Creditor domination in the eurozone: a republican view

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Abstract
Relying on recent republican political theory, this article introduces and clarifies the concept of creditor domination and applies this concept in an analysis of the eurozone debt crisis and the EU’s response to the coronavirus pandemic. The article argues that two conditions, one institutional and one structural—related to the institutionally incomplete European monetary union and a structural transformation in international finance—conspired to render periphery member states in the eurozone vulnerable to creditor domination, to which they were manifestly subject in the eurozone debt crisis. The article also argues that the EU’s pandemic response “NextGen EU” represents a fundamental change in Europe’s politics of sovereign debt, which, even if only a temporary vehicle for debt mutualisation, has rendered member states much less vulnerable to creditor domination due to the pandemic’s economic fallout. Finally, the article discusses Richard Bellamy’s proposal for a “republican Europe of states” and argues that Bellamy’s proposed reforms, while insufficient to overcome the conditions of creditor domination in the eurozone, point to a dilemma for republicans, who may risk emancipating European citizens from creditor domination only at the cost of subjecting them to the dominating power of a weakly legitimated supranational fiscal authority.

Keywords Creditor domination · Domination · Eurozone debt crisis · Republicanism · Coronavirus · European Union · Monetary union · EMU · Non-domination
Introduction

Since the turn of the millennium, a new kind of politics has come to predominance in Europe: the politics of sovereign debt. It is a kind of politics that pits states against private investors and financial markets, and debtor states against creditor states. To be sure, political conflicts around sovereign debt are by no means novel historical phenomena—indeed, this has been a recurring struggle for many developing and emerging market countries—nor in a European context. But what has lent the contemporary politics of sovereign debt in Europe its distinctive character is the way that the introduction of a common currency and the onslaught of a disruptive financial crisis have combined to reconfigure relations between member states within the eurozone along highly politicised creditor–debtor lines.

In this article, I offer an account of these reconfigured relations between eurozone member states in terms of the republican ideas of power as domination and freedom as non-domination. More specifically, this article introduces and clarifies the concept of creditor domination as subjection to arbitrary creditor power (Section “The concept of creditor domination”) and develops an account of the institutional and structural conditions that have rendered periphery member states vulnerable to creditor domination (Section “Creditor domination in the Eurozone: a feature, not a bug?”). The article applies this conceptual framework in an analysis of the emergence of creditor domination during the eurozone debt crisis from 2010 to 2012 (Section “Creditor domination in the Eurozone debt crisis”), and the way in which member states’ vulnerability to creditor domination was mitigated by the EU’s issuance of common debt in response to the coronavirus pandemic (Section “Pandemic response and creditor domination”). Finally, the article closes with a discussion of republican arguments for reforming the EU and argues that, from a republican point of view, remedying creditor domination may pose a difficult dilemma (Section “A republican dilemma: normative responses to creditor domination in the Eurozone”).

The concept of creditor domination

In recent decades, political philosophers and historians such as Philip Pettit, J.G.A. Pocock and Quentin Skinner have reconstructed the rich (but until recently, largely forgotten) political tradition of republicanism from sources ranging from the Roman Republic through renaissance Florentine political thought to the Anglo-American and French revolutions (Pocock 1975; Skinner 2005). Moreover, this “neo-republican” literature has been complemented by work on distinctive traditions and currents such as radical republicanism, labour republicanism and critical republicanism, which looks to the struggles of social movements against the social and economic power of capital, the dominion of empires and conflicts around religion and secularism (Leipold et al. 2020; Gourevitch 2013; Laborde
The richness of the republican tradition is arguably driven by the almost universally compelling thrust of its central animating idea: the objection (both philosophical and practical) to a condition of being subjected to arbitrary power, and the struggle for emancipation and non-dominated forms of life.

Curiously, this current theoretical revival of republicanism has rarely touched on the domain of finance—on arbitrary power constituted through relations between debtors and creditors.¹ This article aims to contribute to addressing this lacuna in the republican literature by focusing on a specific kind of debt relation: namely the relation sovereign debtor and creditor. The article simultaneously aims to make a distinctive contribution by marshalling republican political theory to develop and apply a more conceptually refined view of creditor domination to the literature in international political economy on the politics of sovereign debt within the eurozone (Roos 2019; Thompson 2016; Culpepper and Reinke 2014; Matthijs and Blyth 2015). Moreover, I will argue that the added value of assuming a republican perspective on the recent woes of the European Union is to offer a principled normative perspective from which to evaluate institutional reform, which allows us to gain a clearer grasp of both the dilemmas associated with different institutional arrangements and the most normatively promising attempts to resolve them.

According to Pettit’s widely influential definition of domination, “One agent dominates another if and only if they have a certain power over that other, in particular a power of interference on an arbitrary basis” (Pettit 1997: p. 52). Pettit himself has occasionally extended this definition to relationships of debt, remarking in one passage that in “the absence of countervailing powers, creditors will often enjoy dominating power over their debtors” (Pettit 1997: p. 51). But what exactly does it mean to conceive of a relationship between debtor and creditor as a relationship of domination? What are the criteria for determining if a debt relationship is a relationship of creditor domination?

Following Pettit, Frank Lovett has disaggregated the concept of domination into a set of five necessary and jointly sufficient conditions, requiring that (a) “1 and 2 must both be social actors”; (b) “1 and 2 must be engaged in a social relationship with each other”; (c) “2 must be dependent on the social relationship to some degree”; (d)”1 must have more power over 2 than 2 has over 1”; and (e) the “structure of the social relationship must be such as to permit 1 to employ power over 2 arbitrarily” (Lovett 2010: p. 120). For a debt relationship between two social actors A and B to qualify as a relationship of creditor domination, it thus follows from this definition that (1) B must be dependent on the debt relationship with A (the dependency condition); (2) A must have more power over B than B has over A (the imbalance of power condition); and (3) the structure of the debt relationship must be such as to permit A to employ power over B arbitrarily (the arbitrariness condition).²

¹ For recent exceptions, see Casassas and De Wispelaere (2016) and Preiss (2021). However, none of these contributions offer or develop a systematic account of creditor domination, which is the purpose of this article.

² Note that this definition of domination is conceptually applicable to both individual and corporate agents. The naming of the “dependency condition”, the “imbalance of power condition” and the “arbitrariness condition” follows Lovett’s terminology.
I propose to extend this definition to relationships of sovereign indebtedness. I thus define (sovereign) creditor domination as a relationship in which a sovereign state either finds itself in or enters into a debt relationship with a creditor that fulfils the dependency condition, the imbalance of power condition and the arbitrariness condition. Note that this definition allows both private agents and other sovereigns to enjoy power of creditor domination over a sovereign debtor. That is to say, for a relationship between a sovereign debtor and a creditor (whether private or sovereign) to be a relationship of creditor domination, the sovereign debtor must be dependent on the debt relationship with the creditor; the creditor must enjoy a greater degree of power over the sovereign debtor than the debtor enjoys over the creditor; and the structure of the debt relationship must be such as to permit the creditor to employ power over the sovereign arbitrarily. Let me clarify each of these conditions in turn.

In the most basic sense, the dependency condition requires that the debt must be non-trivial and that the debtor will in some sense be in trouble, if they have to make do without the loan. We might say that the debt owed by the sovereign debtor must be sufficiently substantial to be of functional importance for the indebted state’s ability to finance its expenditures. But in relations between sovereign states, “dependency” is a much broader and messier phenomenon. As we shall see, a debtor state’s dependency on its creditors can be reinforced by the international institutional environment and such factors as having joined a monetary union and relinquished control of its own money supply, just as it can be reinforced by the perceived (and real) consequences of defaulting on its debts and crashing out of the common currency.

The imbalance of power condition also requires attention to the larger institutional and strategic environment of a relationship between creditor and debtor—to the de jure and de facto rules and norms governing that relationship and the resources available to its parties. However, it would be a conceptual mistake to identify an imbalance of power with the actual exercise of interference on an arbitrary basis. As Dorothea Gädeke has emphasised, “domination is a structurally constituted form of power”, which means that whether a case of domination obtains can only be “established by analysing the wider power structures in which [an] interaction is embedded” (Gädeke 2020: p. 199). A crucial feature of relationships of domination is that “for a power relation to constitute domination, the capacity to interfere is sufficient, whether it is exercised or not” (Gädeke 2020: p. 203). That is to say, in relationships of domination, interference need never be exercised in practice.

I can be dominated without ever experiencing actual interference in my affairs, as long as another agent has the power to interfere on an arbitrary basis. This is brought out in Pettit’s standard example of a case of domination: the relationship between a benevolent master and his slave. Here, the master treats the slave as if the latter were a free person. The slave may never experience interference in his daily affairs, but as long as he hasn’t been emancipated by his master, and the master therefore retains the legally and socially constituted capacity to interfere on an arbitrary basis, the slave lives under the thumb of his master. In much the same way, a debtor state subject to creditor domination need not experience actual interference in policy decisions—it is sufficient for a debtor state to be dominated by its creditor that the latter enjoy a capacity to arbitrarily interfere, should the creditor state wish to do so.
The precise nature of the arbitrariness condition is contested among republicans. In Pettit’s classic definition, the criterion of arbitrariness depends on whether power is exercised in a way that “tracks the interests and ideas of those citizens whom it affects” (Pettit 1997: p. 184). Note, however, that this definition of the arbitrariness conditions seems to conflict with the point just made above: namely, that actual interference is not necessary for an agent to hold dominating power over another. Perhaps in part for this reason, Pettit has subsequently reconceived of domination as, “Someone, A, will be dominated in a certain choice by another agent or agency, B, to the extent that B has a power of interfering in the choice that is not itself controlled by A”. He now understands such “power of interfering” as one “not exercised on terms imposed by A: it is not exercised in a direction or according to a pattern that A has the influence to determine” (Pettit 2013: p. 50).

Kantian republicans such as Rainer Forst understand the arbitrariness condition in terms of “social and political relations that cannot be adequately justified toward those subjected to them”, and which therefore violate what Forst calls “the basic right to justification” (Forst 2017: p. 155). This emphasis on justification aligns with radical republicans, who—in a Rousseauian mould—stress “the principle of popular sovereignty” in their account of arbitrary power. Despite these different points of emphasis, it is clear that republicans (neo-, Kantian, radical, etc.) share a broader view that one agent’s capacity to exercise power over another is arbitrary to the extent that one party to the relationship lacks the effective ability to contest, object to and resist the interference of the more powerful agent. In what follows, I apply this republican account of creditor domination to relations between euro area member states before, during and after the eurozone debt crisis.

**Creditor domination in the Eurozone: a feature, not a bug?**

The establishment of the European Economic and Monetary Union (EMU) can in part be understood as a response by European policy makers to the endemic instability that characterised international currency markets in the post-Bretton Woods era. After failed European attempts to stabilise exchange rates through the so-called Snake and the subsequent “Exchange Rate Mechanism” with limits on exchange rate variability—and animated by the fall of the Berlin Wall and the resulting political will to “bind” a unified Germany to France and Europe—the EU took a great leap forward towards monetary union with the Maastricht Treaty in 1993.

When the EMU came into full effect on 1 January 1999, 11 member states formally adopted the euro as their official currency and submitted monetary policy to the centralised authority of the European Central Bank (ECB). In the years after its adoption, the EMU seemed to work exactly as intended: with “irrevocably” fixed exchange rates, spreads on eurozone government bond yields narrowed across the “core” euro area (the Northern-European economic powerhouses, lead by Germany) and the “periphery” (Southern-European plus Ireland). In the EMU, monetary union was complemented by strict rules governing fiscal deficits in “the Stability and Growth Pact” (SGP), which were supposed to ensure that periphery member states were prevented from using their newfound financial credibility, derived from
the monetary union as a whole, to engage in excessive borrowing. However, it was not long after the adoption of the euro that this framework of rules started to come apart.

In 2003, when faced with a recession, France and Germany initiated a suspension of sanctions for breaches of the SGP’s prohibition against running fiscal deficits above 3% (Bayoumi 2017; Mody 2018: pp. 150–151). This move also gradually undermined the Commission’s close surveillance of member states’ fiscal deficits, allowing not only France and Germany but also—it would turn out—Greece to finance expenditures with more extensive borrowing. At the same time, Europe’s banking system was undergoing a rapid structural transformation with the rise of a number of ever-larger and more interconnected megabanks, often referred to as “national champions”. In the years leading up to the 2008 financial crisis, these banks relied on the internal risk-assessment models approved by the Basel II Accord to run ever-higher leverage ratios, and the megabanks of the “euro core area” (esp. in France and Germany) became heavily exposed to the European periphery (Tooze 2018; Roos 2019; Blyth 2015; Bayoumi 2017).

Unbeknownst to Europe’s policy makers, these simultaneous developments had the makings of a perfect storm. After Lehman filed for bankruptcy on 15 September 2008 and global financial markets came crashing down, the megabanks of the euro core area suffered heavy losses and many had to resort to public bailouts in order to survive. But it wasn’t until 2009, when the true extent of Greece’s borrowing excess became clear, and yields on Greek sovereign bonds shot through the roof that the fear of continent-wide contagion to core megabanks due to periphery exposures gripped bankers and policy makers across the continent.

Simply put, the fear was that a Greek default could destabilise or even ultimately bring down the banking system of the euro core area, wrecking financial havoc across the continent and the world. As spreads widened across the periphery, Greece received a bailout from the EU and IMF in 2010 (and again in 2012 and 2015), with subsequent bailouts in various forms extended to Ireland, Portugal, Cyprus and Spain. The eurozone debt crisis sent cascading shockwaves through European politics, both within individual member states and in the eurozone as a whole.

In what follows, I clarify two institutional and structural conditions that, I will argue, conjoined to render member states in the periphery exceedingly dependent on ad hoc emergency credit—and thus vulnerable to creditor domination. The first of these conditions was the establishment of the institutional framework of the EMU as such: the distinctive combination of a (by design) institutionally incomplete monetary union across an economically heterogeneous continent. The second condition was the structural transformation in European banking and global financial markets that took place from the 1980s to 2007, which rendered European megabanks vulnerable to both the 2008 crash on Wall Street and the debt woes of the European periphery, and which, by extension, made euro core area member states such as France and Germany vulnerable to contagion to their domestic banking systems.

As was pointed out by economists even before the euro was introduced, Europe is far from an “optimum currency area”, since member states are affected asymmetrically by economic disturbances and labour mobility is significantly lower than in other existing currency unions (Eichengreen 1992). In joining the EMU, all
participating member states gave up national central bank control over the money supply. The same is true of US states, who are likewise subject to the federal monetary authority of the Federal Reserve (the Fed). But unlike in the USA, EMU member states are not fiscally back-stopped by a centralised fiscal authority such as the US Treasury, and the ECB was designed with a very narrow mandate that prohibited the bank from providing monetary support to ailing member state governments. Instead of the backstop mechanisms of potent centralised fiscal and monetary authorities, disequilibria within the EMU were supposed to be averted by the strict fiscal rules of the GSP and close surveillance of fiscal deficits.

The abolishment of member states’ monetary sovereignty removed the policy instrument of currency devaluation often utilised by member states of the bygone European Economic Community—such as, notably, successive Italian governments during the 1980s—who struggled to compete with more productive member states, or, as Mark Blyth puts the point, for “keeping up with the Germans” (Blyth 2015: p. 76). However, without a domestic or European central bank to buy their bonds, and without a European fiscal authority to support them, member states thus relinquished crucial policy instruments offered by monetary sovereignty without the compensation offered by channels of centralised support (i.e. the functional equivalents of the Treasury and the Fed in the US currency union). They were therefore left vulnerable to becoming dependent on ad hoc debt financing from creditors subject to no pre-established institutional rules constraining their ability to impose their will on ailing debtor states in return for loans. In other words, the institutional framework of the EMU left periphery member states structurally vulnerable to relationships of creditor domination.

But in order to elucidate how periphery member states were not only left vulnerable but actually compelled into subjection to dominating creditors, we must clarify the interplay between the EMU and the rise of the European megabanks. After waves of financial deregulation in the 1980s and 1990s in both Europe, the UK and the USA, the intricate networks of transatlantic finance had by 2007 become ever-more interconnected, complex and opaque, while assets were increasingly concentrated on the books of ever-fewer, highly leveraged and extremely large banks (such as Deutsche Bank in Germany, BNP Paribas in France and Royal Bank of Scotland in the UK) (Bayoumi 2017; Tooze 2018). In the run-up to the financial crisis, these banks not only invested heavily in dollar-denominated assets, including the mortgage-backed securities that brought down financial markets when the US housing market crashed. They also invested heavily in the euro periphery, on the assumption that sovereign borrowers across the eurozone now enjoyed the same financial credibility, in effect, as the German government.

These massive capital flows from core to periphery were manifest on the current accounts of eurozone member states, where euro core area states such as Germany, the Netherlands and (to some extent) France ran large current account surpluses, while periphery states such as Portugal, Ireland, Italy, Greece and Spain (a group

\[^3\] Indeed, the Maastricht Treaty explicitly ruled out bailouts to distressed eurozone governments—although this “no bailout clause” would prove fungible in practice. See Roos (2019: 237)
of countries later unflatteringly dubbed the “PIIGS”) ran equally daunting current account deficits (Sobel 2009: chapter 2). Indeed, assets in the periphery were heavily concentrated on the books of euro core area megabanks. As Helen Thompson observes, “By the onset of the Greek crisis in the third quarter of 2009, 55% of the claims of European banks in the periphery belonged to German and French banks and the proportion collectively held by German, French and UK banks was 70%” (Thompson 2016: pp. 222–223).

In the era of market-based banking (in which banks rely on wholesale markets rather than customer deposits to finance their activities—Hardie and Howarth 2013; Gabor 2016), these two-front exposures of euro core area megabanks left them highly vulnerable to changes in market sentiment, not only on Wall Street, but also in the euro periphery. Conversely: for peripheral member states, this entailed that an abrupt change in the market’s view of the riskiness of assets—brought on, for example, by a change in the perceived financial credibility of periphery sovereign debtors—could lead to massive capital flight and acute financial distress for both banks and governments in the periphery.

Accordingly, it was not only the distinctive institutional framework of the EMU (which facilitated massive current account imbalances across the eurozone), but also the influx of private capital on (as it turned out) highly questionable risk assessments that rendered periphery member states vulnerable to becoming dependent on dominating creditors. Or to phrase this another way: the influx, and later sudden exodus of private capital from the euro core area would create gaping holes in the budgets of periphery banks and governments, while the incomplete monetary union left them with no fiscal or monetary backstop to fall back on. When panic in the markets started spreading in 2009 over the Greek government’s ability to meet its debt obligations, and the nightmarish scenario of contagion to the euro core area through the periphery exposures of French and German banks started to sink in, this combination not only threatened to bring down the “PIIGS” but the EMU as a whole. In order to prevent this catastrophe, the eurozone was effectively reconstituted as an institutional prison for sovereign debtors and a haven for dominating creditors.

**Creditor domination in the Eurozone debt crisis**

After the 2008 financial crisis, the thinly capitalised European banks were left in a perilous state, which made them exceedingly vulnerable to further deterioration in their asset sheets. When it dawned on the world that the Greek government had cooked the books and actually ran much larger deficits than reported to the Commission, Greece’s credibility as a sovereign debtor was thrown into doubt and Greek government bond yields started rising. This was not only a consequence of fiddling, however; the vast majority of Greek sovereign debt derived from public spending in the 1980s and 1990s, while the effects of the 2008 financial crisis punched an even larger hole in the government’s budget. However, it was the rise in bond yields that pushed Greece over the edge and made Greek public debt truly unsustainable (Tooze 2018: p. 321).
Moreover, having joined the monetary union in 2001, Greece was—as we have seen—left without recourse to any centralised fiscal or monetary backstops. The Greek state was effectively bankrupt and in dire need of debt restructuring. However, as much of the Greek debt was in the hands of euro core area megabanks, restructuring would have implied a “haircutting” of government bond holders, casting doubt on the viability of their asset positions. Consequently, not only Greece but also euro core area megabanks—and, by extension, the French and German governments, who would need to bail out domestic banks in need—were in a very serious bind. Due to the institutionally incomplete nature of their monetary union, Europe’s policy makers were left to come up with a solution on the go. As Mark Blyth has argued, in an ideal scenario, the ECB (without its restricted mandate) or a large sovereign creditor such as Germany could have simply bought Greek debt worth around 50 billion euro and that would have nipped the spiral of systemic risk in the bud (Blyth 2015: p. 64). But this did not come to pass.

Rather than restructuring or buying and burying Greece’s debt, Europe’s policy makers decided on the questionable strategy of what has been called “extend and pretend”. Germany’s initial answer to Greece’s woes was to refuse any talk of debt restructuring and simply insist on fiscal discipline (Tooze 2018: p. 329). This response called into question European policy makers’ willingness to backstop distressed sovereign borrowers in the eurozone, and investors began factoring in the risk of sovereign default not just in Greece but in other member states, who may be facing trouble without German willingness to help. Accordingly, bond yields started rising across the periphery, and in the first months of 2010, Ireland, Portugal, Spain and, finally, the sovereign debt behemoth of Italy were tilting ever-closer to the edge, threatening to bring down the whole monetary union (Roos 2019: p. 237). This potentially catastrophic situation—which may have caused a global financial crisis even larger than 2008—finally jolted Europe’s policy makers into action.

The agreed-upon solution, championed by German Chancellor Angela Merkel, was to involve the IMF in a “Troika” together with the ECB and the Commission, the latter as an agent of the “Eurogroup” (an informal body of eurozone finance ministers) in order to impose fiscal discipline across the continent—even if the underlying causes of the now-full-fledged sovereign debt crisis were ultimately, as we have seen, institutional and structural rather than merely a result of profligate government spending. In early May 2010, the Greek government accepted an emergency bailout of 110 billion euros, but this offer did not come cheap: in return for the loan (which had to be repaid), Greece had to accept harsh interest rates (which added to the debt load) and even harsher austerity measures, including cutting wages and jobs across the public sector, raising the pension age, hiking taxes, reducing labour costs and dismantling rights to job protection and collective bargaining (Roos 2019: p. 240). As a result, the already struggling Greek economy was subject to a further contractionary shock and the living standards of Greeks suffered accordingly.

4 According to Ashoka Mody, “As the month of April ended, a virtual consensus existed outside the European establishment and the IMF. Greece could not repay its debts. Excessive austerity would make things worse, not better” (Mody 2018: p. 254).
It is clear that Greece was offered a very bad deal indeed. Instead of debt restructuring, the *de facto* bankrupt Greek state was given a lease on life, where the spectre of sovereign default would be allowed to return when it came time to repay its debt—now removed from the books of euro core area banks and acquired by the other EU member states and the IMF (Sgherri and Wyplosz 2016). This “holding operation” (Roos 2019: p. 244) to allow euro core area banks to limit their exposures in Greece put a damper on the fear of contagion to the core banking system, but it did not fundamentally resolve any of the underlying institutional or structural problems that had caused the crisis to begin with, and thus it did not quell the spreading sovereign debt crisis in Europe.

I want to argue that the 2010 Greek bailout easily meets the dependency condition, the imbalance of power condition and the arbitrariness condition. The acute sovereign debt crisis left the Greek state heavily dependent on any offer of the kind of help institutionally denied, by design, to distressed sovereign debtors by the monetary union it had joined nine years earlier, and the only help on offer was a fiscally unsustainable ad hoc bailout scheme under brutal policy conditionality. Without any viable alternatives on hand, the Greek government had no option but to submit to the extreme political demands of its creditors. Furthermore, Greece was up against very powerful—because united—private and public creditors.

As Jerome Roos has argued, since the collapse of Bretton Woods in the 1970s, three distinctive “enforcement mechanisms” have evolved to ensure sovereign debtor compliance, of which two are of particular interest in the present context. The first of these mechanisms is the “vast increase in the concentration and centralization of international credit markets”, which “has led to a situation in which the liabilities of peripheral borrowers are now increasingly held by an ever-smaller circle of systemically important and politically powerful banks and financial institutions in the advanced capitalist countries” (Roos 2019: p. 12). This concentration and centralisation has made it much easier for banks and financial institutions “to act as one and present a unified front against their sovereign borrowers in times of crisis”.

However, as Roos demonstrates in a number of case studies, the first enforcement mechanism is not only “prone to failure in times of investor panic”; it has also come hand in hand, as we have seen, with the rise of a number of systemic banks considered “too big to fail”, which require a backstop from official lenders. Accordingly, the first enforcement mechanism has been complemented by a second: namely, “The provision of conditional emergency loans by creditor state, central banks, and international financial institutions”, the power of which—like the first mechanism—“evolves around a simple act of refusal, namely the lenders’ capacity to stop providing credit to a noncompliant borrower that depends on it” (Roos 2019: p. 13). In the case of Greece, both private and official creditors presented an impressively united front, shoring up a vast imbalance of power against not only the distressed Greek sovereign, but also the other periphery governments, which were effectively compelled into accepting creditor demands.

What, finally, of the arbitrariness condition? Recall that republicans view the capacity of an agent to exercise power over another as arbitrary on the condition that one party to the relationship lacks the effective ability to contest, object to and resist the interference of the more powerful agent. In the Greek case, it is not difficult
to gauge the extent of the Greek government and Greek citizens’ effective inability to contest and resist the dictates of the “Memorandum of Understanding” (MoU) between Greece and its creditors: it was virtually non-existent. On 5 May 2010, the desperate Greek public reacted in the largest mass protest since 1973 against the austerity policies and structural reforms imposed by Greece’s creditors. Such anti-austerity protests re-emerged in 2011 and again in 2012. But the reality was that Greek citizens had nowhere to turn to exercise democratic influence over the process, as all crucial decisions had been made behind closed doors by a small group of euro core area policy makers with strong commitments to ideas about moral hazard and the need to impose fiscal responsibility in the midst of a continent-wide sovereign debt crisis ultimately produced by institutional shortcomings and structural disequilibria (Mody 2018; Blyth 2015; Thompson 2016; Tooze 2018).

When Greek Prime Minister George Papandreou called a referendum in 2011 on the terms of the second bailout programme, Chancellor Merkel and French Prime Minister Sarkozy called a press conference to inform their debtor that if Greece violated those terms, “they would receive not a single cent”. Instead, Merkel and Sarkozy engineered a deal with the Greek opposition and finance minister to “abort the referendum proposal and end Papandreou’s premiership”, replacing him with “a safe pair of technocratic hands, Lucas Papademos” (Tooze 2018: p. 410). Finally, when in 2015, the desperate Greeks voted in the radical leftist Syriza government to prevent creditors from visiting a third round of austerity and structural reforms on the socially and economically devastated Greek society—in which employment had reached 27%, half of young people were out of work, real wages had fallen 25%, and half of the entire Greek population was at risk of falling into poverty—a months-long showdown ensued that ended with Prime Minister Alexis Tsipras calling a referendum, in which the most recent MoU was rejected by 61% of Greek citizens (Tooze 2018: pp. 513–514).

None of it made any difference. In response to the referendum, Merkel offered even harsher terms that—in the words of Adam Tooze—represented “severe intrusions on [Greek] sovereignty” and “reduced [Greek parliamentary sovereignty] to a rubber stamp (Tooze 2018: p. 532). In bailout after bailout, Greece was effectively offered an economically and politically unsustainable *fait accompli* that just about enabled the country to service but not reduce its debts in exchange for the sustained political engineering of a devastating, years-long social and economic crisis. In other words: Greece was forced to remain in a relationship of manifest and severe creditor domination.5

5 What about the option of simply leaving the euro? This was never seriously entertained by the Greeks. As Barry Eichengreen has argued—relying on the example of Italy in a passage that is worth quoting at length—exiting the euro carries truly prohibitive costs: “Households and firms anticipating that domestic deposits would be redenominated into lira, which would then lose value against the euro, would shift their deposits to other euro area banks. In the worst case, a system-wide bank run could follow. Investors anticipating that their claims on the Italian government would be redenominated into lira would presumably shift into claims on other euro area governments, leading to a bond market crisis. If the precipitating factor was parliamentary debate over abandoning the [euro], it would be unlikely that the ECB would provide extensive lender-of-last-resort support. And if the government was already in a tenuous fiscal position, it would not be able to borrow in order to bail out the banks and buy back its debt. This would be the mother of all financial crises, […] all this would almost certainly be costly in terms of output
In the weeks and months that followed the first Greek bailout, the recipe for “managing” the Greek sovereign debt crisis was—in its fundamentals—replicated on a continental scale with the establishment of the 440 billion euro European Financial Stability Facility (EFSF), which subsequently bailed out Portugal and Ireland, once again on the condition of harsh and economically devastating austerity measures. As the EFSF was turned into the more permanent European Stability Mechanism (ESM) in 2012, it also offered a bank recapitalisation programme to Spain. This institutional addendum to the EMU thus provided a means of back-stopping ailing sovereign and private debtors across the eurozone, but bailouts would only be offered with strict policy conditionalities of harsh and widely detested austerity measures that contributed to a severe depression across the eurozone periphery. All recipients of these bailouts found themselves in a structurally analogous position to Greece, even if their debt woes were less extreme, as they were offered economically and politically unsustainable *faits accomplis* that wreaked havoc on their domestic economies and led to severe legitimation crises (Ibsen 2019). In other words, the ESFS and ESM became institutional vehicles for upholding creditor domination across the periphery.

The eurozone debt crisis ultimately came to a head in July 2012 when rapidly rising Spanish and Italian bonds yields had created a “doom loop”, in which Spanish and Italian banks looked ever-closer to going bust (because of the depreciating value of the Spanish and Italian sovereign bonds on their books), and the Spanish and Italian sovereigns in turn looked ever-less able to bail them out, which would pose infinitely more formidable systemic risks to euro core area states such as France and Germany than the prospect of a Greek default. At this moment, newly appointed ECB-president Mario Draghi finally decided to effectively explode the bank’s restrictive mandate and don the mantle of “lender of last resort” by assuring a group of London investors that he was willing to do “whatever it takes” to save the euro. Draghi subsequently cashed this promise out in terms of a programme of so-called Outright Monetary Transactions (OMT), which would only assist ailing member states, however, who had first requested a bailout from the EFSF and accepted corresponding austerity measures. This would be followed in January 2015 by the ECB’s embarkment on full-scale Quantitative Easing, buying euro area bonds on the scale of 60 billion euros per month (Tooze 2018: p. 520).

Although Draghi thus ultimately forced the issue of the functional necessity of a centralised monetary backstop in the EMU and, in this way, finally calmed the markets by providing a crucial part of the institutional puzzle that partially completed the incomplete monetary union, the role of the ECB during the eurozone debt crisis is of particular interest. As I have argued in, domination is a structurally constituted form of power. Nicholas Vrousalis has argued that we should generally understand such “structural power relations” of domination as “triadic relations”, consisting of a

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Footnote 5 (continued)

and employment. It would be hard to keep production going while the financial system was halted in its tracks” (Alesina and Giavazzi, 2010: pp. 22–23).

6 For an in-depth discussion of the ECB’s role, which emphasises both its role as “hero” (in saving the euro) and “ogre” in “[coercing] the program countries”, see Schmidt 2020.
dominating agent, a disempowered agent, and a “regulator”, who regulates the relationship of domination. Regulators can be “any agent, role, or internalised norm that contributes appropriately to the creation, reproduction, or perpetuation of the constitutive power dyad” of domination (Vrousalis 2021: p. 45).

What is interesting about the role of the ECB is that, at different times throughout the crisis, it can be construed both as a “regulator” in Vrousalis’s sense, which contributes to maintaining a relationship of domination between distressed periphery debtors and their euro core area creditors, and as a dominating creditor in its own right. For example, up until July 2012, the ECB had pursued a tight monetary policy that disadvantaged struggling periphery governments and benefitted euro core area governments, especially Germany, and which arguably contributed to pushing the Spanish government to the point at which it was compelled to apply for an ESM programme to recapitalise Spanish banks (Mody 2018: p. 293). In this role, the ECB clearly acted as a “regulator”, propping up or even paving the way for relationships of creditor domination between eurozone sovereigns.

Yet at the same time, one could argue that ECB also acted as itself a dominating creditor. This argument can be supported with reference to the bank’s preferential treatment of French and German banks in providing unconditional and virtually unrestricted access to dollar swaps, while help was only offered to periphery banks on strict conditionalities. As Helen Thompson has argued, in order to gain access to ECB monetary support for their banks, periphery governments had to “subordinate themselves to the demands of both the governments of the core states led by Germany and the ECB. This loss of autonomy occurred even while the ECB was also acting through its swap arrangements with the [Fed] to provide financial support to German and French banks without policy conditionality and indirectly through its SMP and LTRO to lessen the market funding pressure” (Thompson 2016: p. 231). Moreover, it can also be argued that the ECB acted both as a regulator and as a more or less overtly political (and dominating) agent during the 2015 showdown between the Syriza government and the Troika, intervening to strategically weaken the rebellious government’s position at crucial moments (Roos 2019).

**Pandemic response and creditor domination**

Europe’s path out of the eurozone debt crisis was long and arduous. While economic depression ravaged Greece and Spain with soaring unemployment rates, mass poverty and social unrest, euro core area member states such as Germany and the Netherlands recovered and even saw their export industries benefit from the low exchange value of the euro due to the slump across the periphery. Chancellor Merkel pushed through the so-called Fiscal Compact, which wrote the SPG’s restrictions on fiscal deficits, strict surveillance and fiscal correction mechanisms directly into the legal architecture and constitutions of EU member states. Austerity had now become a matter of constitutional doctrine in Europe.

Then, in early 2020, the SARS-CoV-2 pandemic shook the world. In March 2020, as countries across the world went into lockdown to slow the spread of the virus and economic activity ground to a halt, global financial markets were in turmoil.
and yet another global financial crisis was only averted due to rapid and massive intervention from the Fed, the ECB and other central banks across the world, who made good use of all their hard-won lessons from 2008 onwards. However, spreads between Italian bonds and German Bunds widened, reawakening fears of contagion and systemic risk from the preceding decade.

The underlying worry was slightly different this time, however. In response to the unprecedented crisis, the EU had suspended the SGP’s limits on fiscal deficits and allowed member states to borrow and spend freely. This enabled euro core area powerhouse nations with limited debt-to-GDP ratios to weather the storm by establishing safety nets under the economy and stimulate economic activity. Yet for Italy, this path only piled on top of its already huge mountain of sovereign debt (which stood at 136% of Italian GDP in 2020 and was projected to reach 155% in 2021) to an extent that risked calling into question the Italian state’s ability to repay its debts (Tooze 2021: p. 177). Although the ECB was containing spreads through its QE-style “Pandemic Emergency Purchase Programme”, the fear was that aggressive public spending and stimulus in the euro core area combined with restrictions on public spending imposed by the risk of rising bond yields in the periphery would drive the eurozone irrevocably apart in economic terms. Europe’s sovereign debt crisis was back—with a vengeance.

This time, however, Europe’s policy makers chose a different response than that of bailouts and austerity. In the summer of 2020, the European Council and the Commission agreed upon a 750 billion euro “Recovery and Resilience Facility” financed through joint borrowing, which would distribute not only loans but also grants to all member states to help facilitate economic recovery, with Italy receiving a total of 191,5 billion euro in grants (68,9 billion euros) and loans (122,6 billion euros). Moreover, conditionalities would be less extreme this time around, with an emphasis on facilitating green and digital transitions through directed investment rather than the hated austerity measures and structural reforms. What had changed since 2010–2012, and what were the impacts for creditor domination in the eurozone?

A part of the answer is: Angela Merkel had changed her mind. Whereas in 2010–2012, the German chancellor had insisted on a path of fiscal discipline and austerity, in 2020, she threw her considerable weight behind the proposed “Recovery and Resilience Facility”, later called “Next Generation EU” (Tooze 2021: p. 184). But while this speaks to how extremely centralised decision-making processes was and had become in the EU during a long decade of successive crises—and also, as I have argued, to the lack of democratic accountability for those most immediately impacted by decisions made about debt relief—the question is: what accounts for Merkel’s change of mind? In answering this question, we should distinguish between institutional and structural conditions, on the one hand, and the influence of political agency on the other.

First, the fact that it was, from the very beginning, Italy’s sovereign debt that was called into question in 2020 represented a problem for eurozone policy makers on a different order of magnitude than the risk of Greek default. Italy is the third-largest

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7 https://ec.europa.eu/commission/presscorner/detail/en/ip_21_3126 Accessed 10 September 2021.
8 For a discussion of which factors drove the changes in German policy, see Bulmer 2022.
economy in the eurozone and its giant pile of sovereign debt is simply “too big to fail”—even the mere hint of Italian default would represent uncontainable systemic risk to the monetary union as a whole. This structural consideration was likely a very important consideration in Europe’s change of course: Italy was among the first and worst-hit member states by the virus, and Italian GDP contracted by 8.87% in 2020 (a staggering 7.6% for the eurozone as a whole) (Tooze 2021: p. 281). With serious doubts about its ability to finance recovery through borrowing on its own, visiting “extend and pretend” on Italy was simply not a viable option.

However, this dramatic policy change was arguably also influenced by political agency. On 25 March, a group of nine states including France, Italy, Spain and Portugal demanded a “common debt instrument” to finance a coherent European response to the crisis (Tooze 2021: p. 181). They were initially met with steadfast refusals by the Dutch and Germans, but on 5 May, the German Constitutional Court intervened at a crucial moment with a legal challenge to the new, outsize role of central banks in European crisis management. The court found that the German government had failed to insist that the ECB’s first round of QE in 2015 takes sufficient account of a proportionality principle, especially concerning the interests of German savers.9 The political significance of the case was not so much its immediate impact on ECB policy—which was legally non-existent: the ECB demonstratively denied the court’s jurisdiction over its policy decisions—but rather on Merkel: the court ruling made it politically perilous to continue allowing the ECB’s expansive monetary policy to act as the only real backstop for distressed eurozone member states; a common fiscal response was necessary to fight the unprecedented impact of the pandemic.

“NextGen EU” marks a fundamental change in Europe’s politics of sovereign debt. The issuance of joint debt by all EU member states to fund the recovery, accessed through member states’ submission of “recovery and resilience plans” to the Commission and subsequent approval by the Council, goes a long way to complete the institutional framework of the EMU with a centralised fiscal backstop mechanism. As Adam Tooze reports one London-based fund manager saying, “in times of stress’ Europe already had something that amounted to an ad hoc fiscal union” (Tooze 2021: p. 187). Accordingly, during the pandemic, distressed member states were rendered structurally much less vulnerable to becoming dependent on the arbitrary dictates of a close-knit creditor cartel and thus much less vulnerable to subjection to creditor domination.

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9 “Bundesverfassungsgericht—Press—ECB Decisions on the Public Sector Purchase Programme Exceed EU Competences”. 
A republican dilemma: normative responses to creditor domination in the Eurozone

This raises the fundamental normative question, how the EU should—from a republican point of view—respond to the problem of creditor domination in the eurozone? While NextGen EU may seem to point towards the establishment of a centralised fiscal authority—something like the functional equivalent of the US Treasury—this kind of response to the two institutional and structural conditions for eurozone creditor domination identified in this article has not been met with universal approval by republican theorists. Indeed, Richard Bellamy has offered an alternative normative vision for the EU as a “republican union of states”, which rejects the ambition of creating a fiscal union on the grounds that stronger federalisation would weaken the accountability of fiscal decisions to citizens of member states, violate the socioeconomic, legal and political–cultural heterogeneity between member states and thus create a potentially dominating supranational government. In contrast to cosmopolitan proposals for reforming the EU, such as that of Jürgen Habermas, which envisions a reconstitution of the Commission as a supranational executive with fiscal powers anchored in a bicameral parliament comprised of the European Parliament and the European Council (Habermas 2013), Bellamy’s “republican intergovernmentalism” is strictly oriented towards securing non-dominating relations within member states and ensuring that member states do not establish dominating relations between each other. According to Bellamy, this can be achieved by allowing for a higher degree of “differentiated integration” and affording a much larger role to national parliaments in legitimating and “taming” EU politics (Bellamy 2019).

To be sure, Bellamy recognises that scaling back the EMU is impracticable. Instead, he argues that completing the banking union while imposing limits on the amount of government bonds that private financial institutions may hold, and introducing a genuine European Monetary Fund as a lender of last resort with the ability to facilitate debt restructuring for distressed sovereign debtors would enable a greater sharing of “risks between creditors and borrowers” and “allow fiscal policy to be returned to national governments by reducing the danger that fiscal mismanagement in one country could spread to others and potentially upset their banking system” (Bellamy 2019: p. 206). By targeting the risk of spillover effects between public and private credit and introducing a permanent bailout fund, such a scheme clearly goes some way to address the two structural and institutional conditions for creditor domination in the eurozone.

However, I want to argue that Bellamy’s proposals still fall short of a robust institutional solution to creditor domination in the Eurozone—especially as that problem has been linked historically with contractionary shocks to peripheral economies such as Italy’s. As we have seen during the pandemic, Italy would have been unable to finance pandemic recovery through borrowing on its own without posing a systemic risk to the eurozone as a whole, thus rendering the Italian state vulnerable to
creditor domination. In other words: Bellamy’s proposals may be necessary to overcome creditor domination in the eurozone, but also insufficient.\(^{10}\)

As Barry Eichengreen (to whom Bellamy looks for inspiration for his proposals) has argued, to offset such risks, it may be necessary to equip the European Parliament with the requisite fiscal powers, while limiting such a mandate to parliamentarians from member states that partake in the euro (Eichengreen 2018). In conjunction with a completed banking union and a more permanent institutionalisation of NextGen EU as a mechanism for joint borrowing, this would allow the EU to institutionally overcome the structural and institutional conditions for creditor domination by completing the fiscal and monetary architecture of the EMU with a centralised fiscal backstop anchored in the European Parliament, simultaneously allowing euro area member states to contest and influence fiscal decision-making through elected representatives.

However, as with every proposal for closer fiscal and political union, Eichengreen’s proposal takes little heed of the undeniably forceful republican argument against such schemes mobilised by Bellamy: namely, that they risk “replacing reasonably equitable and legitimate state-based systems of political authority with a much more complex system of political authority that is likely to be less equitable or legitimate” (Bellamy 2019: p. 10). In my view, this ultimately amounts to a difficult dilemma for republicans: On the one hand, robust institutional solutions to the two conditions of creditor domination identified in this article risk introducing a new, supranational source of domination: namely, a weakly legitimated European Parliament and executive equipped with fiscal powers over all member states of the eurozone. On the other hand, solutions that seek to preserve or return fiscal powers to the more robustly legitimated national parliaments will likely be insufficient for remedying the two conditions of creditor domination in the eurozone. In the end, the only hope for overcoming this republican dilemma ultimately hinges—it seems to me—on whether it is possible to achieve genuine, European democracy.

**Conclusion**

In this article, I have developed a republican conception of creditor domination and applied this concept in an analysis of the politics of sovereign debt before, during and after the eurozone debt crisis and the coronavirus pandemic. I have argued that an institutional and a structural condition—namely the institutionally incomplete EMU and the concentration and integration of European banking—conjoined to render periphery member states vulnerable to creditor domination, and that several periphery member states were in fact subject to manifest dominating creditor power during the eurozone debt crisis. I have also argued that NextGen EU’s investments

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\(^{10}\) In light of the analysis offered in this paper, one might say: If the EU has learned *anything* in the recent two decades, it is that it should not only plan for fair weather but take into account the future likelihood of severe crises and seek to institutionally pre-empt their precipitation or reinforcement of dominating relations between member states.
financed by the issuance of common debt implies a qualitative shift in the European politics of sovereign debt by providing a centralised fiscal backstop for distressed sovereign borrowers, thus institutionally rendering periphery member states much less vulnerable to becoming subject to creditor domination.

Moreover, I have argued that this analysis of creditor domination in the eurozone poses a normative dilemma for republicans, who may risk emancipating European citizens from creditor domination only at the cost of subjecting them to the dominating power of a weakly legitimated permanent supranational fiscal authority. However, even if this dilemma can be resolved (as I am personally hopeful it might ultimately be), it must also be emphasised, precisely from a republican point of view, that NextGen EU is in its current form explicitly only a one-off temporary measure and not a permanent institutional guarantee for member states to be able to access emergency funds in times of crisis. This means that even if investors “are hopeful that in ‘x’ number of years, the EU will be looking like a true fiscal, monetary and political union” (Tooze 2021: p. 187), that outcome is far from certain. As Pettit has argued, freedom from non-domination requires “robust and resilient” protection from dominating power (Pettit 1997: p. 24), and this requires institutional guarantees that when the next crisis hits, a democratically responsive fiscal backstop will be made available to distressed member states. Until that happens, the underlying institutional and structural conditions that render periphery member states vulnerable to creditor domination remain in place.

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