policy measures designed to raise domestic wages. Figure 7.3 shows that between 2011 and 2013, a strong and growing majority of ultimately over 70% of respondents supported the introduction of a nationwide stationary minimum wage, which became a major policy issue during that time and was eventually implemented in 2013. Voters were also supportive of wage growth in other segments of the income distribution. In a survey from 2010, about two-thirds of all respondents supported the statement that the economic recovery should first and foremost be used to increase the wages of workers in Germany (Infratest-dimap 2011). At the same time, German voters were also surprisingly favorable to increasing public spending. In 2013, more than 75% wanted the government to increase public investment in education, and there was even majority support for substantial increases of public spending on social welfare. This support was also very broad. With the exception of supporters of the liberal FDP, support for the minimum wage, more spending on education, and increased expenditure for social welfare reached across party lines.

The public was quite positive about internal adjustment in other surplus countries as well. In Austria, three-quarters of respondents in a 2013 survey agreed that the government should lower income taxes, even if such measures would lead to higher public debt, and that the state should invest more in education. And more than 60% of respondents felt that the government should fight unemployment even if this would lead to higher budget deficits (Figure 7.4).

Figure 0.4: Public opinion on various forms of internal adjustment in Austria

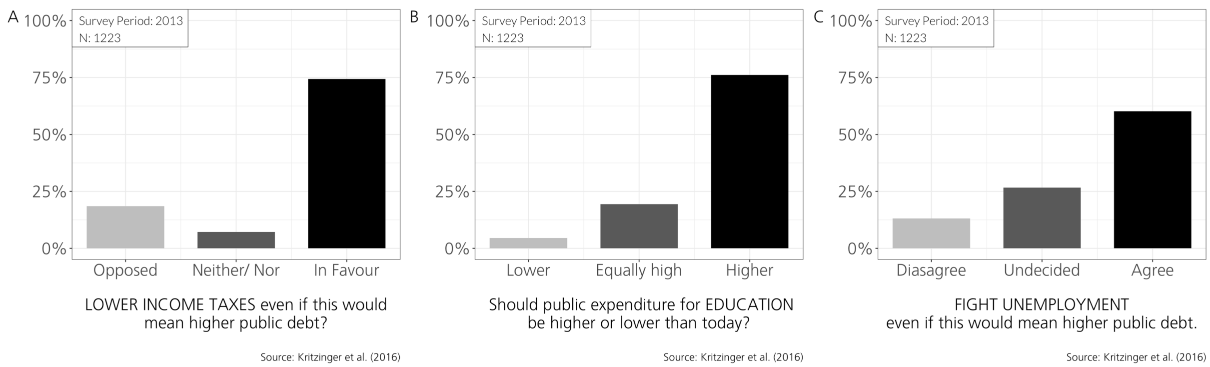
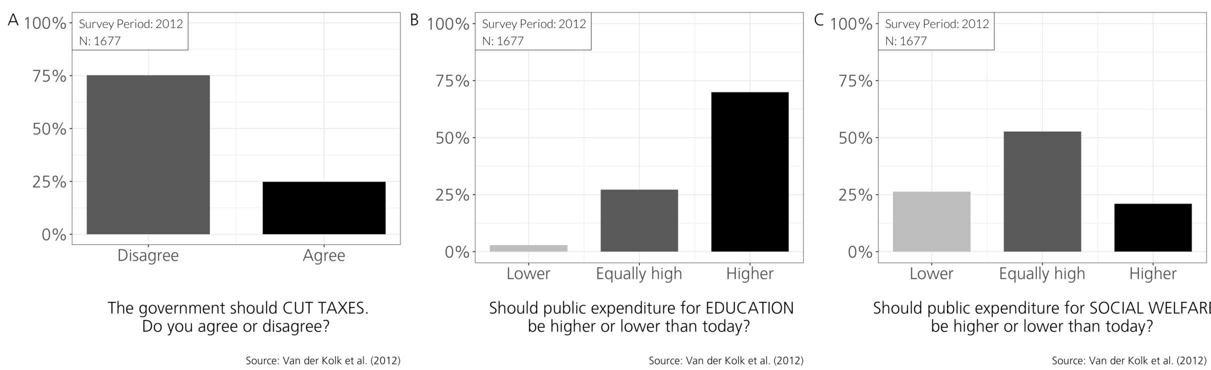


Figure 0.5: Public opinion on various forms of internal adjustment in the Netherlands



Only in the Netherlands did public opinion exhibit less enthusiasm about policies designed to foster internal adjustment. In 2012, a clear majority opposed tax cuts (Figure 7.5), and only 25% supported increasing government spending on social welfare. As we will see later in the chapter, a possible explanation for this more restrictive stance is the fact that in 2012, the Netherlands itself struggled with rising levels of public debt and financial market pressures. However, even in these fiscally difficult times, a clear majority of voters favored more public spending in some areas, such as education.

Altogether, this evidence suggests that the lack of internal adjustment in surplus countries can hardly be explained by public skepticism and fiscal orthodoxy. Just like surplus country interest groups, the public seems to have been surprisingly open to implementing some forms of internal adjustment. Especially in Germany and Austria, there was plenty of room to garner public support for expansionary domestic policies, and even in the Netherlands, voters would have welcomed some expansionary measures.

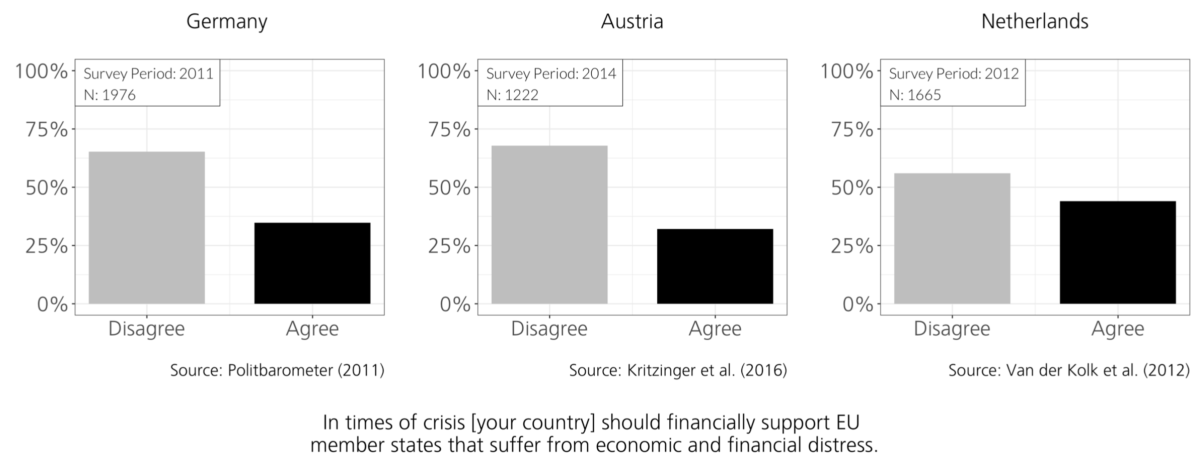
Financing: Public opinion on financial transfers to deficit states

Voters were much more skeptical with regard to financing as a third possible crisis response. Most research on surplus country voter preferences on this issue finds that voters generally opposed the idea of redistributing money from surplus countries to deficit states (Beramendi and Stegmueller 2016; Hobolt and de Vries 2016a). There was considerable opposition not only to bailing out individual crisis countries (Bechtel, Hainmueller, and Margalit 2014; Bechtel, Hainmueller, and Margalit 2017) but also to the creation of European rescue funds (Stoeckel and Kuhn 2018), the provision of debt reliefs for struggling countries (Rathbun, Powers, and Anders n.d.), and the establishment of more institutionalized transfer mechanisms such as European unemployment schemes or Eurobonds (Dolls and Wehrhöfer 2018; Daniele and Geys 2015; Kanthak and Spies 2018; Koller 2018).

One of the reasons for the widespread opposition among voters was that, contrary to our findings for interest groups, financing preferences at the individual level seemed to have been shaped largely by noneconomic factors. Extensive research has shown that opposition to different forms of international transfers was closely linked to voters' nationalist attachment and in-group loyalty (Kuhn, Solaz, and van Elsas 2017; Bechtel, Hainmueller, and Margalit 2014; Daniele and Geys 2015), limited altruism (Kleider and Stoeckel 2018), conservative and Euroskeptical political attitudes (Bauhr and Charron 2018; Stoeckel and Kuhn 2018), and moral questions about fairness and retribution (Rathbun, Powers, and Anders, n.d.). Importantly, these cultural factors seemed to matter more for voters' preferences than did the individual material costs and benefits they attached to financing policies. In general, however, extensive research has shown that public opinion in surplus countries was characterized by widespread opposition to financing and that although some voters reacted to partisan cues on the issue (Stoeckel and Kuhn 2018), rejection did not seem to be correlated with political sophistication, general political interest, or media consumption. Against this background, public opposition to transfers was relatively stable over time and, once established, hard to move into a more generous direction (Rathbun, Powers, and Anders n.d.).

Yet it is also important to note that respondents were quite attentive to the type of financing provided. For example, German respondents were much more likely to support smaller bailout packages for Greece and packages in which Germany's relative share of the financial burden was smaller. Also, voters' grew more supportive of financial transfers, if bailouts were linked to strict economic conditionality (Bechtel, Hainmueller, and Margalit 2017).

Figure 0.6: Public opinion on financing in Germany, Austria and the Netherlands



A brief review of national polls confirms that surplus country voters were deeply skeptical about financing. Figure 7.6 shows that throughout the crisis, a clear majority of voters opposed even the general idea that their countries should financially support other member states in times of crisis. In Germany, more than 60% stated that their country should not support other member states in need. Other surveys show that the German electorate was not more forthcoming when asked about more specific forms of financing. More than 80% opposed the expansion of the European Financial Stability Facility in 2011, and more than 70% were against providing additional resources to the European Stability Mechanism in 2012 (Politbarometer 2011, 2012). Furthermore, 84% of all Germans opposed the introduction of Eurobonds, and 56% thought the German government should not have agreed to the haircut on Greek debt owed to private banks in 2011 (Jung, Schroth, and Wolf 2014; Jung, Schroth, and Wolf 2013). Importantly, this distribution did not differ substantially across party lines. With the exception of Green parties, a majority of supporters of all major parties opposed the general premise of international financial support in times of crisis.

Moreover, Figure 7.6 illustrates that even though much of the existing literature on financing preferences has focused on Germany, skepticism regarding international transfers also characterized public opinion in Austria and the Netherlands. Almost 70% of all Austrians and a majority of Dutch respondents opposed the provision of financial support to crisis countries.[50] Other surveys confirm this picture. In 2011, 64% of all Austrians opposed the creation of new rescue funds at the

[50] In the Netherlands, respondents were asked whether their country should "lend money to" instead of "financially support" member states suffering from economic and financial distress (NKO 2012). This wording might explain the slightly higher share of supporters.

European level[51], and in the same year about 60% of Dutch voters stated that their government should stop lending money to countries in crisis (DiePresse 2011; Maurice De Hond 2011).

Overall, voters in all surplus countries throughout the crisis remained deeply skeptical of financing as a response to the Euro crisis. Although public opinion on external and internal adjustment was similar to interest groups' views regarding potential crisis policies, they differed significantly with regard to the financing strategy: whereas financing was mostly a low-salience issue for interest groups, more far-reaching reforms for international transfers and risk sharing elicited the support or at least a lack of opposition from a majority of interest groups. In contrast, financing was a salient issue for voters, and public support for redistributive measures that benefited deficit countries was quite limited.

Diverging preferences: Public opinion and interest group preferences in the Euro crisis

Table 7.1 summarizes how voters evaluated the three possible strategies followed by surplus countries in the management of the Eurozone crisis. First, the crisis did spark a significant proliferation of anti-European sentiments in all surplus countries. However, the group of voters who actually would have welcomed a breakup of the monetary union remained a clear minority, and on aggregate, surplus countries' electorate opposed external adjustment. Second, contrary to much existing work on the subject, at the policy level, voters would have welcomed a wide array of measures designed to stimulate domestic demand and wage growth. Although we lack the detailed information that have on interest group preferences for comparable polices across all countries for voters, national surveys show that public opinion did not constitute a major hurdle for internal adjustment. Finally, extensive academic research and public opinion polls show that a large majority of voters in surplus countries remained very skeptical about international transfers. Given that most voters wanted to avoid a breakup of the monetary union, public opposition to financing might seem surprising. However, existing studies have also shown that in contrast to the attitudes of economic interest groups, voters' attitudes towards international redistribution and risk sharing were driven much more by nonmaterial factors such as national attachment and redemption than by cold cost–benefit analyses.

51 https://diepresse.com/home/wirtschaft/economist/704181/Oesterreicher-lehnen-EURettungsschirm-ab

Table 0.1: Voter and interest group preferences on crisis strategies

	EXTERNAL ADJUSTMENT	INTERNAL ADJUSTMENT	FINANCING
VOTERS	↓	↑	↓
INTEREST GROUPS	↓	↑↓	↑

The overview in Table 7.1 also allows for a comparison of the preferences of voters with the positions of interest groups, which we analyzed in Chapter 6. Although both voters and interest groups opposed a breakup of the monetary union, their preferences diverged with respect to the other two possible crisis responses. Contrary to voters' welcoming stance, distributional conflicts about the microeconomic effects of various expansionary policies made internal adjustment a costly strategy to pursue for economic interest groups. Moreover, interest groups did not share voters' skepticism with respect to financing and would have been open to a wide array of potentially stabilizing measures.

Given the differences in preferences between voters and interest groups, it becomes important to identify the preferences responsible for setting the more vigorous constraints for policymakers and to determine how the influence of voters and interest groups differed across various policies and adjustment strategies. Before we discuss our case studies of crisis politics, the next section therefore builds on existing studies of interactions between voters and interest groups to guide our theoretical expectations.

Voters, interest groups, and Eurozone crisis politics in surplus countries

Our analyses have shown that although both voters and interest groups in surplus countries rejected external adjustment as a path to Eurozone crisis resolution, they differed significantly in their assessments of the merits of internal adjustment and financing. A key question for the study of crisis politics in surplus countries is therefore whose preferences were more influential in guiding policymakers' decisions regarding the management of the Euro crisis.

Existing research on the politics of the Euro crisis has been divided on this question. One set of studies has emphasized that public opinion and voter preferences were key determinants of the way surplus countries responded to the Eurozone's problems. These studies have built on the general idea that in democracies, politicians are responsive to the interests of potential voters, because citizens use the ballot box to hold governments and legislators accountable for their political decisions (Downs 1957; Dahl 1971; Esaiasson and Wlezien 2017). As a result, democratically elected policymakers, even in the context of European policymaking, have strong incentives to turn voters' preferences into policy (Hagemann, Hobolt, and Wratil 2017; Christina Schneider 2018).[52] From this perspective, the decisions made by surplus country governments during the Eurozone crisis were therefore shaped primarily by domestic electoral considerations (Bernhard and Leblang 2016; Armingeon and Cranmer 2017a). Concerns about public opinion and rising levels of Euroskepticism made surplus countries hesitant to support international bailouts (Christina Schneider and Slantchev 2017) and further fiscal integration (Börzel and Risse 2018), both of which were largely rejected by a majority of voters. Likewise, especially in Germany – the most extensively studied surplus country – the lack of internal adjustment reflected voters' fiscal conservatism, inflation aversion, and preference for balanced budgets (Bonatti and Fracasso 2013; Haffert 2016; Howarth and Rommerskirchen 2013; Bulmer 2014a) but also voters' belief that current-account surpluses were a desirable sign of economic strength (Iversen and Soskice 2018; Sattler and Haas 2018). In sum, this first line of research has argued that surplus country policies reflected voter preferences in these countries.

A second line of research has emphasized the influence of special interests on surplus countries' policy responses to the Eurozone crisis. Starting from the observation that the congruence between public opinion and policy outcomes is often limited (Matsusaka 2010; Wlezien and Soroka 2012), these studies have built on a large body of research on the influence of organized interest groups on political outcomes (Gilens and Page 2014; Hacker and Pierson 2010; Grossman and Helpman 2001; Klüver 2013; Dür and Bièvre 2007). Such groups have at their disposal a wide array of means to shape policies. They can directly sway policymakers through campaign contributions (F. Baumgartner et al. 2009; Kalla and Broockman 2016) and by mobilizing the electoral support of their members (Klüver 2018). They can influence policy outcomes by providing expertise and special knowledge on complex issues (Culpepper 2011), by shaping the (expected) economic consequences of certain policy decisions (Lindblom 1977; Culpepper and Reinke 2014), or even, especially in corporatist settings, through direct involvement in bodies of formal consultation and institutions for

[52] We leave aside here the debate about the extent to which voters' policy preferences can be shaped by elite cues (see, for example, Steenbergen, Edwards, and Vries 2007).

governmental decision-making (Schmitter and Streeck 1991; C J Martin and Swank 2012). Economic interest groups thus also shaped surplus country policymaking in the Eurozone crisis. A number of studies have argued that governments' willingness to engage in limited international bailouts was largely a tool for protecting the interests of exposed domestic banks (Tarlea et al. 2019; Frieden and Walter 2017b; Hall 2012; Blyth 2013). This research has maintained that the initial opposition of Germany, Austria, and the Netherlands to any form of debt forgiveness for deficit states reflected the need to buy their own banks the time to eliminate risky assets from the periphery (Thompson 2015; F. Steinberg and Vermeiren 2015). At the same time, the road towards more encompassing fiscal transfers was blocked by producer groups in export industries, which perceived more far-reaching transfers as detrimental to their interests in austere fiscal policies and wage restraint at home (Höpner and Lutter 2014; Hall 2018; F. Steinberg and Vermeiren 2015). Similarly, surplus countries' unwillingness to rebalance their current accounts was rooted in a broad coalition of domestic employer groups and trade unions that depended either directly or indirectly on the performance of the export sector (Iversen, Soskice, and Hope 2016; Hall 2012). According to this literature and contrary to our findings from the previous chapter, the need to preserve competitiveness on international markets thus led a powerful coalition of both employer associations and trade unions in affected industries to lobby against any internal adjustment measures that could produce higher inflation, and a rise of the domestic wage level (Hall 2014; Stockhammer 2016; Moravcsik 2012; Bonatti and Fracasso 2013).

Both of these research strands have produced convincing evidence that electoral concerns and interest group pressure influenced the way surplus country governments chose to manage the Eurozone crisis. At the same time, our own analysis of interest group and voter preferences shows that neither of these groups were fully successful in shaping policy outcomes fully in line with their preferences. Had surplus country governments cared most about implementing policies in line with voter preferences, they would have been more restrictive in terms of financing and would have instead engaged more in implementing popular expansionary policies at home. In contrast, had crisis politics been dominated exclusively by special interests, surplus countries would have been much more forthcoming about international transfers, and distributional conflicts among interest groups would have effectively ruled out any form of internal adjustment. The fact that neither of these scenarios played out suggests that both voter and interest group preferences mattered to policymakers – as the extensive literature on the interplay between voters and interest groups in the policymaking process has suggested (Stigler 1971; Dixit and Londregan 1996; Becker 1983;

Grossman and Helpman 2001). Moreover, in a setting such as an international economic crisis, policymaking is also constrained by a number of contextual factors, such as economic developments or the actions and policy positions of other countries involved in crisis management.

For the Eurozone crisis, this suggests that policies are likely to be the outcome of the interplay between domestic voter preferences, special interest influence, and the more general domestic and international context in which the Eurozone crisis played out. Voter preferences strongly constrain policymakers' room to maneuver, but only for issues that are highly salient to voters (Armingeon and Giger 2008; Stimson, MacKuen, and Erikson 1995; Burstein 2003) and on which they have consistent views (Busemeyer, Garritzmann, and Neimanns n.d.). On such salient issues, voters are likely to monitor how candidates and parties position themselves and will hold them accountable for their standpoints in future elections (Bélanger and Meguid 2008; Reher 2014). For Eurozone politics, this suggests that governments' incentives to pursue policies in line with public sentiment should have been particularly strong for those crisis strategies and policies to which voters played particular attention and on which they had relatively consistent views. However, the political clout of public opinion wanes, the more disinterested voters become. The realm of the "quiet politics" (Culpepper 2011) that characterizes nonsalient issues provides an ideal terrain for organized groups with concentrated interests (Keller 2018). In this context, the preferences and power resources of interest groups are likely to outweigh policymakers' concerns for the preferences of largely disinterested voters. For Eurozone crisis politics, this suggests that the less salient certain policies become in the eyes of the electorate, the more the preferences of interest groups should dominate the trade-offs governments face. Importantly, the salience of policies can also vary within each of the three possible crisis strategies: voters may pay attention to some aspects or forms of external or internal adjustment or financing, but not to others. This gives policymakers some room to maneuver within each of these strategies. Because voters and interest groups differed in their vulnerabilities to and preferences regarding various crisis strategies during the Eurozone crisis, and because these preferences had different political weights in different contexts, we expect to observe considerable variation in the degree to which different interests succeeded in influencing Eurozone crisis politics in line with their preferences. In a nutshell, we expect public opinion to shape government behavior in contexts in which adjustment strategies were saliently discussed in national politics. But in contexts in which potential adjustment strategies gained little public attention, we expect the dynamics between interest groups to be more influential. Finally, governments are constrained not only by voters and special interests, but also by the wider policymaking context, such as the macroeconomic setting (Clark and

Hallerberg 2000; Bernhard, Broz, and Clark 2002), international processes and financial markets (Mosley 2003; Mosley 2000; Oatley 2011), and the negotiating positions of other countries (Lundgren et al. 2018). This suggests that surplus country policy responses to the Eurozone crisis should diverge most strongly from both voter and interest group preferences where the governments' room to maneuver was most constrained by the policymaking context.

Eurozone crisis politics in Germany, Austria, and the Netherlands

We trace this argument through comparative case studies of the crisis politics in the three biggest surplus countries: Germany, Austria, and the Netherlands. These cases are instructive because they have many similarities but also differ in important respects. All three countries positioned themselves in similar terms with regard to many European-level proposals for crisis resolution, as our analysis in Chapter 5 has shown. More generally, their crisis responses both shared important features and exhibited significant differences, especially with regard to internal adjustment. Whereas Germany did little to address its huge current-account surplus and the Netherlands even fueled its export overhang by engaging in contractionary instead of expansionary domestic policies, Austria implemented a remarkably large array of measures to strengthen domestic demand and investment. These differences are somewhat surprising, because interest groups and, to a lesser extent, voters in these countries had rather similar preferences about external and internal adjustment as well as financing.

The three countries also share a number of features that could affect the relative influence of different voter segments and interest groups. They have similar electoral institutions (Iversen and Soskice 2006) and had comparable partisan dynamics during the crisis.[53] Interest group systems in all our cases are highly centralized, and strong peak organizations wield considerable political power. Finally, all three countries are coordinated market economies with long traditions of corporatist policymaking (Dür and Mateo 2013; Paster 2013; Hall and Soskice 2001). Differences in crisis outcomes are therefore unlikely to stem from some important political or institutional dissimilarities across the three countries. However, the three countries varied considerably in their economic experiences during the crisis: whereas Germany experienced an economic boom, Austria struggled with stagnation and rising unemployment, and the Netherlands only narrowly escaped a full-fledged

[53] During the crisis, Germany and the Netherlands were first ruled by center-right-liberal coalitions and subsequently by grand coalitions between center-right and social democratic. Austria was ruled by a grand coalition between social democrats and the center-right Austrian People's Party.

economic crisis of its own. Comparing crisis politics in the three countries thus allows us to explore how the preferences of voters and interest groups shaped crisis politics in different contexts.

We focus our analysis on adjustment politics between 2010 and 2016, during which time the Eurozone crisis was a prominent issue in domestic (and European) politics. To trace crisis politics in this period, we conducted 30 in-depth qualitative interviews with policymakers and interest group representatives in the three countries. We selected interest groups based on their size and the importance of their members to the overall economy. We also made sure to conduct interviews with groups from all economic sectors as well as trade unions representing workers at different skill and income levels. Overall, the interviews aimed at corroborating our survey results and expanding our understanding of interest groups' positions and actions during the Eurozone crisis. We also conducted interviews with 12 policymakers, who were either legislators who had been actively involved in decisions about the crisis or high-ranking officials in the responsible departments in the ministries for finance and economic affairs.[54] The main aim of our interviews with policymakers was to understand their perceptions of the different societal preferences and to trace how these preferences played into decision-making. A complete list of all our interview partners can be found at the end of this chapter. We complement the insights gained through these interviews with other sources, ranging from protocols of parliamentary debates and committee discussions to newspaper articles and other secondary sources.

The goal of our analysis is to explore how interest group and voter preferences jointly influenced surplus country policymaking during the Eurozone crisis. We examine surplus country politics with regard to each of the three different adjustment strategies in turn. We start with the strategy of external adjustment, the avoidance of which attracted a large societal consensus. We then turn to financing, where interest group and voter preferences diverged considerably but where all three countries opted for a similar policy approach. The final section discusses internal adjustment, the strategy on which interest groups were most divided and on which the three surplus countries differed considerably in terms of implementation. By examining how public opinion, interest group pressure, and contextual factors jointly influenced surplus country policymaking during the crisis, we also address the two puzzles about surplus country crisis strategies discussed at the beginning of this chapter: the fact that surplus countries kept a tight rein on all attempts to establish a permanent European-level system of financial transfers even though such measures would have been supported

[54] Interviews in Germany took place between November 27 and December 8, 2017. Interviews in Austria and the Netherlands took place between June 18 and June 22, 2018, and July 2 and July 6, 2018.

by economic interests and could have provided significant efficiency and insurance gains (Schelkle 2017; Beramendi and Stegmueller 2016) and the fact that surplus countries differed in their approaches to internal adjustment, even though similar deep distributional conflicts between interest groups about how to adjust internally existed in all surplus states.

Not an option: External adjustment

As we have shown throughout this book, the question of how to resolve the Eurozone crisis was hotly contested. Nonetheless, there is one issue on which a remarkable consensus emerged quickly among voters, interest groups, and policymakers: the Eurozone was to be protected. As our interest group surveys show, four out of five interest groups opposed any form of a Eurozone breakup. Although this share was somewhat lower for voters, a clear majority of voters were equally opposed to external adjustment. The Euro was also a highly salient issue for voters. A representative study from 2012 shows that almost 30% of all respondents in Germany singled out the European Union (EU) and the Euro as the most important issue the country was facing. No other issue area was mentioned with the same frequency, and in 2013, more than 85% of German voters stated that the management of the Euro crisis would matter or matter a lot for their voting decision (Politbarometer 2012, 2013). The Euro crisis was also a dominant issue in the public debates in Austria and the Netherlands. In the run-up to the Austrian election in 2014, party positions on the Euro and the EU were almost as important to Austrian voters as their stance on social and tax policies. The Euro crisis thus outranked usual evergreens of domestic political debates, such as crime or the environment (AUTNES 2014). Dutch election studies from 2012 show a very similar pattern (NKO 2012).

Given this consensus among major domestic stakeholders, it is unsurprising that the possibility of external adjustment was scooped off the political agenda early on and without much resistance. Policymakers in Germany, Austria, and the Netherlands never seriously considered external adjustment in the form of either leaving the monetary union or pushing deficit countries to leave. None of the mainstream parties in surplus countries regarded calling for a breakup of the union as a viable political position, and although ministries in all countries planned for a breakup, these steps were always regarded as preparing for a worst-case scenario (Interviews, DE9; DE10; DE12; AT7; AT9; NL5; NL6). Several policymakers argued that politically, there was simply "no alternative" to keeping the Eurozone together, not only because the expected market upheavals and potential threat to the stability of the common currency would have hurt crucial economic sectors but also because there was little popular backing for any measure that could risk the stability of the union (Interviews DE12; AT9; NL6).

The only exception to this uniform rejection of a Eurozone breakup occurred after the election of the Greek anti-austerity party Syriza in early 2015 – and especially when the Greek people voted in a referendum against the terms of a proposed bailout agreement in July of that year. To the extent that markets had priced in a potential exit of Greece and because Eurozone policymakers feared that giving Greece softer conditionality terms as a result of the referendum might create a dangerous precedent (Walter et al. 2018), a number of high-ranking policymakers in the ministries of finance in Austria, the Netherlands, and especially Germany concluded that Greece should abandon the common currency if it failed to comply with program conditionality (Interviews DE11; AT9; Mody 2018). Pressure rose to the degree that the German finance ministry circulated a proposal for a temporary Greek "time-out" from the common currency among members of the Eurogroup, and some media outlets even reported on meetings among conservative European finance ministers who planned to force the Tsipras government to leave the Eurozone.[55] This tough stance is not completely surprising if we remember that among all possible options for external adjustment, a Greek exit from the Eurozone was the least opposed option across all societal groups and that, as we discuss below, harsh conditionality was how surplus country policymakers had sold financing to their skeptical voters. Moreover, at the time, most important economic interest groups considered the direct adverse economic effects or possible contagion risks from a Grexit to be quite limited (Interviews, DE1; DE2; AT1; NL1). As such, the episode underlines the core argument that policymakers acted in line with voter and interest group preferences with regard to external adjustment.

The broad public opposition to a breakup of the monetary union also meant that anti-Euro parties gained comparably little political momentum during the crisis years. In Germany, the AfD, which was founded in early 2013 and which in its early years campaigned almost exclusively on the call for dissolving the monetary union, failed to reach the 5% hurdle to enter parliament in 2013 (Korte 2013). Most observers agree that in the Netherlands, the electoral chances of the radical-right PVV in 2012 were significantly hurt by the party's call for a Dutch exit from the Euro (Niedermayer 2013; Pirro and van Kessel 2017). Finally, the 2013 election success of the Euro-skeptical FPÖ has

55 http://www.spiegel.de/international/germany/schaeuble-pushed-for-a-grexit-and-backed-merkel-into-a-corner-a-1044259.html

been attributed to the fact that the party toned down its criticism of the Euro and instead focused its campaign on classical anti-immigration issues (Dolezal and Zeglovits 2014).

All in all, the broad opposition from most voters and important economic interest groups thus meant that external adjustment was never a real political option during the crisis years.

The vocal politics of financing in surplus countries

Whereas there was strong support for avoiding a breakup of the Eurozone among both voters and interest groups, they diverged in their preferences when it came to financing. Voters in all three countries were strongly opposed to virtually any form of financial transfers from surplus to deficit countries, and this issue was highly salient, especially in the early years of the crisis. In contrast, most interest groups were quite open or at least indifferent to various forms of international transfers. Whereas financing was a low-salience issue for some interest groups, some special interests got heavily involved in this issue. Financial sector groups in particular invested heavily in lobbying for bailouts and against debt cuts in all three surplus countries in the early years of the crisis (Interviews DE6; AT3; NL2; Thompson 2015; Steinberg and Vermeiren 2015).

The strong popular opposition to financing put surplus country governments in a difficult position. On the one hand, the context of the accelerating crisis meant that without financial support, the countries hit hardest by the crisis were likely to default and crash out of the Eurozone, an outcome that no one – neither voters, interest groups, nor policymakers themselves – wanted. On the other hand, the issue of financing was so heavily contested among the public that it severely limited policymakers' room to maneuver to consent to intra-European transfers.

Vocal popular opposition influenced surplus countries' willingness to provide financing in two main ways. First, it led to serious delay in and political conflicts about the creation and approval of financing measures. One striking example is the hesitation of the German government to back the first bailout package for Greece in the spring of 2010. As several analyses as well as our own interviews show, electoral concerns were one of the key reasons for Germany's foot-dragging in agreeing to a bailout (Christina Schneider 2018; Christina Schneider and Slantchev 2017). Motivated by the upcoming elections in North Rhine-Westphalia and the unpopularity of the bailouts among large voter segments, Angela Merkel decided to postpone any decision on Greece until after the election in order to secure success for her party in the elections. By the time the German government finally came around, the original costs of the bailout had more than doubled (Christina Schneider and Slantchev 2017). This episode turned out to be representative of the constraints surplus countries faced in financing decisions more generally (Bernhard and Leblang 2016; Zimmermann 2014; Bulmer 2014a; Schimmelfennig 2015). For example, strong public opposition to international transfers also led Dutch Prime Minister Mark Rutte to pledge "not a cent more for Greece" as a central campaign promise in the run-up to the Dutch 2012 national elections. This statement, at least according to a number of domestic observers, substantially contributed to his election victory and made it all the more costly to walk back from it for the third Greek bailout in 2015 (Interview NL6).[56]

Second, the intense politicization of financing and domestic popular opposition also affected the form of financing that surplus country governments were willing to provide. Both bureaucrats and party members involved in the crisis mentioned that the decisions they made always partly hinged on what was politically possible without evoking resistance from a watchful public (Interviews DE9; DE10; AT9; NL6). At the same time, most policymakers we interviewed stated that the stability of the domestic financial sector had been a key concern that motivated their actions during the crisis years (Interviews DE12; AT9; NL6). Policymakers thus confronted a difficult situation. Voters wanted the Euro to survive, and they did not want to finance the European periphery, yet they were also in no way willing to support another bailout of domestic banks, which they had disapproved of heavily during the 2009 global financial crisis (Goerres and Walter 2016). At the same time, a default of the European crisis countries was likely to trigger just that (or a major domestic banking crisis), because surplus country governments had heavily invested in these countries (Ardagna and Caselli 2014), and the financial industry therefore lobbied heavily for providing deficit countries with the funds to repay their debts.

Policymakers resolved this problem by devising financing in a way that not only pushed the potential costs for taxpayers far into the future, but also allowed them to channel the necessary funds to their domestic banks via a bailout of the peripheral countries and more indirect measures, such as allowing the Target2 balances in creditor states' central banks to grow (Frieden and Walter 2017b; Blyth 2013). This feat was achieved by subjecting the bailouts to significant conditionality and by the introduction of a strong rhetoric about "profligate" debtor states who had caused the entire crisis and the need to pursue this path out of "solidarity" and in order to safeguard "European integration" (Degner and Leuffen 2016; Wendler 2014; Matthijs 2016).

[56] https://www.ecfr.eu/article/dutch_drama_over_greek_crisis_4004

This narrative remained dominant because few political actors challenged it. Although most interest groups viewed several financing variants rather favorably, the low salience of the issue meant that they hardly got involved in this debate.[57] Even major opposition parties did not prominently discuss financing alternatives to bailouts. For example, although the German Greens and the Social Democratic Party (SPD) at times discussed alternative financing regimes and less austerity-oriented rescue programs, they strategically avoided campaigning on these issues given the overwhelming popularity of the hard stance that Angela Merkel's CDU took (Bauer and Steiner, 2015; Korte 2013; Interview Posch). In German parliamentary debates, the far-left *Die Linke* was the only party to call attention to the fact that that the bailouts were large redistributive programs from German and peripheral taxpayers to German and other creditor states' banks (Wonka 2016). In a similar vein, except for the right-wing populist FPÖ, most Austrian opposition parties invested little political capital in challenging the government's position on limiting international transfers and tying bailouts to strict conditionality (Dolezal 2014; Dolezal and Zeglovits 2014). Even changes in government coalitions did little to move surplus countries' restrictive position on financing. After the 2012 election, the traditionally more Keynesian Social Democrats took over the Dutch ministry of finance. However, although according to staff members this occasionally led to a change in tone on European issues, it did not have any effect on the substantive position of the ministry (Interview NL6).[58] Similarly, the German position on financing remained unchanged when the Social Democrats entered the grand coalition led by Angela Merkel in 2013 (Zohlnhöfer and Saalfeld 2017).

Other forms of financing quickly faded as options once the dominant bailout narrative had taken hold. At the beginning of the crisis, bureaucrats in the Dutch Ministry of Economic Affairs, for example, had discussed a wide range of European reforms, including institutionalized forms of financing and permanent risk-sharing measures. However, they quickly scrapped these ideas when it became apparent that they would be politically impossible to implement (Interview NL6). Public opposition to financing also caused the Austrian government to backpedal on its initial support for the idea of Eurobonds. Although Chancellor Werner Faymann occasionally expressed some support for the issuance of common bonds, public skepticism and the skepticism of his conservative

[57] With the exception of the financial sector.

[58] A couple of years later, the social democratic finance minister, Jeroen Dijsselbloem, famously emphasized his position on international transfers by describing Southern European budgeting as the fiscal equivalent of spending money on "liquor and women." https://www.politico.eu/newsletter/brussels-playbook/politico-brussels-playbook-terror-in-london-dijsselbloem-strategy-mogherinis-putin-problem/;

coalition partner eventually led him to postpone the idea to "some point in the future."[59] And policymakers from all surplus countries emphasized that it became increasingly difficult to get popular support for the use of taxpayer money to help countries that according to much of the public discourse were themselves responsible for the troubles they faced (Interview DE9; AT7; AT9; NL5; NL6).

Our focus on the diverging interests of different societal actors, thus, complements existing accounts of the politics of financing in surplus countries. In line with the structuralist interpretation that surplus countries restricted financing and tied it to strict conditionality in order to push the burden of adjustment on to deficit states and safeguard the competitiveness of their export sectors (Hall 2018; Iversen and Soskice 2018), our interviews showed that most employer associations and industry groups in surplus countries supported imposing austerity and structural reforms on to deficit states (Interviews, DE2; DE4; AT2; NL1).[60] However, the same groups would have been open to a wide range of additional financing measures and generally invested little political capital in shaping financing outcomes. Export interests were thus not at the heart of hesitant financing. Similarly, in line with the constructivist emphasis on the importance of ordoliberal ideas in guiding surplus countries' approach to financing (Blyth 2013; Matthijs 2016), our case studies have shown that many policymakers were convinced of the merits of forcing crisis countries into fiscal prudence and structural reforms (Interview DE11; AT9). However, even for those that did not held these ideas, the political room to maneuver was very limited by vocal popular opposition.

Overall, the broad support for keeping the Eurozone together, vocal and widespread public skepticism regarding international transfers, targeted lobbying by the financial sector, and little opposition from other interest groups thus came together to shape surplus countries' hesitant, piecemeal, and highly restrictive approach to financing.

Context matters: The politics of internal adjustment

Voters and interest groups diverged not only in their assessment of financing, but also in their evaluation of the desirability of internal adjustment policies. Although interest groups were open to internal adjustment in principle, they were deeply divided about how to adjust internally. In contrast, voters in all surplus countries viewed expansionary economic policies at home positively.

[59]https://derstandard.at/1319183544762/Oesterreich-strikt-dagegen-Europa-hofft-auf-Heilung-durch-Eurobonds; https://orf.at/v2/stories/2122109/2122049/

[60] Importantly, however, trade unions – even in the export sectors – fiercly rejected such measures.

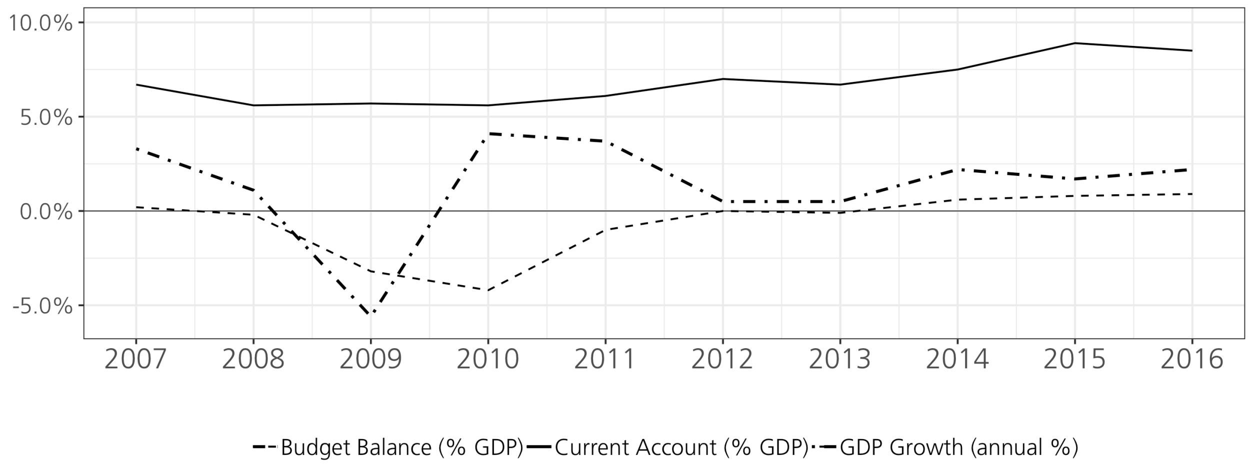
Nevertheless, the three big surplus countries pursued very different responses to their domestic economic crises. Whereas Germany did little to boost the domestic economy, Austria implemented a range of expansionary policies. Finally, the Netherlands initially did not just resist internal adjustment, but even implemented contractionary measures that fueled rather than decreased the Dutch current-account surplus – and then ignored all international calls to reduce its export overhang.

We examine the politics of adjustment for each country separately, focusing on how domestic economic developments influenced the salience of economic reforms during the crisis and on how public opinion and interest groups jointly influenced the politics surrounding internal adjustment. Our analysis suggests that the differences in surplus countries' willingness to pursue internal adjustment stem from the fact that domestic economic reforms were not equally important to voters in all surplus countries. Distributional conflicts among interest groups resulted in nonadjustment in contexts in which voters paid little attention to economic policies. The more salient such reforms became in the eyes of the electorate, however, the more likely policymakers became to override the gridlock among interest groups. This dynamic suggests that the politics of adjustment is characterized by a paradox: the better a country's economy is doing, and hence the easier it is economically to pursue internal adjustment, the less likely a government is to push for internal adjustment, because there is no political pressure to do so.

Germany

Domestic economic reforms were not a major political issue in Germany throughout most of the crisis period. Contrary to most other European countries, Germany weathered the Eurozone crisis well. Although the country had been hit hard by the global financial crisis in 2008, its export sector quickly recovered thanks to the low exchange rate of the Euro and rising demand for its products, especially from Chinese and US markets (Dustmann et al. 2014). As a result, Germany experienced robust economic growth and declining unemployment rates throughout the crisis. Financial investors intent on reducing their exposure to crisis-ridden deficit countries rushed into the safety of German assets, reducing the government's debt service costs and contributing to a conversion of Germany's budget deficit into a surplus in 2012 (see Figure 7.7). Given this fiscal space, Germany was thus in a prime position to engage in meaningful internal adjustment (Elekdag and Muir 2014).

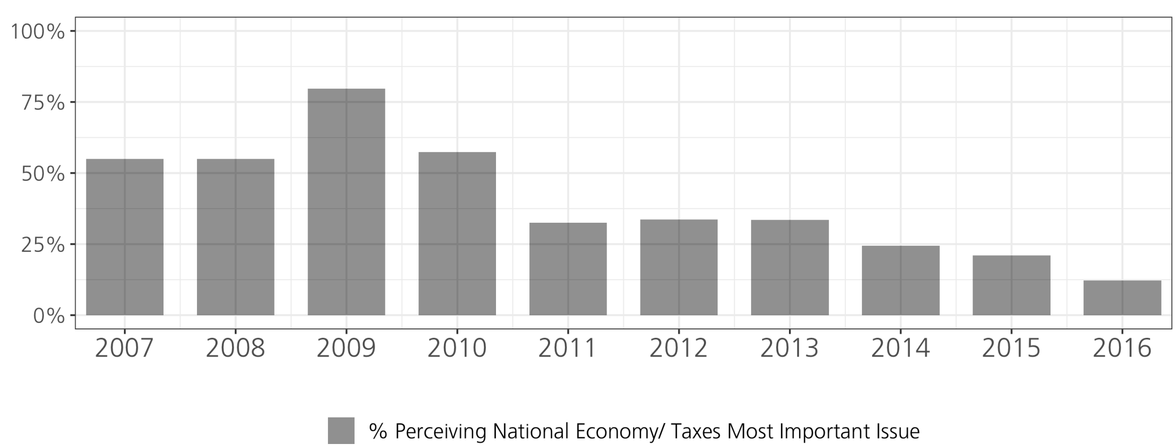
Figure 0.7: Macroeconomic developments in Germany



Source: Eurostat (2018)

Ironically, however, the thriving economy also decreased domestic pressure to engage in domestic expansion. Figure 7.8 plots the salience voters attached to the domestic economy, measured as the share of German citizens that singled out the economy or taxation as the most important issue their country was facing. It shows that the salience of domestic economic issues decreased constantly over the span of the Euro crisis. By 2015, less than a quarter of the German public thought that economic issues should be at the forefront of political priorities.

Figure 0.8: Salience of economic issues for German voters



Source: Eurobarometer (2007-16)

This suggests that even though voters liked a wide range of expansionary policies, these preferences did not gain much political traction. In the run-up to the national election in 2013, for example, a large majority of Germans evaluated the state of the domestic economy very positively. Unsurprisingly, economic issues played only a minor role during the campaign. None of the main opposition parties campaigned on a broad-based spending or investment program (Steinbrecher 2014; Korte 2013). Only *Die Linke* and the Green Party made Germany's large current-account surplus the main subject of several parliamentary motions and often linked the existence of trade imbalances to low wages and a lack of public investment and spending in Germany. However, although they agreed in principle with much of the international criticism directed at Germany, both parties did little to publicly campaign on the matter. At the same time, interest groups and economic experts who were sympathetic to the international criticism of Germany's large current-account surplus found it difficult to effectively communicate their concerns (Interviews DE1; DE7; DE8; DE13). Arguments about the effect of German reforms on disparities in the Eurozone had little effect on public opinion (Frech, König, and Osnabrügge 2015), which is perhaps unsurprising given the overwhelming public satisfaction with the contemporary state of affairs.

In this context, debates about the current-account surplus and possible adjustment policies took place mainly among a small circle of political experts and economic interest groups and never entered the wider public discourse (Interview DE1). In this context, distributional conflicts between interest groups about the microeconomic effects of various adjustment measures often inhibited meaningful reforms. For example, throughout the crisis both the International Monetary Fund (IMF) and the European Commission called for Germany to fundamentally reform its corporate tax regime in order to increase private investment and reduce capital outflows (IMF 2013; IMF 2011; Commission 2014). This call was largely in line with the partisan program of the economically liberal FDP, who until 2013 was part of the ruling coalition and had made the abolition of local business taxes a core objective of their legislative period (Rixen 2015). A wide range of large employer organizations and trade associations supported the reform. However, all attempts to pass it into law failed due to intense opposition from the Association of German Cities, who feared the loss of an important source of revenues, from a wide range of trade unions, and from the fiscally conservative wing of the CDU.[61] In the end, the two coalition governments that ruled Germany during the crisis implemented fewer tax reforms than had any other German government since 1965 (Rixen 2019). Opposition from trade unions as well as craft associations also kept deregulatory reforms of the domestic service economy off the political agenda (Bandau and Dümig 2015), even though they were

[61] https://www.bundestag.de/blob/409640/0f335317888ca03d9b08c4c93ac83d03/wd-4-247-10-pdf-data.pdf; http://www.dgb.de/presse/++co++e9732abe-e1ce-11df-6211-00188b4dc422

often proposed as another means to spur domestic demand and investment (Interviews DE5; DE8; DE11; IMF 2015)

Finally, distributional conflicts among economic interest groups also contributed to the limited expansion of public investment. One of the striking factors discussed in the previous chapter was that most economic interest groups favored more government spending on investment. Their opinions diverged, however, on what kind of investment should be prioritized and how such investment should be financed. When in 2014 the SPD-led ministry summoned an expert committee on infrastructure investment composed of economic experts, industry and employer associations and trade unions to devise policy suggestions, these differences led trade unions to distance themselves from the committee's final report and limited the political momentum of the document in the social democratic ministry (Interview DE8; DE13).[62] Against this background, expanding public investment never became a political priority, and the rate of public investment in Germany remained one of the lowest in the entire EU (Rixen 2019).[63]

The low salience of economic reforms for voters combined with distributional conflicts about how to adjust internally thus limited the scope for internal adjustment. As a result, the German current-account surplus continued to grow throughout the crisis period, as Figure 7.7 shows.

Nonetheless, the German case also demonstrates that internal adjustment measures become more feasible when voters start to care about them. The only meaningful economic policy reforms that occurred during the crisis period were labor market reforms, more specifically the introduction of a minimum wage. Ever since its broad-based labor market liberalization in 2005, Germany had experienced a rapid expansion of the low-wage sector. The rising number of the working poor made the introduction of a statutory minimum wage an increasingly salient topic in the German domestic debate (Mabbett 2016). By 2013, it had become a major issue in the political arena and enjoyed overwhelming public support, especially among SPD voters (95% in support) and the CDU (79% in support) (Jung, Schroth, and Wolf 2015). Moreover, the major trade unions engaged in a broad and

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62 https://www.wallstreet-online.de/nachricht/9013536-bericht-einigung-fratzscher-kommission-investitions-masterplan;

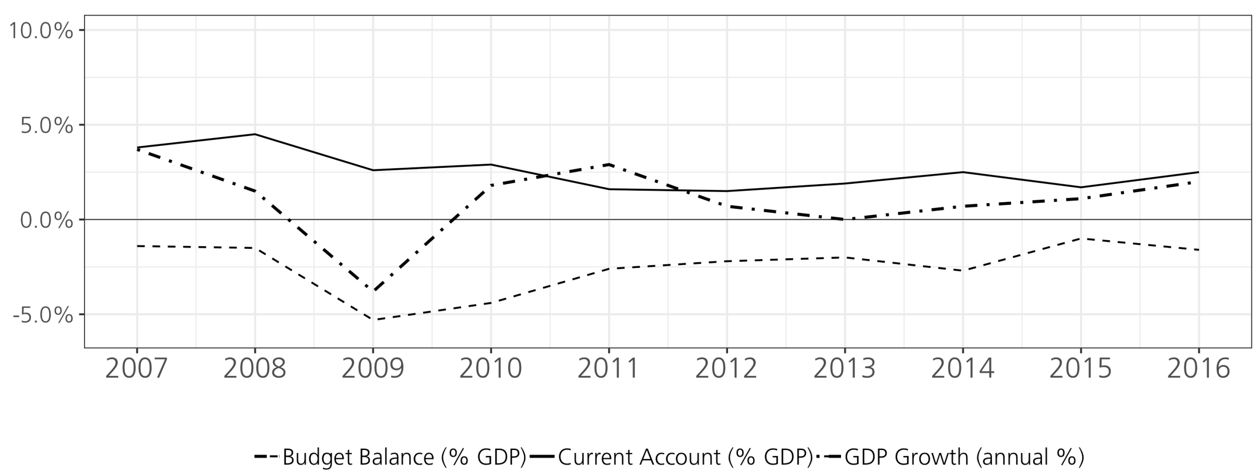
63 Besides these distributional conflicts, policymakers also stressed the importance of institutional bottlenecks as an important hurdle for more public spending. Especially in Germany, fiscal federalism means that most public investment – for instance in education or road infrastructure – has to be undertaken at the state or even the municipal level. Although the German finance ministry – especially since the onset of the refugee crisis in 2015 – had incrementally increased some of the federal resources provided to the subnational level, a lack of planning and execution capacities in German municipalities has made it difficult to effectively realize potential investments (Interview DE11; DE12; DE13). For a similar interpretation, see Hassel (2017).

coordinated campaign in favor of the minimum wage, and the SPD turned its introduction into a central campaign promise (Zohlnhöfer and Saalfeld 2017). This high salience of and support for the issue among voters eventually trumped the fierce opposition from industry groups and employer associations and led to the implementation of a central internal adjustment policy, a statutory minimum wage, in 2013.

Austria

Boosting the domestic economy became much more important for Austrian policymakers. Although Austria sailed through the crisis better than many other Eurozone countries, the downturn in the rest of the Eurozone still weighed heavily on the country's economy. In contrast to German manufacturers, the Austrian export sector depended heavily on markets in Italy and Eastern Europe, and the slump in demand from these countries therefore took a heavy toll on many export-oriented industries (Pudschedl 2013). At the same time, economic insecurity and comparatively low wage growth also stalled domestic demand and investment throughout much of the crisis (OECD 2015). As a result, the Austrian economy only narrowly escaped a recession in 2012 and 2013, and growth remained below 1% until 2015 (OECD 2015; Figure 7.9).

Figure 0.9: Macroeconomic developments in Austria



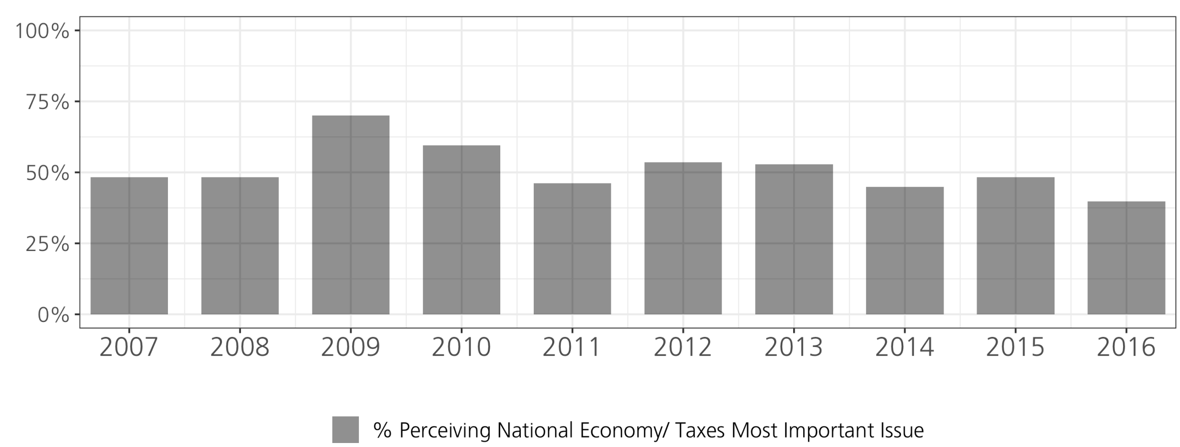
Source: Eurostat (2018)

Sluggish growth also resulted in rising unemployment. Although it started from comparatively low levels, the jobless rate increased throughout the crisis and had reached levels not seen since the

1950s by the end of 2015.[64] At the same time, public finances had suffered from the costs of bank bailouts and anticyclical policies implemented in response to the global financial crisis in 2008 and 2009 and therefore missed the EU budget deficit target of 3% of GDP in 2010 (see Figure 7.9). The Austrian government therefore implemented a range of budget cuts and tax increases especially in the beginning of the crisis (Lehndorff 2012).

These bleak economic developments turned the domestic economy into a salient issue for Austrian voters. Figure 7.10 shows that throughout the peak years of the Eurozone crisis (2010–2013), approximately every second Austrian respondent rated the national economy and fiscal policy as the most important issue facing the country. In the run-up to the election of 2013, more than 90% of the respondents to the representative survey stated that spurring the economy was an important issue (AUTNES 2013). Unsurprisingly, the question of how to reform the economy dominated much of the political debate during the crisis (Dolezal 2014). The issue of economic growth and unemployment was one of the most covered topics in national media, and both the conservative Austrian People's Party (ÖVP) and the Social Democratic Party of Austria (SPÖ) focused their national campaigns almost exclusively on their respective visions of regaining growth and jobs (Dolezal and Zeglovits 2014).

Figure 0.10: Salience of economic issues for Austrian voters



Source: Eurobarometer (2007-16)

The high salience of economic reforms in the domestic debate thus put Austrian policymakers under immense pressure to spur domestic job growth, demand, and investment (Interviews AT1; AT7; AT8). As in Germany, economic interest groups shared this goal but disagreed profoundly

[64] https://derstandard.at/2000030145081/Oesterreich-Arbeitslosigkeit-naehert-sich-500-000er-Marke

about how it should be achieved. However, because public pressure did not allow Austrian officials to sit on their hands, they forced interest groups to compromise. In 2013, for example, the Austrian grand coalition agreed on a large stimulus package for the domestic economy. Among other measures, the package aimed at supporting the struggling construction sector and increased resources available for public childcare and healthcare services. Whereas employer associations in the construction sector praised the package, which also gained broad support among all major trade unions, the measures were heavily criticized by the powerful Federation of Austrian Industries, who publicly maintained that the measures would lead to market distortions and would put excessive strain on public finances.[65] However, given the high popularity of the program (less than 35% of voters opposed it) and the imminence of the national elections, this opposition of the major industry group gained little political momentum (Interview AT8).[66] Public demands for expansionary measures also led the Austrian government to increase spending in other areas. Among other initiatives, the grand coalition employed additional resources to promote broadband connections in rural areas and substantially raised the fiscal space available to municipalities across the country (Interview AT7). As a consequence, public investment in Austria remained above 3% of GDP and was substantially higher than investment rates in all other European surplus countries (Eckerstorfer and Prammer 2017).

In addition to increasing expenditures, the Austrian government sought to stimulate domestic demand through tax cuts. The biggest reform was a broad-based modification of income taxes in 2015. It amounted to cutting taxes by about €5 billion per year and was one of the single biggest tax reductions in recent Austrian history (J. Baumgartner and Kaniovski 2015). The long negotiation process that preceded the reform was marked by intense conflicts between the Austrian Economic Chamber and a number of large trade unions, which fought extensively about the specifics of the reform and were especially polarized on various forms of countervailing measures (Interviews AT1; AT4). In the end, the government forced the social partners into a compromise that offset some of the costs by a substantial increase of the marginal income tax rates but refrained from the parallel implementation of wealth and inheritance taxes that employee representatives had called for (Interviews AT1; AT4).[67] Although the final tax reform was evaluated negatively by a large set of

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[65] https://www.wko.at/branchen/gewerbe-handwerk/bau/Bauinnung-spezial--Dez-2014.pdf; https://orf.at/v2/stories/2188508/2188507/

[66] https://www.profil.at/home/alpine-bau-umfrage-50-konjunkturpaket-alpine-pleite-361177

[67] https://www.ots.at/presseaussendung/OTS_20150707_OTS0189/leitl-zu-steuerreform-einige-entschaerfungen-fuer-betriebe-erreicht-jetzt-sind-neue-konjunkturimpulse-noetig

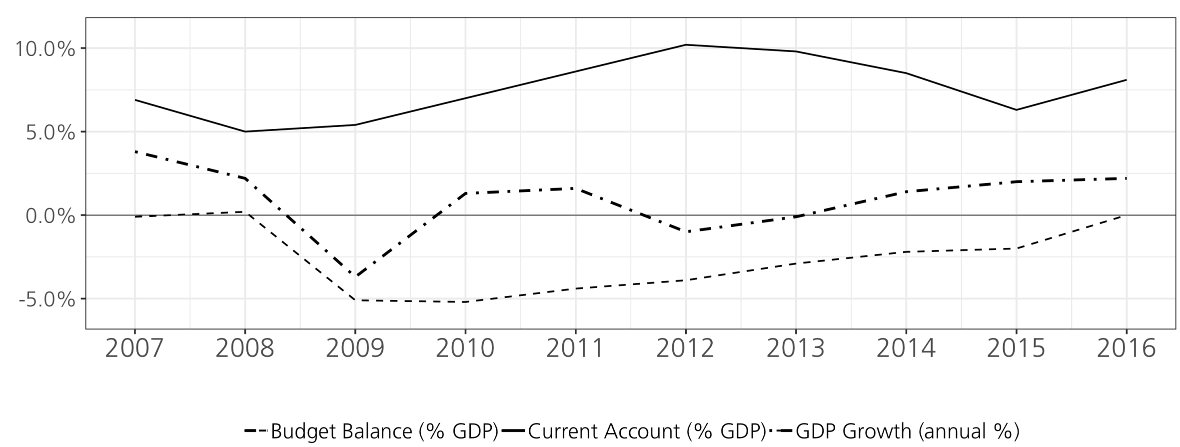
companies, public pressure to implement tax relief and stimulate domestic demand was so high that it outweighed initial concerns especially on the part of the ÖVP.[68]

The dire prospects of the Austrian economy coupled with high salience of domestic reforms and popular pressure to counter low growth and increasing unemployment, thus, lead the Austrian government to override distributional conflicts among interest groups and implement a range of expansionary measures during the crisis years.

The Netherlands

Finally, the Dutch crisis experience can be divided into two distinct phases. Starting form 2011, the Netherlands experienced the most severe economic problems of all surplus countries in the monetary union. The reasons for this downturn were manifold, ranging from a loss of European export markets to gloomy domestic consumption due to the bursting of a big housing bubble that put the heavily indebted private households in the Netherlands on a prolonged deleveraging path. As a result, the Dutch economy slid into a recession in 2012 and 2013, and unemployment rose from less than 3% in 2008 to almost 8% in 2014. Public deficits, which had dropped from a small surplus to a deficit of about 5% of GDP by 2009, improved only slowly, and only in 2013 did the drop fall below the 3% target of the EU again (Figure 7.11).

Figure 0.11: Macroeconomic developments in the Netherlands



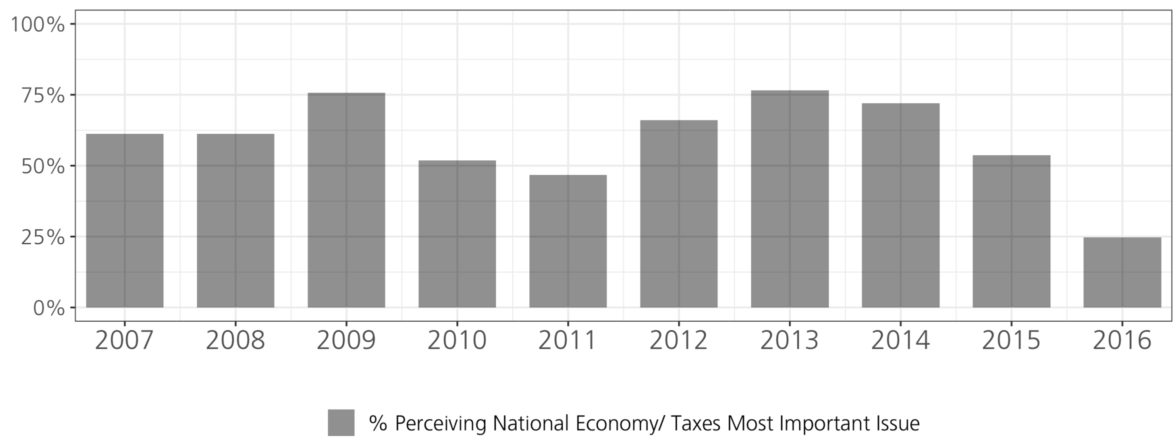
Source: Eurostat (2018)

During these years, the Dutch experience was often seen as evidence that the Eurozone crisis

68 https://derstandard.at/2000018304405/Neos-Umfrage-Unternehmer-mit-Steuerreform-unzufrieden

would eventually creep to the north, and commentators as well as government officials were deeply concerned that financial markets could start turning against the Netherlands as well (Interviews NL7; NL6).[69] However, from 2014 onwards, house prices started to recover alongside foreign demand for Dutch exports (especially from the neighboring Germany). As a result, the second half of the Eurozone crisis was characterized by a steady economic recovery in the Netherlands. Only three years after the recession, unemployment in the Netherlands was again lower than the levels with which Austria struggled, and the Dutch economy started to grow faster than Germany's (CPB 2016).

Figure 0.12: Salience of economic issues for Dutch voters



Source: Eurobarometer (2007-16)

The salience of domestic economic issues in the political arena closely followed this trajectory of recession and recovery. Figure 7.12 shows that between 2012 and 2014, more than 70% of Dutch citizens thought that the economy was the Netherlands' most important problem. Economic issues dominated politics in those years. In 2012, the coalition government, consisting of the liberal People's Party for Freedom and Democracy (VVD) and the conservative Christian Democratic Appeal, had to call for snap elections, because the far-right PVV, who so far had supported the minority government, refused to back a new budget plan that contained €16 billion of fresh austerity measures (Evans 2013). In the following election, the economy was the central concern for most voters (CPB 2015), and parties campaigned mainly on their respective visions for the breadth and depth of measures that should bring down the deficit (Van Kessel 2015; Pirro and van Kessel 2017). Over time, however, as growth and employment recovered, the salience of economic issues waned.

[69] https://www.nytimes.com/2012/05/02/business/global/euro-stress-crosses-border-into-netherlands.html; https://www.reuters.com/article/us-dutch-economy/the-dutch-europes-apostles-of-austerity-feel-the-economic-pain-idUSBRE97F07F20130816; https://ftalphaville.ft.com/2016/06/16/2166258/why-is-the-netherlands-doing-so-badly/

As Figure 7.12 shows, by 2016 less than 25% of Dutch respondents thought of economic problems as a priority, and in the 2017 elections, economic issues played a very limited role (Van der Meer, Van der Kolk, and Rekker 2017).

What did the bifurcated crisis experience mean for the politics of internal adjustment? In the early phase of the crisis, characterized by a large budget deficit, cuts to public spending, and weak domestic demand, debates about internal adjustment were largely absent from the political arena, even though the Dutch current-account surplus increased substantially in the early 2010s. On the one hand, there were domestic reasons for this absence. Prioritizing fiscal consolidation was not only in line with the ruling VVD's fiscally conservative ideology and the feeling that the government needed to practice what it had been preaching to deficit countries since the outbreak of the crisis (Interviews NL6; NL7; NL8). It was also supported by a majority of voters (Maurice-de-Hond 2012) as well as almost all employer associations and even the biggest trade unions. In addition, international pressure focused on the budget deficit. At several points between 2012 and 2014, the European Commission demanded that the Netherlands extend its austerity program so as not to fall subject to an excessive deficit procedure. At the same time, none of the country reports and recommendations by either the Commission or the IMF mentioned the current account as an area of priority. Without international pressure to rebalance, and because voters and a majority of interest groups largely agreed on the need for austerity, reducing the current-account surplus was not on the table at all in the early years of the crisis (Interviews NL1; NL3).[70]

Debates about internal adjustment became more prevalent from 2015 onwards as the economy recovered. With the budget deficit under control, both the IMF and the European Commission started to call on the Dutch government to take steps to reduce the country's big export overhang (IMF 2016b; IMF 2017; IMF 2018; Commision 2015; European Commission 2016). Because most economic groups agreed that infrastructure in the Netherlands was already in a relatively good state and that the need for further public investment was therefore limited. The domestic discussion about the current account surplus, thus, focused mainly on decreasing wages and high savings in the corporate sector as the main drivers of the large current-account surplus (Boumans and Keune 2018, Interview VNO; CNV). The political debate about how to rebalance was once again characterized by distributional conflicts between different interest groups. Trade unions emphasized that the labor

[70] Parliamentary documents between 2010 and 2016 also show that during the early period of the crisis, only the far-left Socialist Party (SP) regularly called attention to the large export overhang as a problem and linked it with calls for more domestic expansion and higher wages.

share of income had been declining in the Netherlands for years. They therefore called for a re-regulation of labor markets in an effort to strengthen the bargaining power of workers, achieve higher wage growth, and as a result increase domestic demand (Interview NL4; FNV 2016). These measures were, however, fiercely opposed by most employer associations, which instead advocated a wide range of tax cuts that they deemed necessary to incentivize private investment in the Netherlands by unlocking the huge amounts of savings that had been accumulated in the corporate sector (Interview NL1; VNO-NCW 2016). These debates about the current-account surplus did not take place in the wider public, which is unsurprising given that by 2015, the salience of domestic economic reforms was rapidly decreasing (see Figure 7.12). Several parliamentary meetings with social partners on the subject gained little media attention (Interview NL5; Boumans and Keune 2018). Without public backing for one side of the debate over the other, these conflicts among the most important interest groups meant that interest groups got bogged down in distributive struggles. With the priorities of the government elsewhere, internal adjustment measures thus never gained much political momentum. The current-account surplus continued to balloon.

Summing up, our analysis of the domestic politics of (non)adjustment in surplus countries illustrate two factors. First, contrary to both constructivist and structuralist accounts, our study of crisis politics indicates that the lack internal adjustment in surplus countries was largely rooted in distributional conflicts about how to adjust rather than a broad societal consensus to avoid inflationary measures. This is not to say that ideological and structural factors did not play a role. A range of policymakers as well as economic interest groups emphasized the idea that the current account surplus was the outcome of market forces that one should in principle not meddle with (Interview DE11; DE12; AT8; AT9). In the abstract, most of our interview partners also opposed the idea that reducing surplus countries' competitiveness on international markets could help the Eurozone to get back on track. However, at the policy level, a majority of voters were very supportive of a wide range of measures to spur domestic demand and rather than outright rejecting internal adjustment, all interest groups would have welcomed several policies, which could have contributed to reducing the export overhang.

Second, our analysis also implies that the lack of adjustment in core countries is much less structurally engrained than it is often assumed. Especially when voters start to care about increasing domestic growth and employment, public opinion is likely to pressure policymakers into expansionary measures even against the opposition of powerful interest groups. However, this also suggests that politics of adjustment in surplus countries are characterized by a paradox: the better a country's economy is doing, and hence the easier it is economically to pursue broad adjustment measures, the less likely such voter pressure is to occur and the more likely it becomes that the distributional conflicts among interest groups result in nonadjustment.

Conclusion

Why did surplus countries in the Euro crisis not shoulder a larger share of the burden of adjustment? Why did they invest huge sums in short-term bailouts but refuse to build up a more extensive and permanent system of transfers and mutual risk sharing? And why did they allow their current-account surpluses to keep rising while at the same time demanding that crisis countries take painful measures to reduce their deficits?

Our book's central premise is that a full understanding of the politics of the Eurozone crisis requires an understanding of how key societal actors and policymakers evaluated all potential crisis responses, including those not chosen. In this chapter, we have therefore analyzed how voters positioned themselves with regard to external adjustment, internal adjustment and financing and how their preferences interacted with those of economic interests groups in shaping crisis outcomes.

A number of key finding stand out. First, neither interest groups, voters, nor policymakers wanted to risk a crashing of the Eurozone. Given this broad societal consensus to keep the Eurozone together, external adjustment was never seriously considered as a politically viable crisis strategy in any of the surplus countries we studied. Second, the politics surrounding financing illustrate how difficult it is to do politics on the back of bad options. On the one hand, financial industries lobbied heavily for bailouts and against debt reliefs and other economic interest groups were supportive of a range of financing measures but did not make them a political priority. On the other hand, voters remained deeply skeptical about international transfers and, given the huge salience of the Euro crisis in domestic debates, were difficult to ignore. Trying to satisfy both sides, policymakers only engaged in the forms of financing that were absolutely necessary to keep the Eurozone from crumbling, which further fuelled market tensions and crisis tendencies in deficit states.

Finally, domestic rebalancing was characterized by what we call the paradox of internal adjustment in surplus countries. Voters' general support for domestic expansion translated into policies only in contexts in which bad domestic economic developments put the spotlight on the necessity of economic reforms. If voters cared enough, they pressured policymakers into overriding interest group gridlock and engaging in meaningful adjustment policies. However, when the public was complacent with the economic state of affairs, distributional conflicts between interest groups resulted in a political stalemate and nonadjustment. Domestic politics, thus, led those countries, which could have contributed the most to stimulating European growth and reducing the imbalances within the monetary union, to become the least-likely candidates for internal adjustment.

List of Interview Partners

Germany

Interview DE1	Dr. Klaus Günter Deutsch, **Bundersverband der Deutschen Indsutrie** , Head of Department Research, Industrial and Economic Policy
Interview DE2	Dr. Michael Stahl, **Gesamtmetall**, Head of Education and Economic Policy
Interview DE3	Eckhart Rotter, **Verband der Automobilindustrie**, Head of Department Press
Interview DE4	Dr. Peer-Robin Paulus**, Die Familienunternehm**er, Head of Politics and Economics
	Dr. Daniel Mitrenga, **Die Familienunternehmer**, Head of Europe and Federal States
Interview DE5	Dr. Alexander Barthel, **Zentralverband des Deutschen Handwerks**, Head of Economic, Energy and Environmental Politics
Interview DE6	Dr. Reinhold Rickes, **Deutscher Sparkassen- und Giroverband**, Head of Economic Research
Interview DE7	Florian Moritz, **Deutscher Gewerkschaftsbund**, Head of European Economic Politics
Interview DE8	Dr. Dierk Hierschel, **Vereinte Dienstleistungsgewerkschaft**, Trade Union Secretary in the Department of Economic Policy
Interview DE9	Joachim Poß, **Social Democratic Party of Germany**, former Member of Parliament: Committee for European Affairs, Finance Committee

Interview DE10	Prof. Dr. Heribert Hirte, **Christian Democratic Union of Germany**, Member of Parliament: Committee for European Affairs, Finance Committee
Interview DE11	Dr. Ludger Schuknecht, **Federal Ministry of Finance**, Chief Economist and Head of the Directorate General Fiscal Policy and International Financial and Monetary Policy
Interview DE12	Felix Probst, **Federal Ministry for Economic Affairs and the Environment**, Ministerialrat
Interview DE13	Dr. Claus Michelsen, **Deutsches Institut für Wirtschaftsforschung,** Head of Forecasting and Economic Policy

Austria

Interview AT1	Dr. Christoph Schneider, **Wirtschaftskammer Österreich**, Head of Department for Economic Affairs
Interview AT2	Dr. Christian Helmstein, **Industriellenvereinigung**, Chief Economist
Interview AT3	Michael Ernegger, **Verband Österreichischer Banken und Bankiers**, Deputy Secretary General Retail Baning
Interview AT4	Dr. Markus Marterbauer, **Arbeiterkammer Österreich,** Head of Department for Economic Affairs and Statistics
Interview AT5	Karl Goldberg, **Österreichische Verkehrs- und Dienstleistungsgewerkschaft**, Department for Economic Affairs
Interview AT6	Kerstin Repolusk, **Die Produktionsgewerkschaft**, Department for Economic Policy

Interview AT7	Dr. Christoph Matznetter, **Social Democratic Party of Austria**, Member of Parliament: Committee for Finance and Budget Committee
Interview AT8	Dr. Christina Burger, **Federal Ministry for Science, Research and Economic Affairs**, Department for Economic Policy
Interview AT9	Harald Waiglein, **Federal Ministry of Finance**, Head of the Department for Economic Policy, Financial Markets and Customs

Netherlands

Interview NL1	Thomas Grosfeld, **Confederation of Netherlands Industry and Employers**, Department for Top Sector Policies
Interview NL2	Bart van Leeuwen, **Nederlandse Vereniging van Banken**, Head of Communication Department
Interview NL3	Sander van Golberdinge, **Detailhandel Nederland**, Director
Interview NL4	Irene Laureijs, Federatie **Nederlandse Vakbeweging**, Economic Policy Advisor
Interview NL5	Renske Leijten, **Socialistische Partij Nederland**, Member of Parliament: Committee for European Affairs, Budget Committee
Interview NL6	Focco Vijselaar, **Federal Ministry for Economic Affairs**, Director for Economic Policy, Chief Economist
Interview NL7	Michel Heijdra, **Federal Ministry of Finance**, Director Foreign Financial Affairs Directorate
Interview NL8	Niels Redeker, **Federal Ministry of Finance**, Head of the European Union Division

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