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A Discernible Impact? The Influence of Public Opinion on EU Policymaking During the Sovereign Debt Crisis

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Chapter 7

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The European sovereign debt crisis provides an excellent opportunity for examining the extent to which public preferences constrain member state preferences for EU policy solutions. We examine the influence of public opinion on austerity, spending, and regulation on member state preferences on 4 major EU solutions to the crisis from 2010–2011: the initial Greek financial rescue, the creation of the European Stability Mechanism, the reform of the Stability and Growth pact, and enhanced EU financial regulation. Our analysis reveals that prior to elections and/or when there is a degree of fragmentation in the governing party or coalition public opinion constrains member state preferences. In the absence of these conditions, however, member states ignored public opinion and followed elite preferences concerning solutions to the sovereign debt crisis.

LITERATURE REVIEW

How, when, and to what extent does public opinion matter for EU policymaking? Two paradigms have been put forth to explain the role of public opinion in European integration: Lindberg and Schiengold's "permissive consensus" and Hooghe and Marks' "constraining dissensus." Lindberg and Scheingold's (1970) contention that public opinion is not a significant explanatory factor in European integration has been the dominant approach. This model maintains that public opinion, while generally favorable toward European integration, does not directly influence institutional or policy development in the EU. According to this view, European governmental elites receive a permissive

consensus in favor of European integration, and then determine the specific details without public input, scrutiny or censorship. In accordance with this perspective, Sanders and Toka (2013) argue that EU heads of state and government are influenced more by economic elites and by extrapolation economic interest groups than by public opinion. Sanders and Toka (2013, 22) find that:

> [P]olitical elites' primary sources of opinion cues are not their respective mass publics but their respective national economic elites. In sum, in determining their own stances towards the EU, political elites appear to place more weight on the views of the economically rich and powerful than they do on the views of their own constituents. They respond to mass opinion, but not as much as they respond to other national elites.

Hooghe and Marks (2009) agree that the model of "permissive consensus" successfully explained the role of public opinion in the European Union from 1957 through 1991. However, they contend that this was because European integration was primarily concerned with economic policy coordination, and did not directly impact the majority of Europeans. After 1991, however, they maintain that the model of "constraining dissensus" best explains the relationship of public opinion and European integration. As the EU came to encompass monetary and political union, it "spilled beyond interest group bargaining into the public sphere" (2009, 5). Public opinion on European integration became more structured and salient in national politics due in large part to national political parties assembling positions on EU institutions and policies to suit their national electoral, governing, and policy objectives (2009 13, 19). As a result of partisan calculations on economic and identity issues, they contend the pro-integration elite has been constrained in pursuing increased integration by an increasingly Euroskeptical public (2009, 9). Hooghe and Marks argue that "[m]ass politics trump interest group politics when both come into play" (2009, 18). However, while interest groups will always seek to influence European integration, public opinion must be mobilized by political parties. Hooghe and Marks maintain that political parties are more likely to mobilize public opinion on an EU issue if their stance on the issue fits with their ideological tradition, if their members are united on it, and if they anticipate electoral success from their stance on the issue (2009, 19).

RESEARCH DESIGN

The foregoing models lead to alternative predictions about the relative influence of public and elite opinion on member state preferences in EU

policymaking. The model of permissive consensus maintains member state preferences are not a function of public opinion but influenced predominantly by economic elites. Member state preferences on EU policies reflect elite calculations of the economic costs and benefits of specific EU measures. Member state preferences on proposed EU measures are expected to vary according to whether a member state is an expected net contributor or net beneficiary of proposed EU funds and regulations. For example, preferences in net contributor states are predicted to be against EU spending measures and in favor of enhanced austerity and regulation; preferences in net recipient states are likely to be in favor of spending and against austerity and economic regulation. Member state governments may defy public opinion and embrace EU policies that contradict it when economic elites oppose public opinion.

Alternatively, according to the model of constraining dissensus, member state preferences are influenced primarily by governing party ideology and politics. Governing party ideologies vary from market liberalism on the right to regulated capitalism on the left (see Hooghe and Marks 2009, 14–15). Liberal and conservative governments should favor austerity and oppose spending and regulation; and socialist governments should favor spending and regulation as solutions to the debt crisis. Member state preferences will be responsive to public opinion when it contradicts governing party ideology prior to elections and during coalition governments.

In order to explore these models, we examine public opinion, elite preferences and member state preferences in Germany, France, the UK, Spain and Italy on (1) the Greek financial rescue; (2) the European Stability Mechanism; (3) the reform of the Stability and Growth Pact; and (4) EU regulations on the financial sectors. Public opinion on spending, austerity, economic coordination and financial regulation is measured during Council negotiations over the initiatives via *Eurobarometer* surveys. Elite preferences include opinions of national economic and financial actors and are derived from news reports. Member state preferences on the four EU initiatives are ascertained from news reports and public documents concerning Council meetings on the initiatives. Following Timus (2006) and Nguyen (2008) we seek to understand the interaction of public, elite and member state preferences. Comparing public, elite preferences and member state preferences on major EU initiatives allows us to discern the conditions of public influence on EU policymaking.

THE GREEK FINANCIAL RESCUE

The debt crisis became apparent in the fall of 2009 when Greece announced that its budget deficit was 12.7 percent–more than twice what it had previously

reported and more than four times the prescribed EU limit (Agence France Press, January 24, 2010). The Greek announcement presented an immediate threat not only to the solvency of the Greek government and the people of Greece, but to Greece's creditors and the stability of the euro. The Greek announcement also revealed the weaknesses of the economic coordination between the euro economies, in particular the lax monitoring and enforcement of the convergence criteria and the stability and growth pact. In short, the Greek debt crisis ushered in what has since been termed "the euro crisis."

Member state and Commission solutions for the Greek debt crisis included spending and austerity measures to address the Greek budget imbalance and economic and financial regulation to prevent the reoccurrence of similar crises. Given the sensitivity surrounding such solutions, one might expect the Commission to probe public sentiments in its crisis-specific *Eurobarometer* surveys. However, no such question was included prior to the adoption of the first Greek financial rescue. Fortunately, the *Financial Times* was less inhibited. In its March 2010 survey of France, Germany, Italy, Spain, and the UK respondents were queried on the use of public money to rescue cash-strapped members.

The results in Table 7.1 follow expectations as countries can be divided in two groups based on whether they were likely to be a provider (Germany, the UK, and France) or a possible recipient of such funds (Italy and Spain).[1] First, while there was solidarity in general, in that the EU and its members were seen as having a responsibility to help members that encounter financial and/or fiscal trouble, there was considerably less solidarity when it came to helping the Greeks in particular. In the latter case, there was particular opposition to be found in the UK (56% opposed) and in Germany (61% opposed). French public opinion was nearly evenly split on the question of EU help for Greece with 40 percent supportive and 39 percent opposed. Second, there was little interest in guaranteeing the debts of another EU member; over 60 percent of the respondents in France, the UK, and Germany were opposed to a measure that would have placed them at risk of paying off the debts of other members. In short, there appear to be limits to EU financial solidarity, especially if defined as taking on the obligations of another country's deficit spending. Third, in more positive news, there was also little interest in requesting Greece to leave the Eurozone while it sorted out its problems. While such a "Grexit" was a widely discussed option at the time (spring of 2010), it was not widely seen as desirable. Finally, and somewhat disconcertingly for Brussels, a plurality of Germans (40%) believed their country would be better off if it left the Eurozone. In the other 4 Eurozone countries, the plurality felt their country would actually be worse off in leaving the Eurozone.

These attitudes are reflected in member state preferences at the onset of the crisis. Germany and France—who held substantial percentages of

Table 7.1 Public Support for EU Financial Assistance to Greece

		Germany	*The UK*	*France*	*Italy*	*Spain*
The EU & its members have a responsibility to help other members in financial/fiscal trouble	Agree	32%	34	46	59	65
	Disagree	46	35	24	17	20
Support EU efforts to help Greece cope with its budget deficit	Support	20	25	40	44	60
	Oppose	61	56	39	33	34
Your government should guarantee the debts of another EU member	Support	8	15	16	26	30
	Oppose	76	61	60	44	44
Greece should be asked to leave the eurozone while it sorts out its finances	Agree	32	27	19	20	23
	Disagree	40	32	55	53	50
Would your country be better or worse off if it left the eurozone?	Better	40	—	26	25	31
	Worse	30	—	39	47	39

Source: Financial Times, 2010.

Greek sovereign debt and were the likely largest contributors to a Eurozone rescue—preferred Greek budget austerity and *not* a financial rescue (Barber, Wiesmann and Hall 2010). Germany's initial response to the crisis was to insist Greece stabilize its budget by cutting expenditures (Agence France Presse 2010a; Tilford 2010). Germany rejected calls for an EU or IMF rescue package for Greece, arguing that the EU was prohibited from granting financial bailouts to Eurozone states and that IMF involvement would compromise the European Central Bank (ECB) and thereby EU sovereignty (Barber 2010a; Peel 2010a). France recommended austerity and initially opposed an EU and/or IMF bailout (Barber and Hall 2010; Barber et al 2010; Barber 2010). The ECB also opposed EU and/or IMF bailouts and favored Greek budgetary austerity (Atkins 2010a; Atkins et al. 2010). Spain, Italy and the Commission supported a financial rescue of Greece (Agence France Presse, 2010d).

As sovereign default became an increasingly likely possibility for Greece, France and Germany came under increasing domestic and international pressure to support a financial rescue of Greece. Despite lukewarm public support for EU assistance to Greece and opposition to securing Greek debt, French President Sarkozy came to embrace an EU bailout of Greece. His reversal–which contradicted French public opinion and his partisan ideology–was in line with French economic elites and interests. French banks held $67 billion in Greek debt—the largest percentage of any member state (Ewing 2010). BNP Paribas and Société Générale had among the largest exposures of any bank. French bankers, while sanguine in public statements, were supportive of the Greek bailout to avoid immediate losses and possible contagion to other member states (Fuhhrmans and Moffett 2010). Sarkozy not only endorsed an EU-led rescue but sought to convince German Chancellor

Merkel of the necessity (Thomson 2010a; 2010b). Merkel was initially opposed to an EU bailout. Her position was in line with public opinion and her FDP coalition partners against an EU bailout (Barber and Wiesman 2010). Merkel was reported to be persuaded that an EU bailout would not survive the German Constitutional Court (Peel and Tait 2010). Additionally, her position was likely constrained by her need to secure a CDU-FDP victory in the pending North Rhine-Westphalia elections in order to maintain a majority in the Bundesrat (Peel 2010c). She, however, faced pressure for a bailout from German economic elites and interests. Deutsche Bank and Commerzbank officials warned of the contagion effects of a Greek default (Barber 2010c; Barber, Wiesman and Hall 2010). Finance minister, Wolfgang Schäuble, also supported an EU bailout of Greece (Economist Intelligence Unit 2010).

Ultimately, Merkel conceded to a Greek rescue package tied to austerity involving both the EU and the IMF. Greece would receive €110 billion in loans over three years (€80 billion from Eurozone states and €30 billion from the IMF) in exchange for fiscal consolidation including increased sales taxes, and cuts in government salaries and pensions to bring the government deficit down to less than 3 percent GDP by 2012 (European Commission, Occasional Papers no. 61). The EU portion of the bailout would be disbursed in the form of bilateral loans from Eurozone states proportionate to their ECB contributions contingent upon Commission and ECB assessment of conditionality and by unanimous agreement of Eurozone states (European Council, 2010c).

An examination of public, elite and member state preferences surrounding the Greek financial rescue reveals that in 3 of the 5 countries, public opinion and member state preferences were aligned in the direction predicted by economic cost/benefit considerations. Public, elite and member state preferences in Spain and Italy were aligned and supportive of the bailout. Public, elite and member state preferences in the UK were aligned and opposed. While public opinion in France and Germany was opposed to the bailout, member state preferences ultimately reflected elite calculations that the costs of refusing a rescue were too high. Public opinion against an EU bailout in Germany and lukewarm support in France did not prevent member states from adopting one. While German public opinion was ultimately overruled, it definitely influenced the content of the final rescue package. Reflecting German public sentiments, Germany secured increased fiscal austerity for Greece and a veto over temporary, intergovernmental Eurozone funding. Greece did not receive "free money" but rather loans tied to strict conditionality and austerity. German public opinion also influenced the timing of the Greek bailout. Merkel maintained opposition to the agreement until as close to the North Rhine-Westphalia state election on May 9th as possible. The election would not only decide her party's strength in the Bundesrat, but was also a precursor to the next national election and referendum on her handling of the crisis. In general, public opinion set the broad contours of member state policy preferences, and affected the timing of the deal. The interaction of public opinion, elite and member state preferences in Germany demonstrates that when public opinion competes with interest group and economic elite opinion, it has more sway prior to elections and more sway with respect to coalition governments.

THE EUROPEAN STABILITY MECHANISM

Negotiations over the Greek rescue were complicated by the fact that the EU did not have an existing mechanism for coming to the aid of a Eurozone member state facing financial difficulties. The *Treaty on the Functioning of the European Union* explicitly prohibited the ECB (Article 123) and EU institutions (Article 125) from financially assisting Eurozone member states facing budget constraints. However some analysts argued that the EU could mount a rescue based on Article 122.2 which states that when a member state "is seriously threatened with severe difficulties caused by natural disasters or exceptional occurrences beyond its control, the Council, on a proposal from the Commission, may grant, under certain conditions, Union financial assistance to the Member State concerned" (see Barber 2010c, 12). Given the ambiguity in EU law, there was disagreement on how to proceed with an EU rescue.

Public opinion on EU financial assistance was measured in the fall following the Greek financial rescue and prior to the creation of the European Stability Mechanism. While respondents were not asked about treaty revisions, they were asked the extent to which they agreed that "in times of crisis, it is desirable for (our country) to give financial help to another EU Member State facing severe economic and financial difficulties?" (EB 74.1, QC10). As the results in Table 7.2 indicate public opinion across the member states is supportive. However, the intensity of support continues to reflect whether countries would be likely providers or recipients of financial assistance. France, Spain and Italy have majorities that support the fund. German and UK public opinion are evenly split with roughly 45 percent in favor of funding financial support.

If public opinion were supportive of EU financial assistance, would they require austerity and conditionality in return? While respondents were not queried about conditionality of financial assistance, in May of 2011 they were asked about their support of deficit spending to create economic growth (EB 75.3 QC6). Table 7.3 indicates that public preferences in France and Germany continued to support budget stabilization and austerity over deficit spending to address the economic recession. In Germany and France

Table 7.2 Public Support for EU Financial Assistance for all EU Member States

	Agree	*Disagree*	*dk*
Germany	45.96%	44.83	9.20
United Kingdom	45.42	41.94	12.64
France	51.20	41.03	7.77
Italy	53.26	28.86	17.88
Spain	48.65	36.22	15.12
EU-27	48.36	39.70	11.95

Source: European Commission 2013a, QC10.

Table 7.3 Public Support for Deficit Reduction v. Job Creation

	Less than 40% Agree	*Between 40–60% Agree*	*More than 60% Agree*
In an international financial and economic crisis, it is necessary to increase public deficits to create jobs.	Germany France	Italy Spain	UK

Source: European Commission 2014, QC6.

respondents were largely unwilling to take on additional debt in the name of job creation. At the other extreme, more than 60 percent of respondents in the UK supported deficit spending to create jobs. In Italy and Spain, 40–60 percent of the population was willing to increase their country's indebtedness to promote job creation. It is essential not to read support of a national stimulus approaches to national economic woes as translating into support for EU-wide Keynesian policies. However, it is reasonable to assume that France and German publics who opposed such policies in their own countries would oppose them for the EU in general.

Germany had first proposed a permanent EU bailout mechanism, the European Monetary Fund (EMF), in spring 2010 (Peel, Hall and Barber 2010). The German proposal, which would require treaty revision, was to give the EU an IMF-like institution that granted loans upon strict conditionality to any Eurozone state experiencing financial and economic imbalances (Agence Europe 2010d). The EMF proposal was Merkel's attempt to reconcile increased pressure from German economic elites, France, and the Commission for a financial rescue of Greece with German public opinion preferences for budget stabilization and austerity, ensure that rescue conform to TEU requirements, and pass muster with the German Constitutional Court. While the German suggestion was weakly endorsed by the Commission and France, both were skeptical of pursuing treaty revisions (Peel, Hall and Barber 2010). Although member state preferences were not emphatically opposed to the EMF proposal, the latter was tabled in favor of a temporary, largely intergovernmental €750 billion Eurozone stabilization

package due to concerns that a permanent EU fund would require amending the EU treaties, a lengthy process that would bring unwanted public scrutiny and oversight into member state efforts to stabilize the euro (Pop 2010; Mahoney 2010.)

Discussions over a permanent EU rescue mechanism were re-initiated by Germany in the fall of 2010, in the midst of negotiations over a financial rescue package for Ireland. France and the UK immediately objected on the grounds that a permanent fund would require treaty changes (Peel 2010d). Merkel however, successfully convinced Sarkozy of supporting treaty change to bring forth the permanent EU rescue fund by conceding the German demand for adding automatic national penalties for states violating targets set in a new Stability and Growth pact (Chaffin, Hall and Peel 2010a). Despite the Franco-German deal, the Commission publicly opposed treaty revision (Agence France Press 2010e). British Prime Minister David Cameron also opposed treaty change for a new permanent fund, and was in favor of a total budget freeze (Thomson 2010c). Merkel agreed to support a limit on EU budget growth in exchange for the UK supporting treaty change (Wiesmann and Barker 2010). While willing to forgo automatic sanctions for undisciplined spending, Merkel was unwilling to compromise on treaty revision as a prerequisite for a permanent funding mechanism (Peel 2010e). Undoubtedly, the threat that Germany might not agree to future bailouts without the treaty change convinced the majority of member states to agree to the permanent bailout fund via a minor treaty revision. Furthermore, the possibility of utilizing an abridged procedure of unanimous approval by European Council for minor treaty revisions, which was allowed by the Lisbon Treaty, likely convinced reluctant member states that they could avoid the time-consuming—and ultimately risky–process involving an intergovernmental conference followed by national referendums (Phillips 2010).

The European Council agreed to create a new permanent rescue fund, the European Stability Mechanism (ESM), to guarantee financial solvency of euro member states by following the abbreviated procedure for minor treaty changes (European Council 2010a). The ESM would be an intergovernmental organization able to grant loans to Eurozone states on the basis of unanimity and conditionality, including "haircuts" for private bondholders (ibid). Discussions over the lending capacity of the fund were settled relatively quickly, with Germany, the Netherlands and Finland conceding to a €500 billion lending capacity of the fund (Spiegel and Pignal 2011). While Germany conceded on the size of the fund, it successfully negotiated a lower annual contribution over a 5-year period (Agence Europe 2011b). Germany also conceded with respect to financial instruments of the fund. While France was in favor of the ESM being able to buy government bonds

and engage in bond swaps, Germany and the ECB were less enthusiastic on this item (Hollinger and Spiegel 2011; Weber 2011). Ultimately, Germany agreed to allow the ESM to buy government bonds from member states and on secondary markets (Spiegel 2011b; Reuters 2011). Despite the minor concessions, Merkel successfully accommodated the German public's desire for fiscal discipline, the German Constitutional Court's requirement of EU treaty revision, and the need to stabilize the euro and prevent the spread of sovereign debt crisis.

The creation of the ESM indicates an approximate alignment of public, elite and member state preferences in favor of an EU fund to assist member states facing economic and financial crises. Preferences ultimately reflected the calculation that the costs of failing to create a fund to address budgetary imbalances and fiscal crises across EU member states and stabilize the euro were too high. The ESM was to involve strict conditionality and was not a stimulus package. Therefore, it did not contradict French and German public opinion against stimulus spending. Most importantly, German public opinion on financial assistance for member states had evolved. While in March 2010 only 32 percent had supported "EU efforts to help member states in financial/fiscal trouble" (Table 7.1), by September 2010, 45.96 percent were supportive of EU financial assistance (Table 7.2). Prior to the Greek bailout, the German public did not support EU financial assistance. While Chancellor Merkel dropped her EMF proposal in spring 2010, she acceded to German financial and banking interests to agree to a Greek bailout against public preferences. Merkel was constrained by public opinion on the Greek rescue in spring 2010; but by the fall of 2010 German public opinion had come closer to the preferences of German economic elites.

REFORMING THE STABILITY AND GROWTH PACT

While recipients of bailout funds could have austerity forced upon them as a condition of receiving aid, the question remained how best to regulate the behavior of all Eurozone members to avoid a repeat of the crisis in the future. This need to regulate state behavior had been the logic behind the first Stability and Growth Pact introduced alongside the euro in 1999. The failings of this first pact are well known and not addressed here; however, following the creation of the ESM, attention swung back to how best to regulate state behavior. In fact, the paucity of rules governing member state economic and financial policies, the weaknesses of EU supervisory and enforcement powers, and the lack of member state compliance with the Stability and Growth Pact were widely seen as having contributed to the crisis (Barber 2009; 2010a; Agence Europe 2010b; Nelson et al. 2010).

In the winter of 2010 Spanish Prime Minister Zapatero, who held the Presidency of the Council of Ministers, put enhancing economic coordination at the top of his agenda, arguing that the EU should consider adopting sanctions for states that failed to meet agreed upon targets (*Europolitics* 2010). The Commission also announced that it would seek to strengthen economic coordination by reforming the Stability and Growth Pact (Chaffin 2010; Agence Europe 2010a). Germany supported increased economic coordination for Eurozone member states in line with Spain's initial call for sanctions. Germany was reported to be in favor of a range of sanctions including the withholding of EU Structural or Cohesion funds, and suspending voting rights in the Council for states that violated fiscal rules (Agence Europe 2010d; Wolf 2010; Chaffin, Hall, Hope and Wiesmann 2010). The UK was not opposed to increased fiscal discipline by member states but was opposed to increasing the enforcement power of EU institutions (Mallet 2011). On the other side of the debate stood France, which remained opposed to more stringent automatic sanctions (Chaffin, Hall, Hope and Wiesmann 2010; Hall 2010).

Faced with an impasse, Eurozone members tabled the discussion for future negotiations (European Council 2010c). Tabling the negotiation over tougher sanctions was a concession by Germany that contradicted German public's insistence on more stringent fiscal discipline as a way out of the crisis. Recalling that at the very same March 2010 summit, Germany conceded to EU involvement in the Greek financial rescue without treaty revision makes the German capitulation on tougher sanctions all the more remarkable. While initially constrained by public opinion in both cases, Chancellor Merkel ultimately disobeyed it. Pressure from economic elites and other EU member states to agree to an immediate Greek bailout took precedence over enhanced economic coordination.

Public opinion on enhancing the economic and budgetary coordination of EU member states was overwhelming supportive across all member states. Respondents were asked whether they favored or opposed strengthening ". . . European economic governance and . . . . the convergence between the budgetary policies of the EU Member States" (EB 76.1 QA10_2). Table 7.4 indicates overwhelming public support for strict penalties to enforce debt and deficit limits on member states. Solid majorities in France, Germany, Italy and the UK support automatic sanctions. The EU average public support is 78%! German public support mirrors the average EU support. Public preferences in Germany for automatic sanctions are consistent with the German public's support of fiscal discipline at home and for other member states. Majority public support in France, the UK and Spain flies in the face of the budgetary practices of these states which ran deficits, many times in excess of the stability and growth pact measures from 2007–2010. In all

Table 7.4 Public Support for Enhanced Economic Coordination

	Strongly in Favor	*Fairly in Favor*	*Fairly Opposed*	*Strongly Opposed*
France	35.1%	46.1	13.5	5.3
Germany	42.1	34.4	16.8	6.7
Italy	25.0	61.0	11.4	2.7
Spain	40.1	41.6	11.6	6.8
UK	22.9	44.7	20.5	11.9
EU Average	32.15	45.85	16.08	5.93

Source: European Commission 2013b, QA10_2.

likelihood, respondents were not imagining that penalties would accrue to their own countries, but apply to the Greeks.

The Commission re-instigated discussion of reforming economic governance and coordination by proposing six legislative proposals ("six-pack") aimed at augmenting the scope and enforcement of the Stability and Growth Pact targets. The legislation would subject Eurozone member states to near-automatic fines for not meeting debt, deficit and competitiveness targets (European Commission 2010b). Member states were divided into two camps on the Commission proposals. Germany and the UK (joined by the Netherlands, Sweden and Finland) argued that the Commission's proposed sanctions were too soft and needed to be more aggressive and more automatic (Spiegel 3010; Peel, Parker, Chaffin and Hall 2010; Chaffin and Spiegel 2010). The European Central Bank also favored tougher sanctions, as did the European Parliament (Chaffin, Peel and Wilson 2010, Agence Europe 2010g). France, Italy, Spain and Belgium were opposed to automatic sanctions (Chaffin, Peel and Wilson 2010).

Significant progress on the Commission proposals was made when Germany agreed to drop its insistence that the legislative proposals contain automatic sanctions in exchange for France supporting treaty revision to create the ESM (Chaffin, Hall and Peel 2010). The European Council endorsed the Commission's proposal for near-automatic sanctions (Agence Europe 2010h). Member states haggled over the details of the fiscal targets and enforcement mechanisms for another full year until finally adopting the Commission proposals in November 2011 (Agence Europe 2011c). The new proposals kept the Stability and Growth Pact national deficit limit of 3 percent GDP and debt limit of 60 percent GDP but enhanced monitoring and surveillance mechanisms to prevent states from breaching these limits and enhanced corrective mechanisms to encourage states that had exceeded the limits to bring spending back in line. States agreed to pace spending growth to GDP growth, and to allow the Commission to impose fines of 0.2 percent GDP upon Eurozone members that did not bring their debt and deficits back into conformity unless states agreed by qualified majority to prevent the fines (Council 2011). While a definite enhancement of economic

coordination and governance procedures, the six-pack reform of the Stability and Growth pact was definitely less comprehensive and less forceful than Germany would have liked.

Having achieved a significant but not dramatic increase in economic governance via the six-pack regulations, Germany and France proposed a more ambitious set of fiscal coordination measures known initially as the "pact for competitiveness" for the Eurozone countries (Peel 2011). The proposal included recommendations for member states to coordinate wage and tax policies, pension systems, and to adopt balanced budget legislations (Hollinger and Spiegel 2011a). Initial responses to the Franco-German initiative were negative: Austria, Belgium, Ireland, the Netherlands and Poland were among the states objecting to specific provisions and/or to the exclusion of non-euro member states (Hollinger and Spiegel 2011b). EU trade unions were also reported to be against the initiative (Agence Europe 2011a). Commission President Barroso and European Council President Van Rompuy put forward a slightly revised "pact for the euro" that retained most of the Franco-German provisions but substituted Commission for member state oversight (Spiegel 2011a). Eurozone member states plus Bulgaria, Denmark, Latvia, Lithuania, Poland and Romania agreed to the intergovernmental, non-binding euro plus pact at the March 2011 European Council (European Council 2011, Annex I). Participating member states committed themselves to pursue specific targets aimed at increasing competitiveness and promoting employment, fiscal discipline and the stability of financial institutions. The Commission would monitor and make recommendations for member state regulation and compliance, but compliance would be wholly voluntary. While definitely an expansion of the scope of economic coordination, since the pact did not include any requirement of compliance, member states were not bound to implement it. Given that Germany had fought for tough fiscal targets and sanctions for violators in the six-pack negotiations, it is difficult to view the euro plus pact as a clear, resounding victory for Germany. Nonetheless, recalling that Germany conceded to a larger than desired ESM contribution (albeit over a longer time period) at the very same summit that it won agreement to the euro plus pact leads one to conclude that it exchanged greater EU spending on its part to secure the promise of stricter fiscal discipline on the part of other member states.

Public opinion and member state preferences are strikingly divergent on the six-pack and euro plus pact reforms to the Stability and Growth pact in all cases except Germany. In all member states public opinion favored tough penalties for states failing to meet economic and fiscal targets. Despite public support, France, Spain and Italy were initially opposed to tough, automatic sanctions. Their preferences likely reflected economic analyses indicating the likelihood of their accruing penalties. Only in Germany did the member state preference reflect public sentiments. Yet, the German government

compromised on the size and enforcement of the targets and penalties originally desired. Intergovernmental bargaining actually brought the EU reforms on the Stability and Growth pact closer to average EU public opinion on economic coordination.

REGULATION OF THE FINANCIAL MARKETS

The six-pack and the euro plus pact were focused on regulating the economic and fiscal discipline of states. A second line of policy was squarely aimed at regulating the behavior of private financial actors, who were widely seen as having caused the crisis in the first place. Setting aside the assessment of blame, much of 2010–2011 was spent debating how best and how much to regulate the financial markets so that this kind of banking turned sovereign debt crisis would never repeat itself. This kind of policy search is part and parcel of any bailout effort due to the moral hazard created by the bailouts themselves.

As Table 7.5 makes clear, the public was quite adamant that the financial sector be brought to task for its role in crisis. Almost any proposal to curb the financial market was going to be embraced loudly and with considerable *shadenfreude*. It is also clear that the British were essentially in lockstep with their continental cousins. So while the British government remains the most vocal critic of such measures, there is little evidence to suggest that the British public shares its government's concerns. In fact, when it comes to regulating wages in the financial sector, the British are more virulent supporters than the EU as a whole (53.4% vs. 48.6%).

The Commission initially recommended strengthening the regulation and supervision of financial sectors including banking, insurance, pensions

Table 7.5 Public Support for Regulation of the Financial Industry

	Strongly in Favor[1]	*Fairly in Favor*	*Fairly Opposed*	*Strongly Opposed*
Tougher rules on tax avoidance and tax havens	EU: 62.5%	30.5	5.4	1.6
	UK: 64.0	29.2	4.5	2.3
The introduction of a tax on profits made by banks	EU: 52.0	35.6	9.0	3.4
	UK: 56.3	31.3	8.5	4.0
The introduction of tax on financial transactions	EU: 33.1	37.8	20.2	8.9
	UK: 23.2	36.0	25.2	15.6
The regulation of wages in the financial sector (i.e., trader's bonuses)	EU: 48.6	39.1	9.2	3.1
	UK: 53.4	33.8	8.7	4.1
Increasing transparency of financial markets	EU: 57.0	38.0	4.0	1.0
	UK: 54.3	40.4	4.1	1.2

[1]The percentage of respondents across the EU, excluding the UK, with the UK figures provided separately.
Source: European Commission, 2014, QC8.

and hedge funds in 2009. EU regulatory standards for hedge funds were aimed at improving their transparency (European Commission 2009f). The Commission proposed a European Systemic Risk Board (ESRB) to identify potential threats to the stability of the EU financial system; and a European System of Financial Supervisors (ESFS) for banking, insurance and pensions industries (see European Commission 2009b-e). The ESFS would be made up of existing national level supervisors working in conjunction with three new agencies: European Banking Authority (EBA), European Insurance and Occupational Pensions Authority (EIOPA) and European Securities and markets Authority (ESMA).

Negotiations over the creation of the European System of Financial Supervision, including the European Systemic Risk Board and three European Supervisory Authorities for banking, insurance and pensions proceeded quickly with the Council agreeing to significantly diluted Commission proposals in December 2009 (Willis 2009). The European Parliament, which shared legislative power with the Council, objected to the member states giving—largely at the behest of the UK—national financial authorities veto power over the European authorities (Willis 2010a). The European Parliament largely conceded to the Council position, approving the regulations despite failing to secure desired direct and independent enforcement authority for the ESRB and ESAs (Willis 2010b). Council negotiations over the hedge funds directive did not begin until spring 2010. Member states were in two camps. The UK led the opposition to the proposed standards. The UK argued that the regulations would disadvantage EU hedge funds in international competition and make it more difficult for non-EU funds to do business in Europe thereby putting a serious damper on the industry in Europe (*Financial Times* 2010a). Joining the UK in opposition to the hedge funds directive were Austria, Czech Republic, Ireland, Malta and Sweden (ibid). France and Germany both supported the hedge fund directive (*Financial Times* 2010b). In May of 2010, the Council of Ministers approved the hedge fund directive, outvoting the UK and other opponents in a qualified majority vote (*Financial Times* 2010b).

Member state preferences and public opinion on EU Regulation of the Financial Sector were aligned and favorable to enhanced EU regulation in Germany, France, Italy and Spain. However, the UK government position was not aligned with UK public opinion. Prime Minister Cameron's consistent opposition to enhanced regulation defied UK public support for it. Negotiations over the European System of Financial Supervision regulations and the hedge funds directive followed similar trajectories. In both negotiations, the UK was able to water down the Commission proposals to a greater extent than France, Germany or the European Parliament initially desired. The question of why member states agreed to less stringent financial regulation when EU public opinion was strongly in favor of regulation can be understood if one understands

public opinion as constraining but not determining member state preferences. Heads of state and government in France and Germany had a "permissive consensus" broadly in favor of enhanced regulation, but they also needed to be accountable to the noisy and persistent lobbyists for the wealthy and powerful financial industries. A watered-down set of regulations allowed them to accommodate both public and elite opinion. The lack of impact of British public opinion on the UK position is an example of public opinion losing to elite interest. Despite being in a coalition government, Prime Minister Cameron was not facing elections. Furthermore, Cameron would be unlikely to face public reprisal for defending UK financial and economic interests in Brussels.

CONCLUSION

The foregoing exploration of public opinion and government preferences during EU negotiations on the financial and sovereign debt crisis has sought to clarify the influence of public opinion on member state preferences and intergovernmental bargaining. We found that the "permissive consensus" granted to heads of state or government specifies a general policy preference and sets broad parameters within which they seek to stay. However, member states must also be responsive to economic elites and interests, which may have demands that run counter to majority public opinion. In such instances, we found that government preferences and intergovernmental agreements drifted beyond the parameters predicted by majority public opinion. For example, while majority public opinion in Germany, France and the UK was more supportive of austerity over spending during the financial crisis, the EU utilized both remedies in tandem, to bolster the banking and financial industries and stabilize the euro. Similarly, with respect to increased financial regulation, the final EU regulations were far less aggressive than public opinion in Germany, France and the UK would have predicted.

NOTE

1. It should be noted, however, that France is also considered among the group of countries that might, if things get bad enough, end up needing assistance too. *Forbes* has gone as far as to say that "In fact, it's France—not Greece or Spain—that now poses the greatest threat to the euro's survival" (Tully 2013, 1). A similar concern was raised a year earlier by *The Economist* (see Economist 2012). So while the crisis was primarily about Portugal, Ireland, and Greece (the PIGs) at the outset, and that Italy and Spain were the two large countries seen most at risk of a contagion effect (making it PIIGS), France has been seen as a distant and horrifying prospect given its debt and competiveness issues. It should also be noted that the French government rejects this point of view (see for example *The Telegraph* 2012).

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