

**Varieties of Strategies:
Britain, Germany and the EU in the Global Economic Crisis**

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1. Introduction

The global financial crisis, which started in 2008 and meanwhile severely affects the real economy in industrialised and emerging economies, is considered to have reached a magnitude only comparable to the world economic crisis of the post-1929 years. After the demise of Lehman Brothers, an investment bank, in September 2008, financial markets collapsed and stock markets crashed. The Dow Jones Index fell from over 11000 to below 7000 points while the German stock market index, DAX, fell from 7500 to below 4000 all within weeks. As a result of the unknown level of exposure and holdings of ‘toxic assets’ by banks, which might have to be written off, especially Credit Default Swaps (CDS) containing subprime mortgage loans, banks did not trust each other anymore. Consequently, inter-bank lending and borrowing evaporated. This in turn has severely affected the real economy as loans for trade, manufacturing and service production have also been strongly reduced due to a widespread loss of trust. Many banks as well as non-bank companies have been rapidly approaching bankruptcy conditions. For 2009, industrialised countries are expecting dramatically shrinking economic activity, that is, a severe recession (on the global financial crisis see Helleiner 2009; Rodrik 2009; Stiglitz 2008; Wade 2008).

Governments have responded to this financial market and real economy crisis with fresh money and propositions for new rules both nationally and globally:

- First, troubled financial institutions such as Northern Rock in the UK, Bear Stearns and American International Group in the US, and Hypo Real Estate in Germany were rescued with huge injections of money and/or with guarantees from their respective governments. For the banking community in general, a safety net was established in the form of guarantees covering hundred of billions of Euros, Dollars, and Pounds in order to provide liquidity and strengthen trust for the drying credit market.
- Second, governments are trying to smooth the downturn of the real economy through huge economic stimulus programs aimed at increasing demand in a Keynesian attempt to manage domestic demand through deficit spending. Stimulus programs reach 4,8% of GDP in the US, 1,5% in the UK and 3,4% in Germany (The Economist 14.3.09: 67).

- Third, governments engaged in multilateral consultations regarding new rules for global financial markets that would help prevent a similar crisis in the future. At the global level, these attempts at better governance are conducted within the G20, a group which includes the G7 states as well as emerging markets such as China, Brazil and India. At the regional level, the member states of the European Union have engaged in coordinating national positions on better global governance. Propositions being discussed at the global, regional, and national levels reach from a strengthening of the International Monetary Fund (IMF) and the Financial Stability Forum (FSF) to new regulations for non-bank financial actors such as hedge funds and rating agencies.

While the crisis is affecting all industrialized countries severely, national positions and policy measures reacting to the crisis show considerable differences. Even among member states of the European Union, convergence as well as divergence can be found in the reactions towards the crisis. The goal of this paper is to trace and explain divergence and convergence of European policy responses to the global crisis. What happens when an external shock such as the global financial crisis meets path-dependent national ideas and institutions? How have EU countries reacted towards the global financial and national economic crises? Did they react differently from one another, as would be expected given 'Varieties of Capitalism' and the ideational differences among EU societies, or did the crisis trigger new convergence? If convergence occurs, how and in which policy areas did it occur? With regard to economic stimulus programs and/or new financial market regulation? And if convergence occurs, is this due to convergent societal ideas on the role of the state vis-à-vis the global market and/or due to supranational EU-level initiatives?

2. Analytical Approach: Societal Ideas and Interests in Economic Policy

In order to analyse the questions raised above, this paper will use a societal approach to IPE following the liberal theory of International Relations (IR) in stressing domestic sources for national preference formation, that is, the influence of domestic ideas and interests on governmental positions and policy-making (Schirm 2008). This approach seems promising because the explanation of governmental positions requires the analysis of the domestic process of preference formation especially when the issue at stake – such as an externally-induced economic crisis – plausibly affects societal ideas and material interests. According to the societal, liberal theory of IR/IPE, I will thus focus on the influence of domestic politics on governmental preferences and on the interaction between globalisation and domestic politics (Frieden/Rogowski 1996; Hay/Rosamond 2002; Katzenstein 1978; Moravcsik 1997; Schirm 2002a: 33-56; Weiss 2003). In using a societal approach to governmental preference formation, this paper complements regime theory and international institutionalism, which dominate IR research. Compared to institutionalism, which suggests a neutral or objective

nature of circumstances such as institutions, this explanatory approach, using ideas as independent variable and discourse analysis as method, seems more promising, because it includes the political interpretation of the market and its regulative institutions.

Thus, my core argument is that divergence and/or convergence of the positions of governments towards the financial crisis, new regulation and economic stimulus are strongly influenced by domestic ideas and interests. The argument is based on the assumption that governments in democratic political systems represent dominant societal influences which can range from specific lobby groups to the attitudes of voters in general. Governmental positions express preferences originating from societal influences prior to international strategies and/or interstate negotiations. This implies, 'that states do not automatically maximize fixed, homogeneous conceptions of security, sovereignty, or wealth per se, as realists and institutionalists tend to assume. Instead (...) they pursue particular interpretations and combinations of security, welfare, and sovereignty preferred by powerful domestic groups' (Moravcsik 1997, 519).

The interpretations and constructions of the role of politics in governing the market will be traced through an analysis of the discourse on policy responses to the financial crisis. In analysing discourse, I will search for the two explanatory variables mentioned above following the argument that because governments want to be re-elected, they are responsive in democracies to the way in which both domestic material interests and value-based ideas relate to globalisation and (global) governance of markets. With these two variables the paper addresses both the more recent material changes brought about by globalisation as well as the longer term values and institutions of the societies affected by globalisation. This approach differs from most other approaches by including two driving forces in the analysis which are usually employed exclusively. The inclusion of both variables is based on the assumption that individual as well as governmental preferences and actions can be influenced either by short-term material considerations or long-term ideas individually, or by a combination of both.¹

The two variables shall be defined as follows: *Interests* are defined here as material economic considerations of domestic groups which can change rapidly according to changing circumstances, that is, according to new benefits and costs induced by globalisation and (new) global governance initiatives. *Ideas* relevant for preferences on economic governance and stimulus programs are defined here as path-dependent and value-based collective expectations on how politics should govern the market. Ideas can express themselves in societal attitudes and, in an institutionalized form, in the political

¹ Obviously, not only ideas and interests can compete with each other in influencing preferences, but in pluralistic societies, different interests and different ideas can also compete amongst themselves. In addition, both can interact with each other in a non-competitive way. For example, dominant ideas can reinforce or weaken specific interests and changing interests can trigger a socialization process which can change ideas.

culture and system of a country. Thus, by considering institutions as a codified form of path-dependent ideas, the approach of this paper also recurs to the 'Varieties of Capitalism' literature (Hall and Soskice 2001; Fioretos 2001), but treats institutions as subject to interpretation in discourses. Like interests, ideas can change, but changes take longer than changes in interests due to the path-dependent character of ideas.

As stated earlier, ideas and interests may interact by reinforcing or weakening each other. For example, the intensity with which interests influence governmental positions may depend on the set of ideas on the related issue such as the idea of 'individual responsibility' supporting the material interest in 'liberalization'. But when do ideas prevail over interests or vice versa? In this regard, I argue that ideas prevail in discourse and policy positions when fundamental questions about the role of politics in governing the market are concerned, while interests dominate when the distribution of resources and specific groups are directly affected (Schirm 2008: 26-27). Therefore, the related hypothesis is that ideas will prevail in positions and discourses on new financial governance because it concerns fundamental questions on the role of politics in regulating the market, while material interests will dominate positions and discourses on economic stimulus packages because it directly concerns the distribution of material benefits. As a consequence of this hypothesis, I argue that divergence between countries will be more accentuated with regard to positions on new governance rules, because they predominantly reflect path-dependent ideas than with regard to economic stimulus packages, because these predominantly reflect material interests, which tend to adapt to circumstances more rapidly than ideas. With regard to the EU-level, that is, the EU commission, I argue that commission initiatives will only gain member state support if they serve to protect governments from domestic criticism (import of legitimacy and/or 'tied hands'-argument) and/or if they are expected to enhance the economic efficiency of the ideas or interests prevailing in national initiatives (Hay/Rosamond 2002; Schirm 2002: 20-23). Otherwise, the EU-level will be ignored because the commission does not possess supranational competence for financial market regulation and stimulus programs.

In the following, the argument that divergence and/or convergence of policy positions towards the financial crisis are shaped by domestic interests and/or ideas will be examined through an analysis of the discourse and of the measures taken in the United Kingdom, in Germany, and on the EU-level since the onset of the crisis in September 2008. The two countries were chosen in order to compare two different sets of ideas and interests – a liberal and a coordinated market economy. Two policy-cases will be considered in these country studies and the EU-level: (1) the positions and measures towards new national, regional, and global regulation of financial markets and (2) the positions and measures towards economic stimulus programs. In examining the public discourse, this paper will use speeches by the responsible politicians (e.g. finance ministers, heads of government), official documents and

articles from renowned newspapers. These statements will be examined with regard to whether the positions represent material interests of domestic groups or whether they refer to path-dependent ideas dominant in the two countries and the EU commission. In empirically describing the variable 'ideas', the paper refers to the literature on 'Varieties of Capitalism' characterising the UK as a 'Liberal Market Economy' and Germany as a 'Coordinated Market Economy', to the research on differing ideas and norms in the two societies (Fioretos 2001: 220-221; Schirm 2002a and 2002b; ...), as well as to public opinion polls. The latter show that, while both countries share core ideas on the role of the government in governing the market, they differ in emphasis. For example, while the ideas of 'individual responsibility and freedom' and 'trust in market forces' receive stronger support in the UK than in Germany, those of 'collective solidarity through the state' and 'trust in governmental regulation' garner more support in Germany than in the UK (WVS/EVS).

Summing up, my core argument with regard to the divergence and/or convergence of policy positions and measures towards the financial and economic crises is that divergence will prevail with regard to regulative issues while convergence will occur with regard to economic stimulus packages. Path-dependent ideas should bear the strongest influence on national strategies towards new regulation because the latter affect fundamental questions about the role of politics in governing the market. On the other hand, interests should prevail when it comes to easing the material effects of the crisis through stimulus programs because the latter affect short-term distribution of resources and specific interests of electoral groups. In addition to testing these hypotheses, the paper also aims at illuminating the prospects for new global or regional financial governance, both of which depend on the convergence of governmental positions and on the willingness of nations to concede parts of their sovereignty. In this regard, I argue that while multilaterally coordinated stimulus programs do seem plausible due to the common interest in overcoming the material crisis, new global or regional regulation of financial markets will remain modest, due to the predominant influence of path-dependently diverging ideas on governmental positions about the governance issues involved.

Regarding discourse analysis and public statements, it is important to bear in mind that a public statement by the government underlining its positions with interests or ideas does not necessarily provide the real reasoning behind the government's preference. When governments underline their preferences with ideas, then they can, for example, also draw a rhetorical picture to promote hidden material agendas, such as protectionism or market access. However, public statements give evidence for what the government considers acceptable to the voters and therefore legitimate. Thus, I assume that governmental preferences will in principle reflect attitudes grounded on real endogenous patterns of legitimate ideas and interests. In order to secure this link between governmental preferences

and societal ideas and interests, the empirical evidence on governmental preferences focuses on quotes of political decision makers of the responsible ministries and of heads of government who - based on the standard assumption of self-interest to remain in office - will ground their positions on patterns acceptable and thus legitimate in the eye of voters. Positions of expert bureaucrats are not considered because they do not ultimately decide and because they are not accountable to voters – although ministerial bureaucracies might influence the international negotiation process (which is not under scrutiny here). The following quotes serve as an exemplary illustration of governmental positions and discourses (on discourse analysis in IPE also see Hay/Rosamond 2002).

3. Case I: Financial Market Regulation

The German and UK governments agree rhetorically on the core issues of a reform of financial market regulation, such as stronger supervision of hedge funds and rating agencies, better international coordination of supervision, anti-cyclical rules for banks, changing the bonus payment system for bankers, supervision of tax havens, strengthening the IMF and the FSF (Brown 2009; Merkel 2008). Despite these common intentions, clear differences in the interpretation of the crisis and of the role of regulations become visible when analyzing speeches and interviews of heads of government, that is, Gordon Brown and Angela Merkel, and finance ministers, Alistair Darling and Peer Steinbrück of the two states.

Germany: Measures and Discourse

The German government strongly advocates stricter regulation of financial markets. Both Merkel and Steinbrück frequently stress the necessity to control all financial markets actors, all financial products and all financial marketplaces (this has been the German position since the G20 meeting in Washington DC in November 2008, see Merkel 2008a).

On specific issues, Germany favours strictly controlled tax havens, hedge funds and banks as well as the strengthening of the IMF with regard to its resources as well as its power over member states. On tax havens, the German government wants “international standards on transparency and regulation to be applied completely also in ‘non-cooperative’ countries” such as tax havens (Steinbrück 2009a).

With regard to the interpretative construction of the crisis, Steinbrück and Merkel frequently (and with unusual clarity in international diplomacy) criticised the “Anglo-American” economic model as being responsible for the financial crisis and praised the advantages of the “social market economy”. Steinbrück complained that the flawed Anglo-American model has even been advocated by its supporters as superior to the continental European economic models (Steinbrück 2008). Unlike the UK government, the German government stresses specific demands for international institution building. Chancellor Angela Merkel

(2008b) advocated the necessity to establish a “World Economic Council” along the model of the UN Security Council with similar powers but composed of industrialised as well as developing countries. In another interview, Merkel (2008a) proposed the strengthening of the IMF inter alia by giving it the power “of punishing member countries who do not abide by the common rules similar to the powers of the World Trade Organization (WTO)”.

Thus, the German government attributes the crisis to flaws in the liberal “Anglo-American” model and emphasizes the need for stricter regulation of financial markets as well as improved and/or new international institution building. This interpretation of the crisis and of the responses it requires clearly shows a lack of trust in the self-regulating forces of the market, sees mere supervision of the market as insufficient and underlines a willingness by the German government to give up some degree of national sovereignty in order to strengthen binding global rules and their enforcement by international organisations. In Steinbrück’s (2008) view, the global crisis showed the weakness of the Anglo-American model and will therefore lead to a “multipolar” world financial system in which the Anglo-American model will no longer dominate to the degree it did until the crisis. The distance between the positions held by the German government and those of the US and the UK in terms of global regulations had already become visible before, for example, at the G7 summit of Heiligendamm in 2007 where the US and the UK rejected Merkel’s initiative to regulate hedge funds.

United Kingdom: Measures and Discourse

The British government in principle agrees with the German government on the necessity of new rules for financial markets in order to prevent future financial market and real economy crises. At a second glance, however, it differs from the German positions on the interpretation of new regulations as well as on the substance of measures to be taken.

On the substance of politics, the UK government agrees, for example, on the need to supervise and regulate tax havens, but is criticised by experts for not really pursuing the goal advocated rhetorically. The director of the private Tax Justice Network in the UK, John Christensen, underlines this point, noting the government’s failure to augment pressure on British tax havens such as the Isle of Man and Guernsey. In accordance with this observation the newly appointed Chief Inspector for tax havens, Michael Foot, has stated he does not see any necessity that these tax havens be regulated more (quoted in Volkery 2009).

With regard to the interpretative construction of the crisis situation, the British government also emphasizes the need for new rules, but does so in a different way than the German government. While the German government advocates new rules to restrict the market, the UK government frequently warns against protectionism and overregulation, and sees new rules and international coordination often as a measure to limit protectionism and

as a means to enhance market efficiency. The need for open markets is underlined in public declarations, as are the self-responsibility of markets and the benefits of open financial markets. Regulation of markets is not stressed to the extent it is by the German government. The chancellor of the exchequer, Alistair Darling (2009b), states in an interview, that international coordination is necessary “in order to prevent protectionism” (and not to improve regulation) and sees “more important problems than a pan-European financial surveillance, because Asia and the US are also important for London as a global financial marketplace”. In an official document listing the “UK objectives for the G20 in 2009”, Darling (2009a) makes clear that after the first objective “return of trust and confidence to financial markets”, the second objective must be to “retain and build on the benefits that open financial markets bring to the world economy”. Improved regulation does not figure among the official UK objectives. Instead, better governance is demanded in a voluntaristic manner from banks: “We need improved governance of financial institutions. We should press for more active, informed and capable boards. We must demand better due diligence and care of clients’ interests. And we must expect improved ethics”.

Comparison

Thus, in contrast to Germany the British government interpreted the crisis less as a systemic crisis of liberal and open markets and therefore also showed less enthusiasm regarding the strengthening and enforcing of binding international regulation and multilateral organizations. Trust in market forces can be detected as clearly stronger in UK positions than in German positions. Both countries positions seem to diverge along the ideas underlying the ‘coordinated’ versus ‘liberal’ market models and along the different ideas on the role of the state in governing the economy (individual freedom versus public coordination) (...).

EU-Level: Measures and Discourse

At an early stage of the crisis, in November 2008, the EU commission proposed stricter regulation and surveillance of rating agencies and thus managed to lead member state demands in this direction (Mussler 2008). Also, the commission clearly advocated stricter regulation for hedge funds and tax havens. Because financial market regulation is not a supranational competence of the EU, the commission has a weaker position on financial governance than it should have had on economic stimulus packages since the latter also affect the EU single market (see next section). Apart from the initiatives on rating agencies and hedge funds, the EU commission has been sidelined by national governments with regard to new global governance proposals.

With regard to the role of the EU in global governance institutions, the crisis did not trigger a greater consensus among member states on a unified, European representation, for

example, by the EU commission or the EU council president. Long-standing proposals for an EU seat in the IMF or new initiatives for enhancing joint representation in the G20 were countered by national assertiveness on influencing global governance institutions and processes. The Economist (21.2.2009: 34) comments: "Just as the European Union demands a greater voice on the world stage, because of its supposed unity and openness to new forms of multinational co-operation, individual members of the club fight even harder for national seats at the table."

4. Case II: Bank Rescue and Domestic Stimulus Packages

Both countries initiated large programs to rescue national banks and to stimulate their own national economies in face of the rapidly approaching economic downturn after the start of the financial market crisis in autumn 2008. These measures aimed at preventing national banks from going bankrupt and at stimulating domestic demand in order to slow both the economic downturn and growing unemployment.

Germany: Measures and Discourse

After the outbreak of the crisis, the German government showed a more moderate pace with rescue packages and the bailout of German banks in comparison to the UK. In the following weeks and months, the German financial community was given a large safety net in form of guarantees (up to 400 Billion Euro) in order to create trust and overcome the blockade of inter-bank credit. Also, a program was created through which banks can borrow money from the state to increase their equity (Eigenkapital). A new agency was founded, the SoFFin, to supervise the safety and rescue program. The German government did not force banks to use the resources and guarantees of the safety program. Therefore the goal of normalizing lending was not reached to the degree hoped for since banks were hesitant to use governmental aid for fear of acquiring the image of being vulnerable and needy. The bank most severely affected by the crisis, the Hypo Real Estate, was not nationalised but had instead received 90 billion Euro in guarantees and equity as of March 2009. The public debate about rescuing banks with public money and guarantees essentially evolved around the need to save systemically relevant banks in order to prevent a complete breakdown of financial markets as well as the need to make sure that taxpayer money is not wasted but, instead, would be retrievable once the crisis was overcome (ref.).

With regard to its economic stimulus program, Germany was heavily criticised by its European neighbours for not spending enough to increase domestic demand through deficit spending and lowering taxes. Indeed, the initial German stimulus package seemed quite small, but the criticism, especially that from the UK and the US, apparently neglected the huge automatic stabilisers of the German welfare state. Because unemployment money and

other social security transfers are much higher in Germany than, for example, in the UK, public expenditure and demand stimuli automatically increase during an economic downturn. The second package decided upon at the beginning of 2009 also raised new explicit stimulus transfers. According to the Economist (14.3.2009: 67) Germany's stimulus package reaches a total of 3,4% of GDP in 2008-2010 compared to Britain's reaching 1,5% (with the US at 4,8%). Germany rejected lowering taxes and its finance minister heavily criticised the lowering of VAT in the UK as "crass Keynesianism" leading to a huge deficit which would take a generation to reduce. Steinbrück explicitly criticised that the same people (meaning: then chancellor of the exchequer Gordon Brown) who had preached fiscal discipline to continental Europeans for years, were now spending without great effect: "The same people who would never touch deficit spending are now tossing around billions. The switch from decades of supply-side politics all the way to a crass Keynesianism is breathtaking. When I ask about the origins of the crisis, economists I respect tell me it is the credit-financed growth of recent years and decades. Isn't this the same mistake everyone is suddenly making again, under all the public pressure?" (Steinbrück quoted in Watt/Seager/Elliot 2008). Thus, it is plausible that Germany's broadly shared ideational consensus on fiscal discipline, evident since the 1970s, combined with the relatively high automatic stabilisers of the institutionalised idea on 'public solidarity through the state' shaped Germany's specific policy vis-à-vis the crisis (that is, relatively low new deficit spending) and led finance minister Steinbrück to defend it fiercely.

United Kingdom: Measures and Discourse

The British government reacted quickly to the problems of its national financial institutions. The Northern Rock bank was already nationalised in autumn 2008 and the huge rescue package for banks amounting to a total of 500 billion Pounds was constructed in an obligatory way which forced the banks use it more than the German banks had to use their government's respective package (The Telegraph 8.10.2008, Dieter 2009).

With regard to the economic stimulus program, the British government entered into high levels of deficit spending by increasing expenditures (e.g. for infrastructure) and lowering taxes, especially the VAT. With these measures the UK's response was quicker and larger in volume than Germany's response, but it ultimately did not reach the same percentage of GDP (see above). To a large extent, this may well be attributed to the much lower automatic stabilisers in the smaller British welfare system. Also, the British prime minister apparently was quicker to abandon long-standing convictions such as fiscal prudence, arguing that "extraordinary times require extraordinary action" and that policymakers all over the world were "leaving behind the orthodoxies of yesterday" (Brown quoted in Sparrow 2008). In 2009 the British stimulus package entered a process of

enlargement as specific non-bank companies may also benefit from governmental rescue measures, since the UK chancellor of the exchequer has acknowledged to borrow more money to help strategically important industries if necessary (The Guardian 26.1.2009)

Comparison

Comparing policy measures and discourse in Germany and the UK with regard to the rescue of banks and the economic stimulus packages, it is interesting to note that while the measures ultimately ended up being quite similar, reflecting the material interests and necessities of ailing banks and economic demand in both countries, the initial differences did mirror differences in national ideas and institutions. The German government emphasized the path-dependent idea of fiscal prudence and reacted more slowly to the economic downturn with a stimulus package than the British government because of the much larger automatic stabilisers in the German welfare system. The British government reacted faster and with a larger volume of new programs because of much lower automatic stabilizers. Britain was quicker to adjust to new circumstances than Germany possibly due to its more flexible conception of economic policy making compared to Germany's coordinated model. Thus, one might plausibly argue that, while the need to respond to interests in order to satisfy specific groups (here, the crisis-ridden banks) and the general interest in cushioning the economic downturn led to similar policies in the end, the initial differences in discourse and measures reflected societal ideas and their codified (institutionalised) form, such as the welfare system and the flexibility or inflexibility in justifying economic policy U-turns.

EU-Level: Measures and Discourse

In December 2008 the EU commission proposed that all EU member states should spend 1,5% of their GDP on economic stimulus programs. Commission president José Manuel Barroso suggested a package totaling 200 billion Euros of which 170 should consist of national stimulus programs and 30 billion should come from the EU budget. Another core proposition of the commission was a reduction of taxes on consumption (VAT) in order to boost demand. These plans of the commission were rejected by France and Germany, with the UK being the only EU member state to support a reduction of VAT (Handelsblatt 2.12.2008). The German finance minister said, that the EU proposal should be seen as a "tool kit" from which the member states could choose their instruments optionally, while both France and Germany insisted that they, and not the EU commission, should decide how their resources should be spent. Throughout the first six months of the crisis there was no significant support by member states for a supranational EU commission economic stimulus package. After months of negotiations and insistence by the commission on a supranational program, member states agreed in March 2009 only on a mini-package of 5 billion Euros.

The prevalence of national initiatives for economic stimulus in the European Union is not only significant for demonstrating that member states did not attribute any power, initiatives, or resources to Brussels with regard to the economic crisis. In addition to showing the de facto irrelevance of the commission for economic stimuli, the national programs meant a re-nationalisation of politics because many elements of the national programs actually contradict EU treaties since they distort competition, for example, through new subsidies. Thus, competition commissioner Neelie Kroes initially also objected to subsidies for national banks and entered into harsh conflicts with Germany and France over their respective rescue plans (Handelsblatt 10.12.2008). In the end, member states prevailed and the EU commission had to change subsidy rules, which had been holding up government aid to banks after pressure from Germany, France, Sweden and Finland (Castle 2008). As the Economist (21.2.2009: 34) noted, the rescue of national banks and, increasingly, also non-bank industries contradicts the EU's spirit and treaties: "Ministers from places like Germany, Britain and the Nordic countries regularly speak out against protectionism, yet indulge in quiet forms of intervention to prop up favoured banks and industries. The EU commissioner (a tough Dutchwoman) has warned governments against 'stealing jobs from one's neighbours' by 'bribing multinationals' with money to protect 'national' jobs'."

The degree to which the EU commission was ignored regarding substantial policy programs in the economic crisis until now is striking, as is the degree to which a re-nationalisation can be observed in the form of bending the competition rules of the single market. This development does not neatly fit into the arguments of the EU being a facilitator or an antidote towards globalisation. Instead, national governments have been performing as 'remedies' against the downsides of financial globalisation. Further research and interviews for this paper will tackle the question on the role of the EU in the next months.

5. Conclusion

German and British strategies towards the global financial crisis and the economic downturn were strongly shaped by domestic ideas and interests. This finding corresponds to the societal, liberal approach to IR/IPE as well as the 'Varieties of Capitalism'-arguments used in this paper to trace and explain convergence and divergence of policy answers towards the crisis. Interestingly, variation could not only be detected between the countries under scrutiny, but also with regard to the two policy fields analyzed. While the policy field more susceptible to material interests tended towards convergence in cross-country comparison, divergence was more pronounced in the policy area more susceptible to ideas. Thus, the different impact of ideas versus interests depending on the character of the policy issue at stake, hypothesized in the analytical approach of this paper, was confirmed in the case studies. First, divergence was accentuated in the policy field in which ideas dominated the

policy discourse (proposals for new regulation), because fundamental and path-dependent attitudes on the role of politics in governing the market were concerned. Second, convergence was accentuated in the policy field in which interests dominated (bank rescue and economic stimulus programs) because the distribution of resources was affected directly and because interests can adapt faster to new circumstances than ideas.

Summing up the strategies, Germany favoured stronger regulation mirroring the coordinated market and public solidarity ideas dominant in German society more than the individual responsibility and freedom ideas which predominated in the British positions. Economic stimulus packages were rather modest in Germany, but the automatic stabilisers of its welfare state were much larger than in the UK. On the other hand, the United Kingdom favoured less strict financial regulations and emphasized trust in open markets, but has implemented stronger measures to fight the crisis (e.g. nationalisation of Northern Rock bank, larger new stimulus expenditures)

The EU-level played a decisive role neither in new regulative proposals nor in economic stimulus packages. This might be explained with the fact that the potential incentives for national governments to use the EU mentioned in the analytical approach were missing in both the regulation and the economic stimulus policy-making situations. On the one hand, governments wanted to reap the political benefits (popular support) from higher expenditures and demand stimulation through deficit spending and did not need the EU to protect them from domestic criticism of unpopular measures. On the other hand, governmental positions on new governance rules diverged to a degree which inhibited efficiency-enhancing, joint EU initiatives as well as transfers of competencies to the EU level. With regard to the future role of the EU in the management of financial markets, this paper concludes that different national ideas on the role of politics in governing the economy will probably only allow for little European convergence on new regulation. This means that the EU as a supranational actor will probably not play a major role in shaping new global regulation for financial markets.

Instead, the EU will plausibly gain crucial relevance for member state governments when the economic crisis makes unpopular measures necessary, which will very probably be the case. Because the rapidly growing public deficits and welfare transfers will lead to inflation and/or a retrenchment of welfare systems, national governments will necessarily have to approach politically difficult steps in the near future. In this situation, governments will almost certainly anchor their economic policies induced by the global crisis on the EU level in order to import legitimacy, shield themselves from domestic criticism and make their policy more efficient. The successful experience of embedding the national liberalisations of the 1980s in European treaties such as the Single European Act (Schirm 2002) can serve as a blueprint for a new round of European integration in face of the challenges of globalisation.

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