U.S. Policy in the Euro Crisis and the Institutional Deepening of the Monetary Union

by

C. Randall Henning
American University

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ABSTRACT

Theoretical approaches to European integration often downplay and sometimes ignore the role of external actors. But the regime complex through which the euro crisis of 2010-2015 crisis was prosecuted involved the United states directly and indirectly through the IMF. Tracing such external involvement shows that, although they preferred greater deepening of euro area institutions than was achieved, U.S. and IMF officials' influence nonetheless contributed substantially to creation of the EFSF/ESM, robust ECB action and launch of the banking union project. The conclusion formulates falsifiable expectations on which a theory of external influence in regional integration can be developed and tested.

INTRODUCTION

The euro crisis reveals the importance of incorporating external actors into explanations of European integration and regional integration generally. Seven financial rescues for five euro area countries were designed and administered by an *international* regime complex – at the center of which stood the European Commission, European Central Bank (ECB) and International Monetary Fund (IMF), collectively known as the "troika." The crisis-stricken members of the euro area were *not* rescued by their European partners and institutions alone. The IMF's approach to designing rescue programs in turn hinged on the preferences of not only its European members but, importantly, those of its non-European member countries as well.

The United States was pivotal in both deciding the posture that was adopted by the IMF, as still its most influential member state, and brokering negotiations among creditor and debtor governments within the euro area. The U.S. government weighed in on (a) decisions to involve the IMF in euro-crisis programs, (b) disputes among the institutions over the design and monitoring of the programs, and (c) conflicts among the member states over development of euro-area-wide policies and institutions that were necessary to stabilize the euro area and "complete" the architecture of the monetary union.

The Obama administration had genuine sympathy for the ideal of European unity. But U.S. activism during the crisis was fundamentally grounded in strategic interest: an aversion to transatlantic spillover of financial contagion from the euro area plus an enduring understanding that success of the monetary union, and European solidarity generally, advanced U.S. economic and political interests in global affairs. When confronted with the euro crisis, the United States doubled down on what had been a longstanding commitment to European integration. Scholarly attention to the role of the United States in the euro crisis nonetheless remains remarkably sparse.

As a regime complex – that is, a cluster of international institutions operating in a common issue area and the mechanisms that coordinate them – the troika provided channels through which external actors could affect European choices in the crisis. The institutions within the complex often clashed over the design of programs and required coordination by key states to overcome deadlock (Henning 2017 and 2019). Those states included Germany and other creditor countries in the euro area, to be sure, but also the United States and the other countries that were included in the meetings of the Group of Seven (G7). Through these avenues, external actors influenced the immediate response to the crisis as well as the permanent adoption of European institutional reforms.

Scholarship on European integration has of course examined external influences on the development of the European Union. Historians certainly appreciate the role of the United States in the early decades of the integration movement after the Second World War.[1] Peter Katzenstein (2005) derives the concept of “porous regions,” including Europe, in which Germany served in a privileged position linking the region with the “American imperium.” “New regionalism” saw regional arrangements as shelter from hyper-globalization and elements of global governance (Telò, 2007). Henning (1998) has argued that conflicts in the international monetary system substantially drove the process of European monetary integration during the fall of the Bretton Woods regime and for three decades afterward.

[1] Leading contributions include Lundestad, (2005); Heller and Gillingham (1996); Larres (2009); Dinan (2004); and Eichengreen (2008).

However, these treatments of the role of non-European forces in regional integration tend to be issue-specific or otherwise under-theorized.[3] This article addresses both the direct involvement of the U.S. government in debates and negotiations among euro area member states and its indirect engagement through the IMF and plurilateral meetings such as the finance G7 and the G7/G8 summits. It begins by discussing the strategic interests of the United States in the crisis and the channels of influence over the European response that were available to U.S. policymakers. The article then traces U.S. activism through the crisis[4] -- which begins with Greece in 2010, progresses to Ireland (2010), Portugal (2011), Spain and Italy (2011), and ends with the third program for Greece (2015) -- selecting episodes that provide particular insight into influence over euro area decisions.[5] We conclude by formulating falsifiable expectations on which a theory of external influence in regional integration can be developed and tested in subsequent studies.

Better understanding of the role of external actors in European integration is made a pressing task by recent assaults on the solidarity of the European Union (EU) from several quarters, including the Russian government with respect to policies in Central and Eastern Europe, particularly Ukraine, the Trump administration with respect to trade and economic policy, and China with respect to foreign policy, human rights and the implementation of the Belt and Road Initiative. Britain's crisis over exiting the EU exhibits multiple influence attempts, overt and covert, by non-Europeans. Episodes in which U.S. policy was relatively

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[3] Studies of European integration that grapple with institutional overlap and complexity at the regional level include Enderlein, Wälti, and Zürn (2010); Tömmel and Verdun (2009); and Fabbrini, *(*2015). Jones, Menon, and Weatherill (2012) survey theoretical perspectives on European integration. As exceptions, Mutschick (2012) and Hodson (2014) treat external actors.

[4] Process-tracing methods are developed in Beach and Pedersen (2013) and Bennett and Checkel (2015).

[5] Studies of the political economy of the crisis overall include, Schelkle (2017), Brunnermeier, James and Landau (2016), Caporaso and Rhodes (2016), Matthijs and Blyth (2014), McNamara (2014), and Heipertz and Verdun (2010).

benign, as examined here, hold lessons for the pathways and potency of external influence when it becomes a force for *dis*integration.

The structured narrative presented here draws on multiple sources, including primary documents and official statements, press and media reports, secondary literature on the euro crisis, and the U.S. Treasury Department's records of the secretary's meetings and telephone conversations. The cases are also based on a large number of interviews by the author with officials in the U.S. government -- including the Treasury, White House, State Department and Congress -- as well as the IMF, European institutions, and governments and central banks of euro area member states. The interviews were often conducted on a background basis, on the understanding that the information could be published but the source would not be named. When identification of the source is not allowed, interviews helped to cross-check information gathered in other interviews, separate the "signal" from the "noise" in media reports, and inform the paper's overall understanding of the episode.

The article argues that the influence of the United States on European choices about the immediate response to the crisis and the longer-term development of euro area institutions was substantial. Over the course of the crisis, officials in Washington became firmly committed to the institutional deepening of the euro area. The staff and management of the IMF similarly advocated completing the institutional architecture of the monetary union, in some cases more aggressively than European member states. An explanation for the design of crisis programs and the choice of institutional reforms for the euro area[6] would therefore not be complete without taking account of such external influence.

[6] The purpose of the Special Issue in which this article appears; see, D'Erman, Schure and Verdun (2020).

STRATEGIC INTERESTS AND ASSETS

From the Truman through the Obama administrations, the United States supported European integration as a pillar of U.S. foreign policy. Sometimes U.S. officials qualified their support on the openness of European markets and advanced forms of integration that permitted U.S. entrée to European decisionmaking. But the European project offered the prospect of greater burdensharing in global affairs by a partner, the European Union, with broadly compatible political and economic preferences. Given these strategic interests, U.S. policymakers would, depending on the particular administration, accept or encourage the institutional development of the European Union through the adoption of the succession of EU treaties. In particular, the Clinton administration accepted Europe's decision to implement the Maastricht treaty and create the common currency in 1999.

Many of those who served in the Obama administration during the crisis had been publicly supportive of the euro in the 1990s, but had nonetheless been quietly dubious that European governments would ultimately introduce the economic flexibility that would be required for the success of the euro over the long run (Henning and Padoan, 2000). U.S. officials were never particularly worried about the challenge that the euro might pose to the international role of the dollar – Treasury Secretary Lawrence H. Summers (1997) often said, "The fate of the dollar is still largely in our own hands."

When the euro crisis struck in early 2010, U.S. officials instead became preoccupied with the *weakness* of Europe's monetary union. The immediate interest of the United States was to resolve the crisis, prevent contagion to the rest of the world, and thereby sustain the (agonizingly slow) recovery of the U.S. economy from the 2008–2009 recession. U.S. longer-term interests were perceived to reside in finding a permanent solution to the vulnerabilities of the euro area. Accordingly, over the course of the euro crisis, U.S. policymakers, like IMF officials, became strong advocates of deeper integration in the form of large rescue facilities, a broad role for the central bank, and a banking union with a fiscal backstop.

Although the direct effects of the subprime mortgage meltdown on the U.S. economy had dissipated, aftershocks emanating from Europe threatened the economic recovery. Two acute episodes of the euro crisis—the negotiations over the first Greek program in spring 2010 and the heated arguments in early summer 2011 over what would become Greece's second program—were followed by a marked drop in U.S. job growth.[7] Alan Blinder (2013, 379-81 and 409-28) thus concluded in autumn 2012 that the euro crisis appeared to be "the biggest threat to continued economic recovery" in the United States.

U.S. officials had their own preferences with respect to how the euro area problem was solved—balanced adjustment in Europe that did not foist unemployment or financial instability on the United States and the rest of the world. Later in the crisis, the U.S. Treasury inveighed against the divergent current account positions of the euro area countries, the large and rising surplus of Germany, and the emerging current account surplus of the euro area as a whole.[8] But, U.S. officials prioritized bringing the Europeans together around credible plans to arrest the crisis, and on this essential matter American preferences coincided with those of both European creditors and debtors.

[7] For a discussion of the global effects, see Truman (2013, 45–6) and IMF (2012).

[8] See, U.S. Treasury, "Semiannual Reports on International Economic and Exchange Rate Policies," at https://www.treasury.gov/resource-center/international/exchange-rate-policies/Pages/index.aspx. (Accessed January 10, 2018)

When seeking to influence European decisionmaking, U.S. officials drew upon several underlying assets. First, although the subprime mortgage crisis had placed them on the defensive in international meetings, U.S. officials had garnered lessons from that debacle that were directly applicable to the European debt crisis. Second, U.S. officials could make a material contribution to the European effort to stabilize the euro area, through Federal Reserve swap lines and support for IMF programs for euro area countries. Third, preventing contagion within the euro area hinged precariously on building confidence in financial markets, which could be reinforced or undercut by public statements by officials in the administration and Federal Reserve. These assets thus drew upon the international role of the dollar and central position of the United States in the structure of international financial relations.[9]

BILATERAL DIPLOMACY

When working directly with the officials of individual member states and the European institutions, the Obama administration played the role of an "interested broker." Key players on all sides of the intra-euro-area debates appealed to the Obama administration when stymied in European forums. The administration entertained appeals from Prime Minister George Papandreou in spring 2010, President Nicolas Sarkozy in autumn 2011, and Prime Minister Mario Monti in the first half of 2012, for example. Meanwhile, administration officials also worked closely with the creditor countries, Germany in particular. President Obama and his officials in the White House and Treasury simultaneously urged discipline on the crisis countries

[9] Danzman, Winecoff and Oatley (2017), Oatley et al. (2013), and Helleiner (2014).

and accommodation on the creditor governments. The effectiveness of moral suasion depended in turn on U.S. policymakers' willingness to bring resources to the table, which took two forms, foreign exchange swap agreements and IMF programs.

Federal Reserve Chairman Ben Bernanke and his colleagues in the Federal Open Market Committee had provided swap lines to fourteen foreign central banks during 2008–2009, of which the ECB was the largest user by far.[10] This facility had addressed the liquidity needs of European banks, with the ECB having drawn $291 billion at the peak, roughly one-eighth of the Fed's balance sheet at the time (Helleiner, 2014, 24-53).[11] The ECB's drawings during the European debt crisis were more modest, peaking at $90 billion in February 2012, but there were at least small amounts outstanding during most of the crisis period.[12] The swap thus provided important reassurance on liquidity availability during the acute phases.

Chairman Bernanke and ECB Presidents Jean Claude Trichet and Mario Draghi had frequent direct contacts on, among other things, the design and implementation of unconventional monetary policy. Bernanke disagreed with the ECB's monetary policy during the early phases of the crisis and with its support for fiscal austerity in Europe, although he avoided criticizing Frankfurt publicly. Bernanke had led the Federal Reserve into uncharted waters with quantitative easing, but ECB President Trichet had been reluctant to follow and even *raised* interest rates in 2011.[13]

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[10] See, for example, Sheets, Truman and Lowery (2018) and Kamin (2011).

[11] See, also, Prasad (2013, 201–7).

[12] See, Federal Reserve Bank of New York, "U.S. Dollar Liquidity Swap Operations," at <http://www.newyorkfed.org/markets/fxswap/fxswap_recent.cfm> [January 16, 2018].

[13] See, Bernanke (2015), especially, 474–80, 505–9, 524–6.

When developing rescue programs for individual countries, the Obama administration worked through avenues such as transatlantic telephone conversations and video-conferencing, bilateral meetings, and meetings of the G7 finance ministers, G8/G7 summits, and G20 finance ministers and summits. The daily calendars of the Secretary of the Treasury, which are posted publicly with a substantial lag, provide a record of his telephone conversations with officials in European countries, European institutions and the IMF.[14] Pisani-Ferry (2014) analyzed these records for the period through June 2012; this article updates that analysis through December 2015.

From January 2010 through June 2012, Secretary Geithner held 168 meetings or phone calls with euro area officials and 114 with IMF officials. Of these, Geithner met or spoke with the President of the ECB fifty-eight times, German Finance Minister thirty-six times, and the French Finance Minister thirty-two times. We can infer that these conversations focused mainly on strategizing through the euro crisis, rather than unrelated matters, because they were concentrated during the episodes of intense negotiation over the programs for Greece, Ireland and Portugal, financial turbulence in Spain and Italy, and the banking union. For his part, President Obama was similarly engaged in calls to and meetings with other heads of government, especially, but by no means limited to, German Chancellor Merkel. His contacts also tended to coincide with European summit decisions.

<<Insert Figure 1 about here>>

These meetings and phone conversations continued during the period from July 2012 through December 2015 -- with Jacob J. Lew succeeding Geithner as Secretary at the end of February 2013. (See Figure 1) The Secretary held 139 meetings and calls with the Europeans

[14] U.S. Treasury, "Calendars of the Treasury Secretary," at https://www.treasury.gov/FOIA/Pages/calendars.aspx. [Accessed January 10, 2018]

and sixty-one calls with the Managing Director of the IMF, Christine Lagarde, during this period. Of the calls with the Europeans, the Secretary spoke with ECB President Mario Draghi thirty-five times, German Finance Minister Wolfgang Schäuble thirty-seven times, and the Greek finance minister or prime minister thirty-nine times, for example. (See Appendix A[15] online, Figures 2 and 3) The frequency of contact declined somewhat from the January 2010-June 2012 period. Nonetheless, the Secretary and other U.S. officials remained engaged, with President Obama prioritizing diplomacy between Athens and Berlin even during his last official visit overseas in November 2016.[16]

MULTILATERAL INSTITUTIONAL DIPLOMACY

The IMF was the other main channel through which U.S. policymakers could weigh in on European decision-making during the crisis.[17] The role of the Fund in U.S. strategy evolved through three phases: the introduction of the IMF into the lending programs for euro area states, establishing limits to its financial exposure as the crisis spread, then, as the general crisis dissipated, grappling with debt restructuring for Greece.

Debt Strategy and Inserting the IMF

[15] At http://www. . . . [complete at publication]

[16] "Remarks by President Obama at Stavros Niarchos Foundation Cultural Center in Athens, Greece," The White House, Office of the Press Secretary, November 16, 2016, at https://obamawhitehouse.archives.gov/the-press-office/2016/11/16/remarks-president-obama-stavros-niarchos-foundation-cultural-center. (Accessed January 13, 2018)

[17] Thacker (1999), Oatley and Yackee (2004), and Copelovitch (2010), among others, demonstrate the influence of the United States on IMF policies and programs generally.

When the Greek crisis struck in late 2009 and early 2010, whether to finance a debt position that was even then regarded as probably unsustainable or to force a debt restructuring was *the* critical strategic question for the actors in the euro crisis. Notwithstanding debates within the administration,[18] Secretary Geithner and ultimately his colleagues opposed debt restructuring and bail-ins, prioritizing financial stability above other considerations.[19] Geithner urged his counterparts in Europe to put aside fears of moral hazard, make financing available in preemptive quantities, and stimulate growth in the strong countries as the crisis-stricken were undergoing adjustment. During a G7 conference call on May 7, 2010, for example, he scorned the €50 billion that the Europeans had offered for what would become the European Financial Stability Facility (EFSF) and European Financial Stabilization Mechanism (EFSM) and pushed finance ministers to increase the size by an order of magnitude (Geithner, 2014, 442-46), upon which they agreed.

As European deliberations over the first Greek package dragged on over winter and spring 2010, U.S. policymakers at the Treasury came to believe that Europe would need the IMF in order to formulate and implement the program and hold the Greek government to the policy conditions. Treasury Secretary Geithner promoted the Fund's inclusion with his European counterparts, in parallel with Dominique Strauss-Kahn.[20] Disenchanted with the European

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[18] Interview with a former administration official, Washington, D.C., July 19, 2013.

[19] Interviews with an official and former official of the U.S. Treasury, Washington, D.C., January 9 and September 6, 2013, and October 13, 2014. Fed Chairman Bernanke agreed with this position and the U.S. posture was aligned with Trichet's ECB. See, Bernanke (2015, 507).

[20] Interviews with a U.S. Treasury official and former official, Washington, D.C., March 18, 2011, January 9 and September 6, 2013, and June 18, 2014.

Commission, the German chancellor ultimately insisted on including the Fund in the program for Greece.[21]

To participate in the Greek program, the IMF had to waive a provision in its lending framework limiting the size of a loan when the staff cannot certify with confidence that the debt of the borrower is sustainable. Fund management proposed to the Executive Board that this provision be amended to allow the IMF to lend in cases where the stability of the international financial system could otherwise be threatened. The provision was thus named the "systemic exemption," and it was the subject of extensive debate within and outside the IMF in post-mortem analysis of the euro crisis programs.[22] At the Executive Board meeting that approved the exemption and the Greek program on May 9, 2010, the U.S. Executive Director, Meg Lundsager, supported both, emphasizing that the IMF was protected by its status as the preferred creditor (IMF 2010).

At the same time, the U.S. government wanted euro area policymakers to act much more decisively to stop the crisis. This entailed among other things commitments of financial resources that would, in the words of the Treasury secretary, "take tail risk off the table." Treasury was concerned that the euro area lacked a decisive plan and did not want the IMF to be providing all or even a majority share of funds for Greece. While they did not propose it, U.S. officials accepted a formula, announced by Spanish Finance Minister Elena Salgado and Strauss-Kahn, by which Europe would contribute twice as much as the Fund.

While endeavoring to contain the euro crisis, the Obama administration had to keep another eye on domestic politics and the U.S. Congress. The administration had recently

[21] French President Sarkozy argued vociferously *against* including the Fund precisely on the grounds that it would give the United States influence over the euro area. See, Bastasin (2015: 153-54).
[22] Blustein (2016: 133-46) and IEO (2016).

secured, in Spring 2009, an expansion of the capacity of the IMF through a large increase in the New Arrangements to Borrow (NAB) and a modest increase in quotas.[23] By 2010, Treasury was negotiating a *further* increase in quotas, which would be agreed at the G20 summit in November but would not be ratified until years later. Treasury officials therefore wished to avoid unnecessarily alienating members of Congress, which would have to approve the quota increase and were expected to scrutinize the potential costs.[24] These considerations argued for pressing the Europeans to overcome obstacles to building up their own financial facilities.

On the European side, leaders contemplated the prospect that Ireland and Portugal would succumb to the crisis. Anticipating that prospect, Chancellor Merkel sought to force private-sector creditors to make a larger contribution by writing down their claims at the outset of programs. Meeting in Deauville, France, in October 2010, she and President Sarkozy agreed to mandate such "private sector involvement" as a condition for official financial assistance to euro area governments in the future. Their announcement, which did not differentiate between countries with sustainable and unsustainable debt positions, proved to be a serious mistake.

One senior U.S. official thought that pre-announcing creditor haircuts in this way was "a complete disaster" and Obama administration officials pressed the Europeans to backpedal immediately (Crawford and Czuczka, 2013, 78-9; Geithner 2014, 449). Obama raised the matter directly with the German chancellor at a bilateral meeting. A statement issued four weeks later on the margin of the G20 summit in Seoul qualified the Deauville terms (Crawford and Czuczka, 2013, 79), although the abandonment of the doctrine for debt-sustainable cases would not become clear for as long as a year later.

[23] See, for example Henning (2009).

[24] See, for example, Weiss (2014). In the event, Congress delayed approval of the 2010 quota increase and reforms for five years.

Ultimately, the U.S. Treasury faced the same dilemma between debt realism and market instability that European governments faced. Given the weakness of the domestic recovery and the lingering fragility of financial markets, it opted to defer the recognition of losses on the sovereign debt of crisis countries—to "kick the can down the road." The U.S. Treasury was not opposed to debt restructuring as a matter of principle; but such operations required a credible financial backstop to prevent contagion in the process, and this, senior Treasury officials argued, was regrettably lacking in the euro area during 2010-2011.[25] As the crisis spread further, the U.S. Treasury thus acceded to the Irish and Portuguese programs, which could be accommodated within the IMF's resource envelope.[26]

Stipulations on IMF Contributions

An order of magnitude larger than the economies of Greece, Ireland, and Portugal, however, Spain and Italy were another matter. Their financial positions worsened markedly in summer 2011, raising the prospect that they would also need financial assistance.[27] The Spanish government's potential borrowing needs, had it lost access to capital markets, threatened to consume a very large share of the uncommitted resources of the IMF under the two-thirds/one-third formula, while the Italian government's would have exceeded them. Moreover, U.S. officials had developed deep misgivings about the governance of the euro area and its ability to respond in a manner matching the speed and magnitude of the crisis.

[25] On the Irish case, see Joint Committee of Inquiry into the Banking Crisis (2015); Donovan and Murphy (2014, 247).

[26] Pisani-Ferry, Sapir and Wolff (2013) and Bastasin (2015).

[27] See, Jones (2012); Bastasin (2015); Brunnermeier, James, and Landau (2016); and Henning (2017, 131-47).

Early Financial Facilities

The U.S. Treasury, and U.S. government more broadly, therefore advocated a more robust and coherent response on the part of the euro area. Secretary Geithner, Undersecretary Lael Brainard, Assistant Secretary Charles Collyns, and Deputy Assistant Secretaries Mark Sobel and Christopher Smart conveyed their institutional position: the governments of Europe had enough resources to deal with the problem and restoring market confidence was, essentially, a matter of their collective willingness to employ those resources to stabilize the monetary union.[28] Less publicly, senior Treasury officials argued that the euro crisis should be resolved by the governments' taking collective responsibility for debt of the crisis-stricken periphery, including bearing the fiscal cost of losses, while the balance sheet of the European Central Bank should be more fully mobilized.[29] The proposal of Daniel Gros and Thomas Mayer (2011) for the ECB to grant a banking license to the EFSF -- effectively mobilizing the ECB as a lender of last resort while deflecting any losses on such lending to government budgets -- was one of several ways in which this could have been done, in the Treasury's view.

In large-country contingencies, the role of the IMF would have to be primarily non-financial; to the extent that it contributed financial resources, those would be small relative to its contributions to the previous, small-country programs. The institution specifically could *not* act as a lender of last resort in these instances. The Treasury secretary posed a fundamental question: Why, in order to stabilize the monetary union, should the United States and other non-European governments take on risks that the euro area member states were not willing to accept? The U.S.

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[28] Interviews with U.S. Treasury officials, Washington, D.C., March 18, 2011, and January 24, March 12 and 21, 2012.

[29] Geithner (2014, 473–4). See, also, Bastasin (2015, 317).

position on the use of the IMF thus hardened in mid-2011 (Appendix B online [provide the link at publication]).

The U.S. government became increasingly aware that the success of any large program would ultimately hinge not simply on the financing package, adjustment program, and implementation by the country concerned, but also on the appropriateness of *euro-area-wide* policy. U.S. activism thus extended to the framework of institutions and policies for the monetary union as a whole—which included streamlining decision-making in the Eurogroup, easing monetary policy, and advancing the banking union. But the administration lacked a reliable mechanism to condition IMF programs on policy and institutional reforms of the euro area as a whole. As a consequence, the United States refused to accede to a financing role for the IMF in the case of the Spanish program.[30]

European Stability Mechanism

The U.S. government was also interested in the European deliberations over the creation of the European Stability Mechanism (ESM) and the discussion about its evolution into a "European Monetary Fund." U.S. Treasury officials did not jealously protect the prerogatives of the IMF relative to the regional arrangement, as they had when Japan proposed an Asian Monetary Fund in 1997. To the contrary, they pressed Europeans to endow the ESM with substantial resources and the full range of financial instruments. They were worried by a suggestion by Draghi in September 2012 that Outright Monetary Transactions (OMT) might be activated *only* in conjunction with an IMF program, arguing that the new ECB facility should be

[30] The Spanish government also wanted to avoid financing from the IMF, but would have not been able to avoid a full program absent progress on banking union and the ECB's OMT announcement. See, Henning (2017: 131-47, 237-38).

open to access even if the IMF were not involved. U.S. officials were nonetheless generally pleased that the presumption of IMF involvement was written into the formal arrangements for the European financial facilities.[31] In those cases, the U.S. would have substantial influence over whether the IMF would participate.

Banking Union

The U.S. government actively encouraged the development of the banking union in order to break the financial link between sovereigns and their national private banks. This advocacy, and the direct involvement of President Obama, peaked at the Camp David G8 summit during May 18–19, 2012. (Appendix B) The summit was especially important because the president hosted it and the meeting preceded the G20 summit in Los Cabos, Mexico, which preceded in turn a decisive EU summit in late June. With the yield spreads on Spanish and Italian bonds at new highs, and Greek politics in turmoil, it appeared that the wolf was once again at the door of Europe's monetary union. A German commitment to banking union was needed to calm the markets and, at the EU summit, Chancellor Merkel agreed to launch negotiations with the stated objective of breaking the sovereign-bank loop.

Evidence that U.S. activism was influential comes from different sources. President Obama's pressure at Camp David, his phone calls over the summer, and Geithner's conversations with Schäuble, pushed in this direction. They reinforced the position of the ECB, which had also advocated banking union. One well-placed German official said of the meetings at Camp David and Los Cabos, "We felt bullied by the Americans." But another, speaking in

[31] Interviews with officials and a former official of the U.S. Treasury, Washington, D.C., January 24, 2012, January 9 and September 6, 2013, and October 13, 2014.

late 2012, said of the chancellor, "She trusts the president" (to deliver on commitments and avoid undercutting her position).[32] When asked about U.S. influence over euro area decisionmaking, other European officials report to the author, sometimes ruefully, "the Germans listened to the United States."[33]

European Central Bank

Geithner urged ECB President Draghi to place the full balance sheet behind the banking system while securing indemnification from governments. This advice was economically sensible, even imperative; but the ECB operates in an institutional environment that contrasts with the fiscal federalist structure in which the Federal Reserve is embedded. To avoid fiscal dominance, the ECB delayed committing to further unconventional monetary policies until *after* governments committed budget resources to the firewall (Henning, 2016).

Geithner had conversations with Draghi before the introduction of Long-Term Refinancing Operations (LTROs) and as the ECB was working up the details of OMT. Referring to the Bundesbank, which was resisting more aggressive unconventional measures, Geithner in July 2012 advised Draghi, "You're going to have to leave them behind" (Geithner, 2014, 476-485). The ECB president did exactly that when announcing OMT in September. On this occasion, Chancellor Merkel sided with the ECB and against Weidmann and the Bundesbank—which was essential to the new program's positive effects on market confidence.

[32] Interviews, Berlin, December 10, 2012, and Paris, June 7, 2018. On the Merkel-Obama relationship, see, also, Kornelius (2013: 126-36).
[33] Interviews with an Italian Treasury official, Rome, May 15, 2015, and a former French Elysée official, Paris, July 8, 2015. See, also, Wieser (2018).

Third Greek Program and Debt Restructuring

Whereas other countries were anticipating graduating from their rescue programs in 2015, Greece faced the opposite prospect. The country had taken a second program in March 2012, which was accompanied by a restructuring of nearly €200 billion of privately held debt, and would soon be forced to take a third under a new Syriza government led by Prime Minister Alexis Tsipras. Whether the official European creditors should also restructure their claims against Greece, and if so by how much, became central questions in the troika negotiations over the third program. In those negotiations, which were contentious, even vitriolic, the German finance minister threatened Greece with expulsion from the monetary union.[34]

The White House and Secretary Lew lobbied their counterparts in Berlin heavily during the approach to the decisive European meetings in summer 2015, arguing against Grexit and for mutual accommodation. (Appendix B) They were concerned about the financial consequences of breakdown – but they believed that Grexit would probably not pose a systemic threat. On this occasion, geopolitical concerns became important priorities, as the administration sought to stabilize the Eastern Mediterranean in the face of the crisis in Ukraine, war in Syria, tension with Turkey, and a flood of refugees through Greece and Eastern Europe.[35] Chancellor Merkel never sided with Schäuble on Grexit and, during the eleventh-hour negotiations at the Euro summit in July, went the extra mile by personally negotiating the outstanding elements to secure agreement on the program.[36]

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[34] See, among others, Varoufakis (2017), Henning (2017: 184-232), and Sokou (2018), as well as Moschella (2016).
[35] Interviews with former State Department and White House officials, Washington, D.C., February 8 and October 11, 2017, and January 10, 2018.
[36] Brunnermeier, James and Landau (2016, 265-67); Sokou (2018).

When it approved the third program in August, the German Bundestag again insisted that the IMF be involved,[37] which underpinned the authority of the Fund. For its part, however, the IMF staff balked at making a financial contribution, insisting on *ex ante* debt relief for Greece that was much larger than the creditor countries were willing to provide. Whereas European governments favored the IMF contribution, the Executive Directors from emerging market and developing countries were generally opposed. The United States thus held a critical swing position in decisionmaking on the Board.

Although the Obama administration argued for substantial debt relief for Greece, it was never willing to go beyond diplomacy and persuasion to attempting to coerce Berlin on this matter.[38] It could have publicly criticized the refusal of the German government to grant more substantial *ex ante* relief. It could have explicitly threatened to block approval of the IMF's financial participation, thereby requiring the German government to re-argue and renew domestic political support for the program. But the euro crisis had dissipated and no longer threatened systemic contagion or the U.S. economic recovery. Under these circumstances, a definitive resolution of Greece's finances was not an essential priority for the administration and a more forceful approach with Berlin was therefore not thought to be necessary.

What effect did the United States, the IMF and other external actors have on the outcome of the third Greek program? They did not extract more than modest debt relief measures from the European creditors to Greece. The IMF remained integrally involved in the design and monitoring, but it never made a financial contribution. By remaining ambiguous about its financial participation until the end of the program, however, the IMF allowed Merkel's

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[37] German Bundestag, Plenary Transcript, Stenographic Report, 118th Session, Berlin, Wednesday, August 19, 2015.
[38] Interviews with former officials, Washington, D.C., October 11 and March 20, 2017.

government to avoid a debate in a plenary session of the Bundestag over disbursements when that would have been politically inconvenient. U.S. policymakers thus acceded to an arrangement whereby Berlin effectively deflected demands for more substantial debt relief.

But President Obama and his officials arguably influenced the institutional evolution of the euro area in two respects. First, during summer 2015, they led the chorus of international opposition to Grexit and probably reinforced Merkel's determination to strike the deal on the program at the Euro summit in July. Second, U.S. pressure for official debt restructuring strengthened opposition in Germany, Finland, the Netherlands and other creditors to reliance on the IMF in future crises. The euro area would better rely on its own institutions, went the argument,[39] which fed a vigorous discussion and eventually bargaining over the creation of a European Monetary Fund (EMF) during 2017-18.[40] Such a consequence might not have been the intention of Obama administration officials, but U.S. policymakers would probably welcome such an institution, provided it were effective.

CONCLUSIONS

This article reviewed U.S. policy during the euro crisis, demonstrating that officials in Washington, D.C., were involved, directly and indirectly, in bargaining over country programs and the development of the euro's institutional architecture. The United States government was actively engaged bilaterally with euro area member states, the presidents of the Eurogroup and European Council, the European Commission and the ECB. U.S. officials also deployed the

[39] See, for example, Regling (2017) and his remarks reported in Reuters (2015).
[40] See, for example, European Commission (2017) and Benassy-Quéré et al. (2018).

IMF as an instrument in its engagement with the euro area. U.S. standing within the Fund reinforced American officials' bilateral engagement and lent weight to their substantive advice.

It would be going too far to say that U.S. policymakers dominated decisionmaking in the euro area. Their interventions were often not singularly decisive and their objectives were not satisfied fully. Obama administration officials would have preferred earlier monetary easing, greater progress toward fiscal mutualization and banking union, and better rebalancing of international payments within the euro area. Nevertheless, their interventions were constructive in supporting more robust euro area economic governance, and European institutions have progressed in this direction, even if the progress to date does not guarantee the long-run stability of the monetary union. Euro area institutions would be weaker today had it not been for U.S. support for the involvement of the IMF in the early programs, for U.S. advocacy of the creation and enhancement of European financial facilities and banking union, and for IMF advocacy of architectural reform to complete the monetary union.[41]

U.S. influence was greatest during the acute phase of the crisis, from Winter 2010 through late 2012, when markets were volatile, U.S. authorities most feared financial contagion, and euro area member states and institutions were only slowly coming to agreement on institutional reform. During this period, European governments were most vulnerable and needed U.S. support to underpin confidence in financial markets and facilitate IMF participation in programs. Once financial panic dissipated after 2012, Europe's reliance on the United States diminished, and U.S. requests for more substantial debt relief under the third Greek program

[41] On the latter, see, for example, the IMF's annual Concluding Statements on euro area surveillance missions at <www.imf.org>.

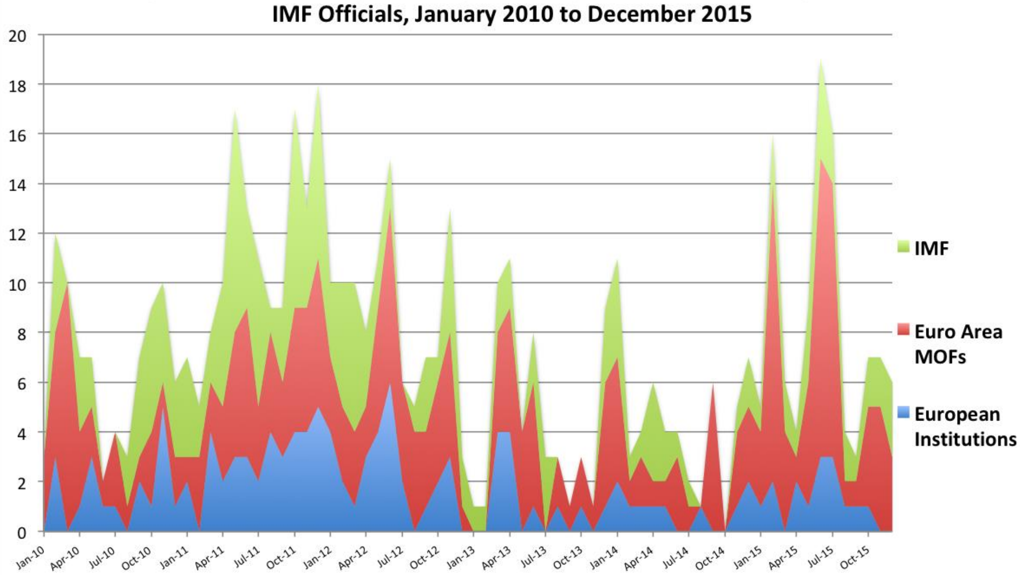
were largely stonewalled. Under these circumstances, the Obama administration could cajole, but ultimately steered clear of adopting coercive tactics *vis à vis* Berlin.

The United States was influential because the euro area member states were divided among themselves and sometimes in conflict with their own institutions. European countries had strongly divergent preferences on the reforms that were necessary to "complete" the monetary union, and the troika programs required unanimous agreement among member states, several of whose parliaments approved their governments' participation. Creditor states such as Germany did not fully trust the European Commission with policy surveillance and program design and insisted upon involving the IMF in the rescues for this reason. This choice meant that the Europeans could not ignore the views of the United States and other key members of the Fund – the regime complex for crisis-fighting became a pathway for influence -- and intra-euro-area conflicts gave U.S. policymakers entrée as brokers.

These findings suggest three testable propositions about the conditions under which external actors are likely to influence regional integration generally. First, the effectiveness of such influence is likely to hinge on the unity of member states within the region. When the preferences of member states converge, we expect little room for third-party involvement or interference. But when their preferences diverge, we can expect external actors to become more involved, whether at the invitation of a subset of member states or by inserting themselves into fissures opened by intra-regional disagreements. Second, external influence is likely to depend on the alignment of regional institutions with their key member states. When regional institutions are well aligned with state preferences, external influence over regional integration will tend to be weak. But when regional organizations "drift" significantly away from the positions of their key principals, we can expect states to turn to external institutions for help in reining them in, as did creditor states during the euro crisis.

Third, when regional institutions take decisions by unanimity, as they do under intergovernmental arrangements in Europe, institutions from outside the region are more likely to be involved in regional politics and policymaking, for two reasons. Unanimity can itself be a consequence of divergent preferences or distrust among member states, in which case we expect external influence for the reasons mentioned in the previous paragraph. Regardless of its source, moreover, the unanimity rule enables member states that seek the involvement of external institutions for addressing a particular problem to secure it by threatening to veto region-only alternatives. These propositions constitute an important research agenda, because Europe and other regions are embedded in global multilateral arrangements across many issue areas while, at the same time, intra-regional preference heterogeneity remains prevalent and is arguably increasing. New studies of European integration in other issue areas and of integration in other regions could usefully test these expectations.

Figure 1: U.S. Treasury Secretary's Meetings and Calls with European and IMF Officials, January 2010 to December 2015



Source: https://www.treasury.gov/FOIA/Pages/calendars.aspx; Pisani-Ferry (2014)

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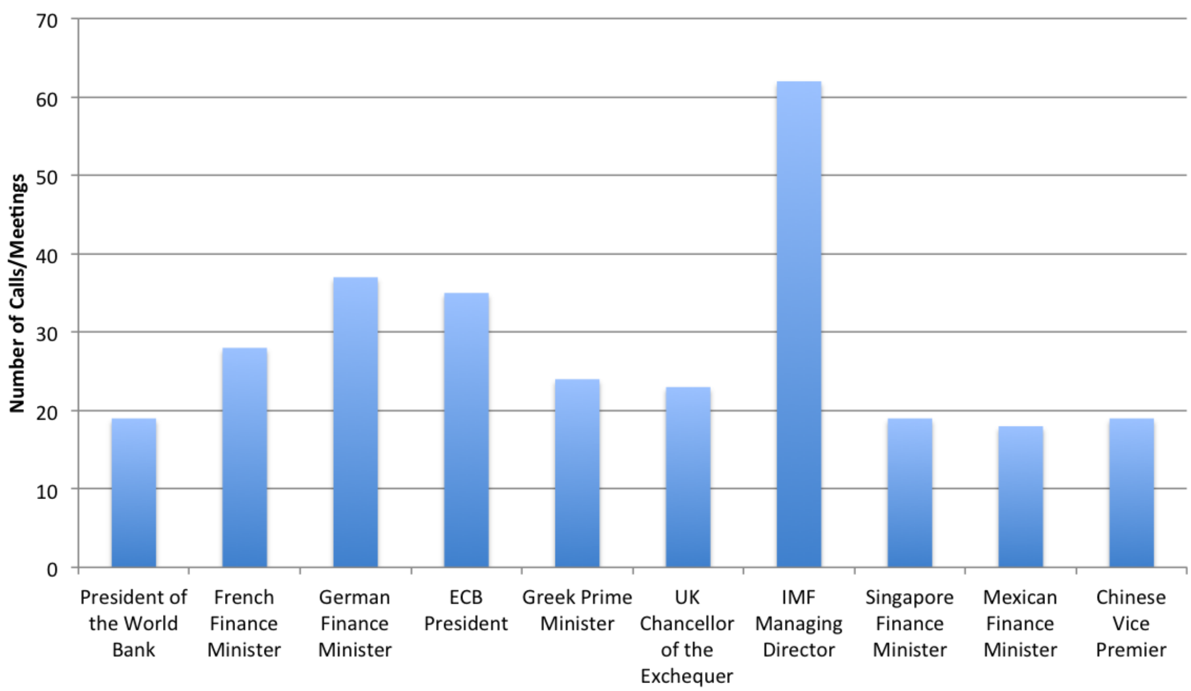
Appendix A

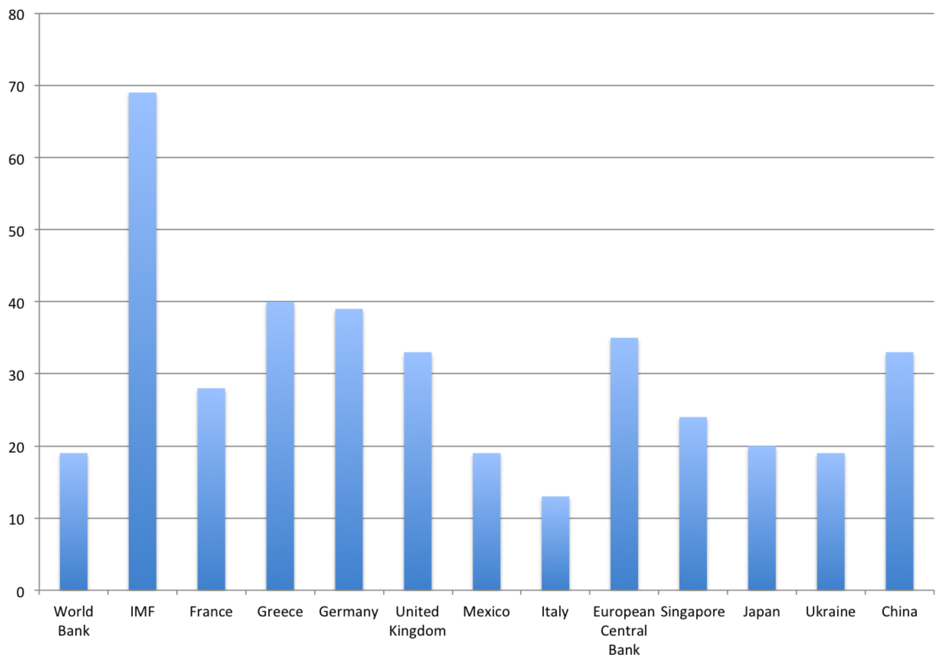
[for online version]

Figure 2: U.S. Treasury Secretary, 10 Most Contacted Officals (July 2012- December 2015)



Source: https://www.treasury.gov/FOIA/Pages/calendars.aspx

Figure 3: U.S. Treasury Secretary, Most Frequently Contacted Countries (July 2012- December 2015)



Source: https://www.treasury.gov/FOIA/Pages/calendars.aspx

Appendix B:

Selected Episodes of U.S. Influence

[for online version]

Wroclaw, Poland (September 2011)

At the Ecofin Council meeting in Wroclaw, Poland, in September 2011, for example, Secretary Geithner urged the European finance ministers to act more decisively to build a "firewall," one larger than the perceived scale of the crisis, in order to take the catastrophic risk of euro-area breakup "off the table" and allow Spain and Italy to be funded at sustainable interest rates.[42] Euro-area governments and the ECB had to work together, he said. "We would support more financing from the IMF," he said, "but not as a substitute for a more substantial European commitment."[43] Most importantly, Geithner emphasized, the Europeans had to make clear that they stood behind their financial system.[44]

Cannes, France (November 2011)

At the G20 summit meeting in Cannes in early November, European leaders pressed Italian Prime Minister Silvio Berlusconi to accept a precautionary line of credit from the IMF along with commitments to policy reforms. But it was President Obama who chaired the critical meeting at which Berlusconi's fate would be decided and, effectively, allowed Berlusconi to

[42] Geithner (2014, 474-475)

[43] U.S. Treasury, "Readout of Secretary Geithner's Participation in Today's ECOFIN Meeting," Washington, D.C., September 16, 2011.

[44] CNBC Transcript: Jim Cramer Interviews Treasury Secretary Timothy Geithner, September 14, 2011, <http://www.cnbc.com/id/44487020>. (Accessed January 19, 2018)

avoid IMF conditions (although the crisis forced him to resign a few weeks later nonetheless).[45] Obama and Geithner, who also attended the meeting, wanted to bring *both* sides together, not simply pressure the Italian side.

Camp David, United States (May 2012)

At the G8 summit in Camp David, Maryland, President Obama and other leaders pressed Chancellor Merkel on banking union and broader elements of the solution to the euro crisis. The treatment in the summit communiqué was limited to one paragraph, which affirmed their "interest in Greece remaining in the Eurozone while respecting its commitments," among other things.[46] But the discussion was broad ranging, with Obama and the eight other leaders pressing Merkel for some form of debt mutualization, banking union, and reversal of austerity. Tension on the substantive matters was high and the president took pains to reassure the chancellor during a one-on-one meeting after the summit.[47] Weeks later, in the European Council meeting, the chancellor did in fact agree to launch the banking union with the goal of breaking the insidious sovereign-bank loop once and for all.

Third Greek Program (Summer 2015)

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[45] Spiegel (2014), an account that is broadly corroborated by Bastasin (2015). See, also, Geithner (2014, 476).

[46] White House, Camp David Declaration, Camp David, Maryland, May 19, 2012, paragraph 5, at <https://www.whitehouse.gov/the-press-office/2012/05/19/camp-david-declaration>. (Accessed January 19, 2018)

[47] Landler and Kulish (2012) and Crawford and Czuczka (2013, 95–112). See, also, <http://www.whitehouse.gov/the-press-office/2012/05/19/press-briefing-press-secretary-jay-carney-mike-froman-deputy-national-se>. (Accessed January 19, 2018)

U.S. officials worried about the consequences of Greece's possible ejection from the euro area as proposed by German Finance Minister Schäuble. As in previous cases, they sought to bring the parties, particularly Athens and Berlin, together and emphasized the need for *both* further adjustment on the part of the Tsipras government and greater debt relief from the creditor governments. They understood the domestic political situation of Chancellor Merkel, and in particular her need to protect the right flank of her party in the Bundestag. But they also recognized that the Greek government had undertaken austerity, which had contracted its economy by 25 percent, and thought that it was now the creditors' turn to provide debt relief. Administration officials thus leaned more heavily on the creditors than on Greece, though their public remarks usually struck a balanced position between the two sides. Secretary Lew made the case directly to Minister Schäuble at a G7 finance ministers meeting in Japan in May 2015 and President Obama addressed the matter at the G7 summit in June.[48]

[48] See, The White House, Office of the Press Secretary, "Remarks by President Obama in Press Conference after G7 Summit," June 8, 2015; Embassy of the United States, "Readout from a Treasury Spokesperson of Secretary Lew's Meeting with German Finance Minister Wolfgang Schäuble at the G7 in Sendai, Japan," Athens, Greece, May 21, 2016; U.S. Treasury Department, "Treasury Secretary Jacob J. Lew Statement at the G7 Finance Ministers and Central Bank Governors Meeting in Sendai, Japan," press release, Washington, D.C., May 21, 2016; "Eurozone Crisis Live," *Guardian,* July 16, 2015, 9:51 a.m.