

Germany and Greece in the Eurozone Crisis from the Viewpoint of the Neo-Neo Debate*

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This study looks to analyse to what extent the neorealism versus neoliberalism debate contributes to understanding the complexity of the European Union's institutionalization, focusing on the impacts of the 2008 financial crisis and the asymmetries between Germany and Greece. How far can Greece be considered guilty for its situation and how far is Germany involved both in the cause and in the resolution of this crisis? To answer these questions, a brief analysis of the European Union's formation and of both countries' macroeconomic indicators and competitiveness is presented. The article also discusses the increasing institutionalization of the International System and the complex interdependence created within the European Union. It argues that increased European cooperation has deep-lying neorealist motivations and that the world financial regime's pandemic dynamics makes evident the asymmetrical interdependence between Germany and Greece. Economic disparities between the two nations are determinant factors in their respective behaviours prior to the 2008 crisis.

Keywords: European Union; Germany; Greece; euro crisis; neo-neo debate.

Since 2008, a financial and political crisis originating in the dynamics of the US domestic market, exacerbated by the strong relation of dependency between countries in a globalized world, has negatively impacted world economies and the international financial regime. Europe, one of the planet's most influential economies, was directly affected by the crisis in the United States. National, regional and international assessments reveal considerable trepidation over the consequences of this sharp financial downturn for the structure of the European Union (EU). The crisis was triggered by a number of factors, including deficiencies in the institutional structure, the architecture of economic policy and the response to the 2008 crisis. It has had a profound influence on the international scenario and can be better understood through the perspectives of two distinct nations: Germany and Greece.

Despite suffering enormously from the costs of two World Wars, Germany became the world's fourth largest economy and is today the most influential member of the EU, both politically and economically. However, it seems to be trying to impose a 'twin-headed hydra'¹ over Europe with the weight of its financial institutions, its productive capacity and its volume of exports. Greece, possessing an equally turbulent history in the twentieth century, including a civil war in the 1940s and a military dictatorship in the 1960s and 1970s, has experienced political-economic tensions, protests and social problems as well as, consequently, difficulties in meeting the conditions imposed by the eurozone membership.

The aim of this article is to assess the extent to which the neorealism versus neoliberalism debate provides a clearer understanding of the complexity of the European Union's institutionalization, taking into account the impacts of the 2008 crisis and the asymmetries between Germany and Greece. Also known as the 'neo-neo debate', this controversy first emerged in the 1970s and, among various other issues, concerns the relevance of regimes and institutions in the international context, as well as the reasons for states to cooperate. The first section article discusses the fundamental steps in the growing institutionalization in Europe. Next, the neorealism versus neoliberalism debate is explored as the theoretical baseline of the present study. The macroeconomic indicators and competitiveness of Greece and Germany are also evaluated, as well as the world financial regime and its importance to the crisis. The third section explores the

¹ A term used in reference to reformulated Asiatic totalitarian capitalism (MILBANK, 2014, p. 14).

consequences of the 2008 crisis in Greece and Germany, along with the actions taken by both countries in attempting to respond to this global recession. Subsequently, the discussion turns to the process behind the EU's institutionalization and its motivations from both the neorealist and neoliberal perspectives. In the concluding section, a number of final remarks are made.

Institutionalization in Europe

At the end of the Second World War, Europe found itself in a deep economic and social crisis. After the agonies and traumas of three decades of armed conflict, the European sentiment was to dispel the ghosts of the past and build a new reality across the continent: a peaceful reality based on long-term integration and opposed to the nationalist ideologies (Nazism and Fascism) experienced in the past (OVERTVELDT, 2011).

During the embryonic phase of European integration, the Marshall Plan, financial aid provided to Europe by the United States, stands out as the driving force leading to the creation of the Organisation for European Economic Cooperation (OEEC) in 1948, today the Organisation for Economic Cooperation and Development (OECD). To receive funds for rebuilding the continent, the European countries had to consult each other concerning the best use of the financial aid (OVERTVELDT, 2011). In 1950, 18 countries from the OEEC created the European Payments Union (EPU), since commercial trade between the members took place in US dollars and Europe had very few reserves of the currency. As a solution, a liberalization of intra-European exchanges was permitted, as this allowed the organisation's members to pay debts in any European currency (given the scarcity of dollars), as well as obtain credits with the aim of overcoming problems relating to the non-convertibility of its currencies. According to Baldwin and Wyplosz (2004), the EPU's creation transformed the previously bilateral economic relations into multilateral relations within Europe and created an important mechanism for rebuilding the region after the Second World War.

The EPU had two main mechanisms: 01. compensation, which allowed countries that had deficits with one country and surpluses with another (bilateral relations) to use the EPU 'account' into which the debits and credits of their transactions with European countries were transferred monthly to balance their accounts and boost trade between the nations involved; 02. liquidation, which enabled countries with deficits to receive

credit from the Union, though payments had to be made in gold or dollars the larger their deficits were (MENDONÇA, 2004).

The next step was the Schuman Plan, proposed by French foreign minister Robert Schuman, who argued that prosperity would come from an 'organised and living Europe'. In 1951, seeking to stimulate the economic development of the former war enemies and Western Europe as a whole, six European states (Belgium, France, Germany, Luxembourg, Italy and the Netherlands) signed the treaty establishing the first supranational organization on the European continent, the European Coal and Steel Community (ECSC), considered by many specialists to be the initial landmark in the institution of the EU (SARAIVA, 2008, p. 216).

Overtveldt (2011) highlights the fact that integration had been influenced, in parallel with issues internal to Western Europe, by the bipolarity of the Cold War, which limited any possibility of any European state exercising a central role by itself on the international stage. The Suez Crisis² in 1956 made clear this need for union in Europe. Hence, as well as solving internal political and economic problems, the first step in the integration of Europe had the external objective of repositioning the continent as a prominent actor at global level.

The next step in integration was the creation of the European Economic Community (EEC), established by the Treaty of Rome in 1957. Its proposal was audacious, considering the national policies of the member states, as well as their cultural divergences, since the objective was to create a common European market – that is, allow the cross-border movement of goods, people and services (which would eventually transpire three decades later). The objective was also to establish the groundwork for the institutions inherent to the community, including the establishment of the European Commission, the executive body of today's EU, in 1958. The evolution of the EEC unfolded quickly: in 1959, the first tariff reductions were made and, in 1962, the foundations for the Common Agricultural Policy (CAP) were also agreed, along with the

² The Suez Canal, located in Egypt, was of regional geopolitical interest since it connected the Red Sea to the Mediterranean and was under British control. However, the rising nationalism in Egypt led to an alliance between the United Kingdom, France and Israel, prompting Egypt's closer relationship with the USSR, including the purchase of Soviet arms, and drew the attention of the USA. Soon after military invasions of the country by British, French and Israeli forces in 1956 to keep open the shipping route, retaking control of the canal, the United States government, keen to avoid frictions with the USSR, demanded the withdrawal of their troops (JUDT, 2007). The fiasco of this short-lived invasion demonstrated the lack of options available to the European countries in question, forced to obey the USA (OVERTVELDT, 2011).

consolidation of the European Parliament, the legislative body of the future EU (PFETSCH, 2001).

In 1971, the Council of Ministers, still an informal entity, adopted a watered-down version of the Werner Plan (named after Luxembourg's prime minister and minister of finances, Pierre Werner), which proposed a joint economic policy involving fixed exchange rates and adoption of a single currency. It should be emphasized, though, that the Werner Plan faced various difficulties and was abolished in 1974. The biggest impediment to the plan's success was the collapse of the Bretton Woods system³ (PFETSCH, 2001).

Seeking to maintain monetary stability, in 1979, the EEC established the European Monetary System, which in turn introduced the European Exchange Rate Mechanism (ERM), which permitted the currencies of member states to fluctuate in relation to each other within narrow bands. However, the Werner Plan had already demonstrated asymmetries on the European continent that still remain today. Despite Germany's wish to join the European Monetary Union (EMU), the Deutsche Mark had become the symbol of the nation's economic rise and, according to Chancellor Helmut Kohl, was the flag and 'essential part of our national pride'. France, though, did not wish to delegate elements of its national policy framework to a European central bank, since it believed that Germany and the Netherlands, countries traditionally with trade surpluses in Europe, would have political control of any such institution (OVERTVELDT, 2011, pp. 23-24).

In 1985, Jacques Delors, president of the European Commission, proposed the implantation of an internal European market, which culminated in the creation of the Single European Act (SEA), concretized in 1986, becoming a landmark in European unification (PFETSCH, 2001). Its implantation would extend until 1992 and its objectives were to eliminate trade barriers of a technical nature, offer legal protection in industrial sectors and in intellectual property rights, reform the telecommunications system, guarantee freedom of residence, ensure the free flow of capital, free up transportation and establish fiscal harmonization, as well as regulate the service sector. The SEA indeed concretized what had been proposed by the EEC: it eased the movement

³ Near to the end of the Second World War, in 1944, the signing of the Bretton Woods Agreement (New Hampshire, USA) created the International Monetary Fund (IMF) and established the US dollar as the world's main reserve currency. Its most significant feature was convertibility: that is, the capacity to be exchanged for foreign currencies. See Krugman and Obstfeld (2008).

of capital through member countries, creating an internal European market and, as a consequence, hampered the relationship between the maintenance of exchange rate stability and the autonomy of national monetary policy (JUDT, 2007).

Finally, on February 07, 1992, in the Dutch city of Maastricht, the European Union was made official through the signing of the Treaty on European Union, more commonly known as the Maastricht Treaty. Consequently, the European Council (or Council of Ministers) was created, the group's deliberative body, and the convergence criteria were established as prerequisites for joining the EMU. The objective was to promote greater economic discipline via the following criteria: the average inflation rate should not exceed 1.5%; the nominal average long-term interest rate should be no more than 02% higher than the average of the three member states with the best performance in terms of price stability; the member state must have participated for at least two years in the European monetary system's exchange rate mechanism; the public deficit could not be higher than 03% of GDP and public debt should be no higher than 60% of GDP. It is important to emphasize, though, that a country wishing to enter the eurozone only had to match the criteria relating to its domestic fiscal policy, that is, the demands concerning the public deficit and public debt (CONSELHO das Comunidades Europeias, 1992, p. 185; OVERTVELDT, 2011).

In January 1999, the euro was officially launched, initially within an exclusively commercial and financial sphere with no issuance of actual banknotes or coinage to replace national currencies until 2002. Its implementation was also not compulsory (EUROPA.EU, 2015). From this date the EU became an Economic and Monetary Union⁴ and thereby attained the highest level of regional integration ever seen (OVERTVELDT, 2011).

In the remainder of the text, two premises will be explored, both of which are developed in more detail later: 01. the convergence criteria established in Maastricht and, ultimately, the euro constitute an international regime; 02. the EU is a complex institution formed by diverse institutional bodies, among the most important of which

⁴ As cited above, the desire for monetary union was never just a recent phenomenon in the EU's history. The creation of the EPU established a payments system in the 1950s; the Werner Plan launched the EMU project in the 1970s; Jacques Delors proposed in 1989 the stages that would lead to the EMU in 1999. The desire for unification was reflected in the quote from the French economist Jacques Rueff during the Charles de Gaulle government: 'L'Europe se fera par la monnaie ou ne se fera pas' - "Europe will be made by the currency or it won't be made at all" (OVERTVELDT, 2011, pp. 19-20).

are the European Commission, the European Council, the Council of the European Union and the European Parliament. Although the terms 'institution' and 'regime' often have convergent definitions, as demonstrated below, the proposed terminology was chosen in order to encompass two concepts important to neoliberal institutionalists.

The neo-neo debate

The neo-neo debate discusses precisely the relevance of these kinds of new actors in the international context and the motive(s) explaining why states cooperate given that anarchy prevails in international relations⁵. This explains why the debate is chosen here for the analysis of this process. Next, a brief historical contextualization of the neo-neo debate is provided.

Until the 1970s, realism, as described by Hans Morgenthau (2003), was the dominant current in studies of international politics, rivalling with political idealism⁶, the embryo of neoliberalism (SMITH, BOOTH and ZALEWSKI, 1996). Morgenthau (2003) identifies six principles that became a benchmark in classical realist theory, which presupposes anarchy.

For the purposes of the present article, it is important to highlight the first three of his proposals (MORGENTHAU, 2003, pp. 04-28): 01. politics is governed by objective laws rooted in human nature; 02. interests are defined in terms of power, which isolates morality from politics and emphasizes the search to maximize benefits and reduce risks; 03. the interests that define political action are determined by the political and cultural context and, therefore, the conception of interests in terms of power, though universally valid, has no fixed meaning or permanent principle.

As a result, political realism can be directly characterized as a theoretical approach that defends the position that international politics is inexorably exercised by states, which are self-interested and sovereign actors, ignoring other agents such as international institutions, inserted in an anarchic structure.

⁵ At international level, no supranational entity exists to determine rules of coexistence between States. States are sovereign, therefore, and thus autonomous and independent within the IS. See Bull (2002).

⁶ See Carr (2001).

In 1979⁷, however, Kenneth Waltz (1979) introduced a more scientificist contribution to the academic debate on International Relations (SMITH, BOOTH and ZALEWSKI, 1996), which would become known by the term 'neorealist', as described by Cox (1981) and Ashley (1984). Waltz (1979) eschews Morgenthau's first premise – that politics obeys objective laws and is founded on human nature – and introduces into the debate instead the idea that, although international anarchy remains a presumption, a structure exists to the international system that conditions the outcome of international politics. Hence, sovereign states are units within this structure and act in accordance with the principle of self-help existing in the system, seeking survival and pursuit of their interests. The author's contribution is also referred to as structural realism.

Waltz (1979) argues that the political structure of the International System (IS) relies on a distribution of capacities between countries and, therefore, possesses an organising function within the international anarchy. A hierarchy (polarity) determines the action of states within the IS, then, and changes in the structure occur through the interaction of the principal (most powerful) states. Consequently, the states seek to maintain a balance of power in relation to the others: in other words, either individually or collectively, countries try to equilibrate their military capacities (and, increasingly, others such as the economy) in order to avert an extremely uneven distribution of power. The paradox, as the author emphasizes, is that the structure interconnects the states within the IS and, at the same time, limits cooperation, since any gains made are perceived as relative.

A central question for Waltz (1979), one essential to the present study, is the role attributed to the players in international politics. Like Mearsheimer (1990) and Grieco (1993), Waltz (1979) merely acknowledges the existence of other actors in the system relevant to international politics. In other words, the sovereign states are the IS's main players and, in line with other neorealists, institutions are not relevant in terms of conditioning the actions of states.

On the other side of debate, the neoliberal institutionalists Keohane and Nye (2012) discussed in 1977 how the IS is conditioned not only by individual national interests, as defined by the realists, or by the structure, according to the neorealists, but

⁷ It is worth noting that in 'The Stability of a Bipolar World' (1964) Waltz had already discussed how bipolarity (structure of the system) guarantees world peace, though it is still problematic. However, the genesis of what was later called neorealist theory can be found in the 1979 work.

also by institutions (rules that determine international politics and the organisations that help in their implementation). The need for each country to cooperate with other states, since a relation exists between them, is described by the authors as complex interdependence, a circumstance in which reciprocal effects occur between countries or between actors from different countries, or, simply, a state of mutual dependency.

Keohane and Nye (2012) argue that institutionalism and complex interdependence create greater predictability in international anarchy, which helps avoid conflicts and generates cooperation between States. The latter occurs without the existence of a supranational power imposing obedience to rules but due rather to international institutions and regimes, which formalize the expectations of each party, creating a higher level of mutual trust (BURCHILL et al., 2013). As proposed earlier, the concept of international regimes within the context of institutionalism needs to be clarified. Gilpin (2001, pp. 82-83) discusses how a liberal international economy, characterized by open markets, free movement of capital and non-discrimination, undoubtedly requires an international regime⁸, that is, "sets of implicit or explicit principles, norms, rules, and decision-making procedures" (KRASNER, 1983, p. 3).

Keohane (1984) claims that international regimes are a necessary feature of the world economy since they facilitate the efficient operation of the international economy, thereby reducing uncertainties, lowering transaction costs and averting market turndowns. Although a hegemonic power is required to create international regimes⁹, for these to be efficient and long-lasting they need to acquire their 'own life' over time. Hence, the participating countries learn to modify their national interests with the experience of a successful international regime (GILPIN, 2001). Here, it is indispensable to make an attempt to differentiate between 'institution' and 'regime'. The first term refers to the body or organisation that promotes rules or principles. The second concerns the acondition – formal or not – of a convergence of expectations. Hence, the term 'institution' will be used here for an organisation that promotes a 'regime'. As cited earlier, the European Commission and the European Parliament are institutions that promote principles (a regime) for the EU (an institution). The euro is treated in this

⁸ John Ruggie introduced this concept in his 1975 work. For the author, an international regime is "to a set of mutual expectations, rules and regulations, plans, organizational energies and financial commitments, which have been accepted by a group of states" (1975, p. 570).

⁹ See Gilford John Ikenberry on how institutionalization legitimates new world orders through the hegemony of a State (2001).

article as a regime imposed by the EU. The two points cited here will be of fundamental importance for the final section.

Asymmetries between Germany and Greece and the crisis

This section demonstrates the disparities between the two central actors in the EU crisis. The aim here is to illustrate how the economic practices of each State have impacts on the European framework ('structure' for the neorealists and 'institution' for the neoliberals). For the purposes of this demonstration, the macroeconomic indices, interest rates, gross domestic product (GDP), current transactions, public debt and public deficit, as well as the institutional data on the competitiveness index, are employed.

Adoption of the social market economy model from the beginning of the Cold War enabled Germany to succeed in reconciling liberalism with national savings and high levels of social security. Reunification brought progress and growth, allowing the country to become a politically and economically influential member of the international community. Germany implemented social welfare policies integrated with a massive incentive to industrial productivity and efficiency. Gilpin (2001) discussed the duality of the German economy which sometimes tends towards US liberalism, at other times tends towards the Japanese stimulus given to savings. Germany's national political-economic system was based on the joint coordination of private banks, large companies, industry, government and labour unions. Hence, the corporativism present in German capitalism signified greater representativeness of society and government, alongside the private sector, in the governance of the economy. Gilpin (2001) also emphasizes how the major banks performed a vital role in the German economy by providing capital to industry, as well as pointing out that labour, business (small, medium and large) and financial organizations also had seats on the supervisory councils representing all economic and financial sectors of the country.

It is worth recalling, however, that at the start of the 2000s, Germany experienced an economic crisis precisely due to its maintenance of an "excessive welfare state and sclerotic labour markets" (DULLIEN, 2013, p. 02). The German economy had stagnated and unemployment was running at 11%. It was only from 2002 on, under the governance of Chancellor Gerhard Schröder of the Social

Democratic Party, that reforms were made with the implementation of the Agenda 2010. According to an interview given to the 'Wall Street Journal' in 2012 (ZHONG, 2012), corroborating Dullien (2013), the main objective of the Agenda 2010 was tax reform and restructuring of the welfare state, advocating benefit cuts to boost the economy¹⁰.

Greece went in the opposite direction. Bagus (2012) argues that while Germany's competitiveness rose following its adoption of the euro, Greece's fell between 1999 and 2010, resulting in its investment grade being lowered by the credit-rating agency 'Standard & Poor's' in the same year. Rather than making budget cuts, Greek economic policy maintained high levels of public expenditure, which relied on easy credit in the international market. Unable to maintain a budget surplus like Germany due to industrial and institutional deficiencies, elaborated below, Greece entered a vicious circle of requiring more credit while concomitantly imposing austerity measures. In effect, the more the austerity measures were applied, the lower the country's GDP fell and the greater the need for credit (DODIG and HERR, 2015).

In the next section, the asymmetries between Greece and Germany are illustrated through a comparison of macroeconomic indices for the period between 1999 and 2012, i.e. during the period of the euro regime until the peak of the crisis. To ensure a clearer understanding and greater objectivity, only key moments from the period in question are demonstrated. Data was obtained from the official source of statistics on the EU, the Eurostat website (EUROSTAT, 2015).

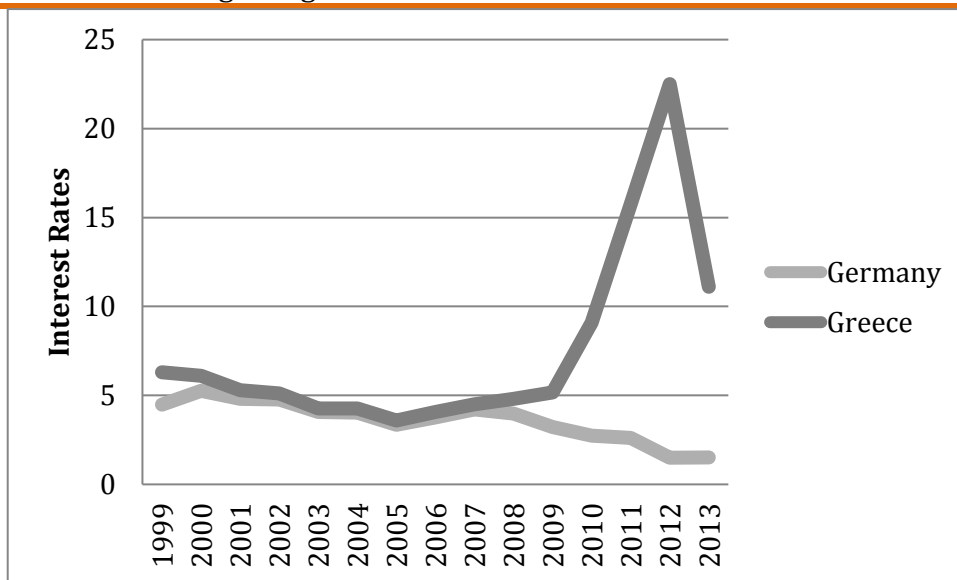
Nominal long-term interest

The Maastricht convergence criteria stipulate that the nominal long-term interest rates of the member states should not exceed 02 percentage points of the average rate of the three countries with the highest price stability. However, from 2008 onward, as the height of the financial crisis begun in the United States, interest rate in

¹⁰ It is worth remembering that although there had been strong opposition to the measures adopted by Schröder (2013), the reform was essential to German economic success over the ensuing years, shown by the reduction in unemployment to 6.8% and the vigorous growth of GDP (DULLIEN, 2013). In his interview with the Financial Times in 2013, Schröder (2013) points out that it would have been impossible to save billions of euros in budget cuts and implement the changes in the German labour market without the Agenda 2010 reforms. With these transformations, the German economy has been mentioned as a reference point for Europe in crisis. However, as will be argued later, the German economic model cannot be adopted by other EU members (DULLIEN, 2013), in particular, as proposed here, by Greece.

Greece (4.80%) increased to 9.09% in 2010. In 2012, it reached a level (22.50%) 15 times higher than the rate set in Germany (1.50%), while the average of the euro zone never exceeded 6% (EUROSTAT, 2015). Germany presented a rate of 3.98% in 2008 and 2.74% in 2010 (Figure 01). Consequently, investments in the Greek economy became a high risk due to the lack of confidence generated by the credit crisis, creating a huge difficulty for the country to obtain loans from the market, caused in parallel by the attribution of the lowest possible grading by the main US credit-rating agency, 'Standard & Poor's'.

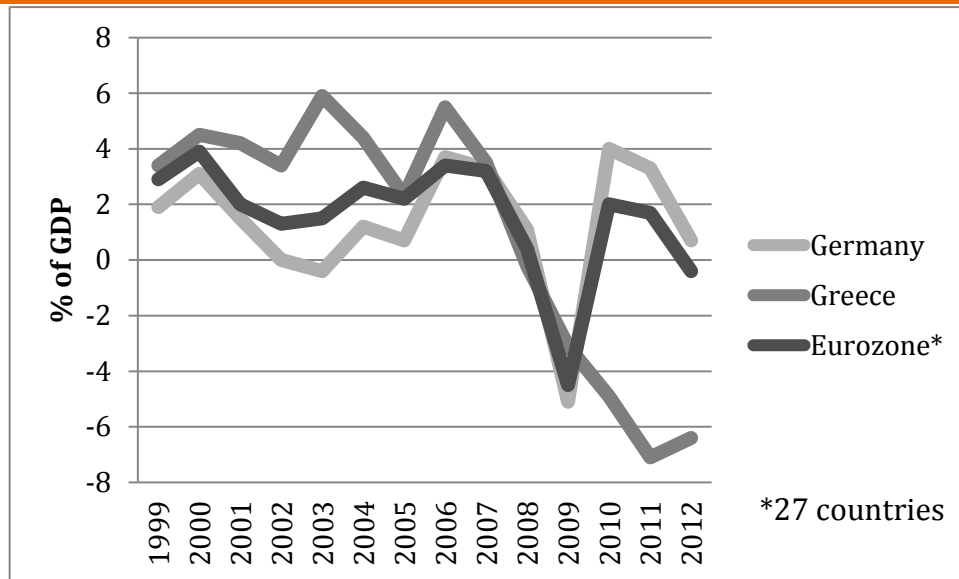
Figure 01. Annual average long-term nominal interest rates



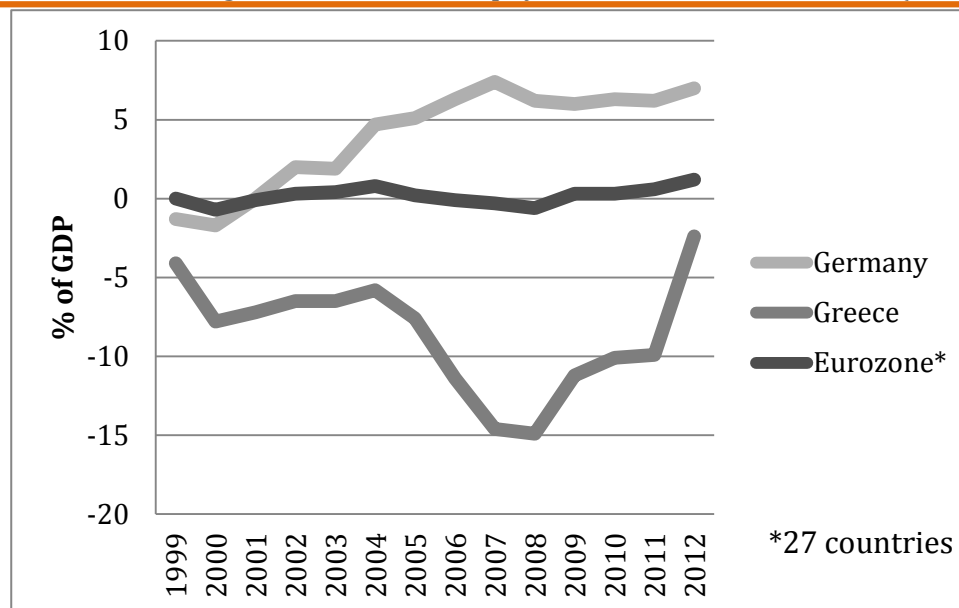
Source: Adapted from Eurostat (2015).

Gross domestic product

A country's GDP history is an important indicator of its economic health. (KRUGMAN and OBSTFELD, 2008). Until 2007, the variations in GDP of Germany and the euro zone, since the introduction of the single currency in 1999, remained below Greece's economic growth. Following the global crisis, however, Greek economic growth experienced a greater impact and, unlike Germany and the EU average, was unable to recover. From 2007 to 2011, the growth rate of Greek GDP fell from 3.5% to -7,1%, while Germany and the eurozone average fell from 3.2% in 2007 to the lowest levels of -5.1% and -4.5% in 2009, respectively, before returning to 3.3% and 1.7% in 2011 (Figure 02) (EUROSTAT, 2015).

Figure 02. GDP growth in relation to the previous period, from 1999 to 2012 (% of GDP)

Source: Adapted from Eurostat (2015).

Figure 03. Annual average of the balance of payments from 1999 to 2012 (% of GDP)

Source: Eurostat (2015).

Balance of payments

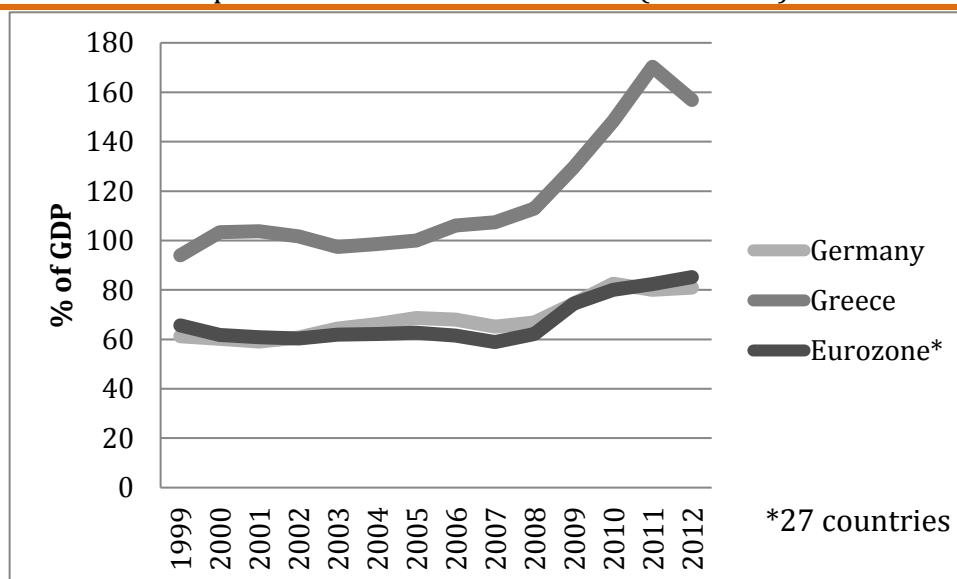
Analysis of GDP alone, however, is not enough to explain the situation of the eurozone. It is important to evaluate the balance of payments, that is, generically, the difference between exports and imports of goods and services. Krugman and Obstfeld (2008) argue that, as well as measuring the size and direction of international loans, the balance of payments reveals changes in a country's net foreign wealth. A balance of

payments deficit indicates that imports exceed exports. On this point, the disparity between the balances of Germany, Greece and the eurozone average is clearly perceptible. While Germany showed a deficit only over the first three years following adoption of the euro (-1.3% of GDP in 1999; -1.7% in 2000; and -0.1% in 2001), Greece did not obtain a surplus throughout the entire evolution from 1999 to 2012, always being below -05% of GDP with the exception of 1999 (-4.1%) and 2012 (-2.4%). In 2008, Greece attained the record of -14.9% of GDP and, in 2010, reached -10.1% (Figure 03) (EUROSTAT, 2015).

Public debt

An exponential increase in long-term interest rates, associated with the balance of payments deficit, has exposed Greece's vulnerable situation within the eurozone. Without liquidity, the country needs loans, which have become more scarce due to the investment uncertainty generated by speculation of a Greek default. Germany, along with France, bought Greek government bonds, as well as granting relatively low-interest loans to the country. However, it is worth emphasizing that public debts in neither Germany nor Greece respected the limit of 60% in relation to GDP imposed by the convergence criteria. Nevertheless, German debt accompanied the evolution of the eurozone, reaching 85.2% in 2012, while Greece was in excess of 160% in 2011, settling at 156.9% in 2012 (Figure 04) (EUROSTAT, 2015).

Figure 04. Evolution of public debt from 1999 to 2012 (% of GDP)

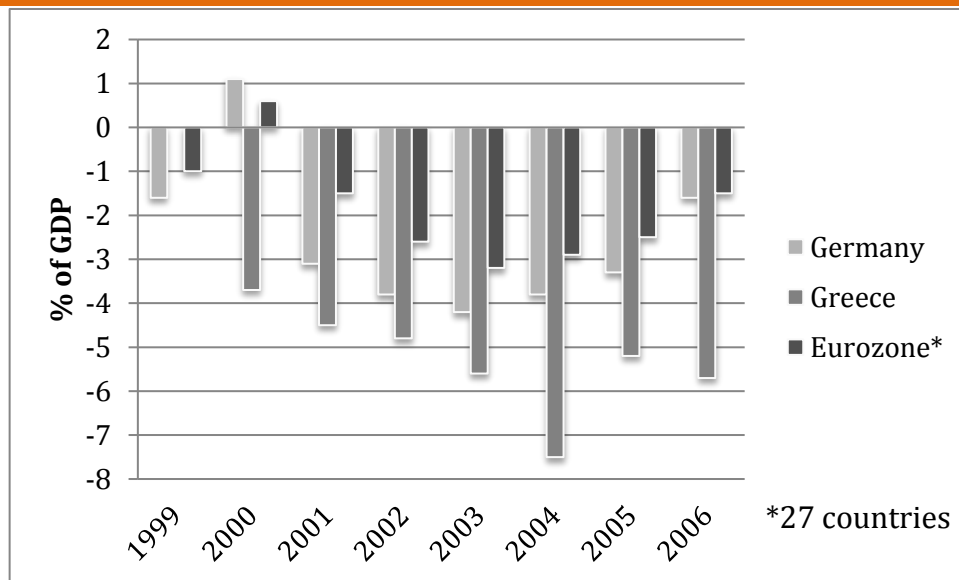


Source: Adapted from Eurostat (2015).

Public deficit

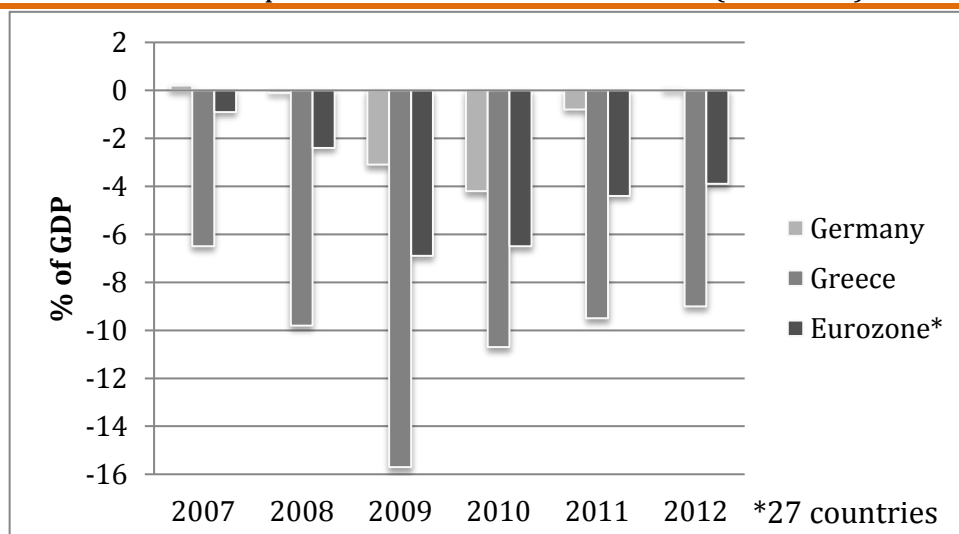
In relation to the public deficit, i.e. the amount by which government expenditure exceeds revenue (SIMONSEN and CYSNE, 2009), the maximum limit of 03% of GDP established by the Stability and Growth Pact (SGP) was never once obtained by Greece. Although Germany exceeded the limit from 2001 to 2005, and again from 2009 to 2010, the maximum level reached was 4.2%. Since 2008, the Greek government, though, has attained a level over three times higher than the figure set by the SGP (Figures 05 and 06) (EUROSTAT, 2015).

Figure 05. Evolution of the public deficit from 1999 to 2006 (% of GDP)



Source: Adapted from Eurostat (2015)

Figure 06. Evolution of the public deficit from 2007 to 2012 (% of GDP)



Source: Adapted from Eurostat (2015).

Analysing these macroeconomic indicators shows that Greece during the period under study here did not fit the conditions for eurozone membership, insofar as the country's macroeconomic indices were incompatible with the single currency regime. It is worth observing, however, that when the country joined the single currency it met all the convergence criteria. By presenting structural problems in terms of the country's fiscal control, running a balance of payments deficit, huge public deficits and a sovereign debt two and a half times higher than the 60% limit in relation to GDP, the lack of confidence in investments in Greece became widespread, which created a credit shortage. According to the financial analysis website Enterprise Investor, citing the report by Eurostat, Greek public debt in 2003 was actually 4.6% of GDP rather than the figure reported previously (1.7%). Furthermore, the deficits from 2000 to 2002 were revised and were at least 2% higher than reported by the country (VOSS, 2011).

According to the website of the World Economic Forum (2013), based on a comparative study of world countries and Europe, Germany occupied the third place in terms of competitiveness within the EU and the fifth place globally, while Greece was ranked in the last position in the EU block and the eighty-first compared to all countries in 2014.

Despite the enormous challenges, Germany has managed to maintain a strong economy, in spite of its debts rising above 80% of GDP and a decline in its economic growth. The unemployment rate fell to less than 6%. According to Lynn (2011, p. 91), irrespective of being in the EU or not, Germany has the status of a powerful international actor, possessing one of the world's largest economies. Germany contributes 21% of the total EU budget, though only 11.4% of the group's expenditure is allocated to the country, a similar level to Italy, a smaller country, and below that of France, which contributes 16%. However, Germany obtains important advantages from EU membership, exports being one of the key elements in its competitiveness. Four of the five top destination countries for German exports are also members of the European Union.

International financial market: effects on Greece and Germany

It is important to understand the crisis in Europe in terms of the global pandemic, triggered by the bursting of the US housing bubble (ROUBINI and MIHM, 2010). It is equally necessary to demonstrate, briefly, how financial deregulation policies

played a fundamental role in the spread of the crisis. On this point, the world clearly experienced major changes at the end of the 1980s. The end of the bipolar world, evinced by the fall of the Berlin Wall and the subsequent collapse of the USSR, brought multipolarity to the fore and confirmed the supremacy of the capitalist ideology personified by the United States. The dominance of the information age also intensified along with the phenomenon of globalization. Now it was possible to move large quantities of capital through diverse financial institutions, and not just through the traditional banking system, both quickly and efficiently. However, with each step of technological evolution, another layer of complexity was added to the financial system, leading to a gradual elimination of controls over the system (CARVALHO and SILVA, 2007).

As the portfolio of financial operations, investments and actors expanded, so the risks and uncertainties related to the financial market increased. Hence, the widespread deregulation of markets enabled the frenetic movement of capital between countries, allowing underdeveloped economies to receive vast quantities of money in record time to tackle social and economic issues and, on the other hand, permitted developed countries to multiply their wealth (ROUBINI and MIHM, 2010).

A prime example of the consequences of such financial deregulation was the subprime crisis originating from the dynamics of the US domestic housing market in 2007. Since 2003, looking to stimulate consumption, the US market had been selling house mortgages at low and attractive interest rates. With the domestic market awash with credit, many people who wanted to own a property were able to do so. As a result, the housing market underwent intense growth and property was made available to virtually everyone who presented low risks to the loan banks, based on their credit history and proof of income. But, seeking to earn even more profits, the loans were soon extended to people with an uneven credit history (subprimes), which led to non-payments and soon after to the banks repossessing properties and placing them back on sale on the market. The sudden drop in property prices, however, generated payment failures, firstly due to the rise in supply, which stimulated buyers to sell back their properties and purchase others at lower prices, leading to losses for the lending banks (KRUGMAN and OBSTFELD, 2008). The creditors of the property purchasers sold the mortgages to large investment banks and other financial institutions. The latter, in turn, passed on the securities to even larger banks, brokers and fund managers such as the

giants of the international system: Bear Stearns, Merrill Lynch, CitiGroup, Lehman Brothers and Goldman Sachs of the United States, the Spanish firm Banco Santander and the French BNP Paribas. Consequently, the entire financial system was involved in the purchase of mortgages from the US domestic market¹¹, which was a determining factor in the crisis erupting in the United States. For Roubini and Mihm (2010): "The disease (crisis) spreads most readily and quickly among those who are weak and lack immunity. In the recent crisis, many economies in Europe shared the same vulnerabilities as the US economy. It's no surprise, then, that when the United States sneezed, they caught the cold – or perhaps more accurately, the flu" (ROUBINI and MIHM, 2010, p. 146).

Greece was the most critical patient of this 'flu'. The media has repeatedly used the term 'Greek crisis' to classify the moment experienced by the EU. In 2008, at the height of the subprime crisis, Greek debt was close to 120% of the country's GDP. The first impact felt by Greece, which depended heavily on loans, was the hike in interest rates, which made taking out loans on the international market extremely expensive. Consequently, at the start of 2010, a rescue package was granted to Greece. After it achieved little effect, however, the eurozone finance ministers approved a new 130 billion euro package in 2012. Like the first, the main objective of the second package was to avoid a possible default of Greece, as well as help reduce its debt, which had exceeded 160% of national GDP, to 120% by 2020 (estimation by the authors). It is worth emphasizing that the banks holding Greek government bonds, many of which are German, cancelled 50% of the total amount as an additional measure to achieve stability (BAGUS, 2012).

It is important to stress that this problem could have been minimised with loans at lower interest rates. However, as cited earlier, the lack of confidence generated by the crisis made obtaining loans from the market extremely difficult. Roubini and Mihm (2010) also emphasize that in 2008 the European Central Bank (ECB) equivocally increased interest rates and the EU members primarily responsible for steering economic policy, like Germany, took belated measures without looking to provide stimuli for more vulnerable economies like Greece's. After approval by the Greek parliament as a requirement for obtaining the second rescue package, the series of austerity measures imposed by the Troika (EU, ECB and IMF) led thousands of Greeks to

¹¹ According to Blackburn (2008), the financial banks and brokers haemorrhaged US\$ 175 billion in capital from July 2007 to March 2008.

take to the streets in protest. Bagus (2012) predicted that the measures demanded by the Troika would lead to the dismissal of 150,000 public workers by 2015, as well as reducing the minimum wage by 22% and pensions by 12%. A third Greek rescue plan was approved in July 2015 in which more cuts to social benefits and an increase in taxes were agreed¹².

Other authors, such as Truger (2013), Dullien (2013) and Dodig and Herr (2015) argue, in contrast to what was discussed previously by Lynn (2011) and Bagus (2012), that the economic policy of austerity imposed by Germany, as the most influential member of the EU, on critical countries has been more harmful than remedial. Or, in the words of Yanis Varoufakis (2015), former finance minister of Greece and professor of economics at the University of Athens:

The problem is simple: Greece's creditors insist on even greater austerity for this year and beyond – an approach that would impede recovery, obstruct growth, worsen the debt-deflationary cycle, and, in the end, erode Greeks' willingness and ability to see through the reform agenda that the country so desperately needs. Our government cannot – and will not – accept a cure that has proven itself over five long years to be worse than the disease (VAROUFAKIS, 2015).

Underlining Varoufakis's evaluation (2015), the cure has indeed been worse than the disease¹³. Truger (2013, p. 05) stresses that Germany has been pursuing, erroneously and against more moderate currents of economic thought, an ideological path classified by the author as a 'sad economic policy'. Dodig and Herr (2015), for their part, conclude that the Troika's measures place the burden of the crisis on critical countries, such as Greece, and that the increase in austerity measures leads to a fall in GDP (the vicious circle cited earlier). Finally, Dullien (2013) argues that the German model cannot be imitated by the rest of Europe, since this would entail lower

¹² Even Alexis Tsipras, the prime minister elected in 2015, who had openly criticized the stance taken by the Troika in relation to Greece throughout his campaign and at the start of his mandate, had no choice but to accept the agreement. Among other measures, were the privatization of the energy sector, flexibilization of the work market with less control by the unions, a rise in the retirement age and the creation of a fund with Greek assets (SMITH, 2016).

¹³ On this point, a key episode in Greece's recent history was the referendum held in June 2015. The population was asked whether the country should accept the austerity demands imposed by the creditors (in particular, Germany). According to the British journal 'The Guardian' (2015), practically two-thirds of the population (61.31%) voted NO. After their victory, however, a less moderate agenda than the one proposed by the creditors was accepted and implemented in Greece, provoking widespread social mobilization and public dissatisfaction (GRIM and MARANS, 2015).

investments in education, technological innovation and long-term growth. The author therefore suggests that the other European countries should analyse which aspects of German reform can be implemented in their own domestic contexts¹⁴. Two aspects should be taken into account here. Dullien (2013) emphasizes in succinct form that the German model should not be copied by the members of the eurozone since it was based on reducing investments in education, research and technological development, as well as wage moderation. Adoption of the first aspect would lead to a loss of the spillover effect¹⁵ and, consequently, to slower technological progress, which would undoubtedly have negative effects on an economy still recovering from crisis. Adoption of the second could reduce prices, leading to deflation of the debt, which would harm the financial system and reduce the amount of credit and aggregate demand available.

Dodig and Herr (2015) discuss the behaviour of exports from eurozone countries during the crisis. While Greek exports fell 14% from 2007 to 2013, Germany, the group's largest exporter, saw 16% increase over the same period. The authors argue that the prices of products for exportation rose considerably during the crisis in the most vulnerable countries (15% in Greece). The same did not occur in Germany, which experience a much smaller increase of 04% in the prices of exportable products. This circumstance determined a new increase in the competitiveness of the German economy, which ultimately profited from the deficits of the most critical countries.

Discussion

As described earlier, Europe after the Second World War increased interstate cooperation, culminating in the institution of the EU. The cases of Germany and Greece also reveal that the European integration project contains inherent asymmetries and that these determined, and continue to determine, the perpetuation of the crisis and the cooperation dynamics.

¹⁴ For more details on the relationship between Germany and 'peripheral' euro countries like Greece, as well as the attempt to correct the imbalances in the eurozone, see Semeniuk, Treck and Truger (2011).

¹⁵ In his book 'The Uniting of Europe', developing Mitrany's theory and establishing what became known as neofunctionalism, Haas proposes that the success of the technical cooperation administered by institutions and the new demands that emerged from their actions have a 'spillover effect', that is, they enable cooperation to be further developed and new institutions to be created subsequently to manage them (BALDWIN, 1993, pp. 119-120). Dullien (2013) acknowledges that the same should occur with technological development, given that there exists a strong correlation between level of investment and technological progress.

For the neorealist Waltz (1993), the increasing European cooperation had a structural dimension that responded to a bipolar system, sustained by the idea of maintaining a balance of power. The units (European countries) joined together to adapt to a structure in which the military and economic capacities of the United States and the USSR far exceeded other nations', generating distrust in the IS. The same was repeated soon after the Cold War, demonstrated by Waltz's claim that the effort to create economic union was justified by the fear that "a disunited Europe could not stand up to Japanese and American competition" (1993, p. 59). Mearsheimer (1990) argues that the wars prior to 1945 were motivated by multipolarity in Europe, that is, by the asymmetric distribution of power among more than two countries, especially France, Britain, Germany and Italy. After 1945, though, faced with a new reality of devastation and weakness, European countries succeeded in keeping the peace mainly due to the clash of the gigantic USA and USSR. The author also emphasizes that the emergence of nuclear weapons had an important role in preventing conflict since the consequences of any war could be extremely disastrous. For Mearsheimer (1990), then, the motivation for war depends more on the international context (structure) than on the individual nature of the states; hence, cooperation emerges from the need to adapt to the system.

According to the neorealist perspective, nation states seek to weaken potential enemies by increasing their relative power status. The power disparity between states is seen to make aggression more likely, unlike the situation between the United States and the USSR during the Cold War, in which the balance of power was levelled and peace (or the lack of direct aggression) was ensured. It is important to underline that, in this view, the peace established by the balance of the superpowers in Europe contrasted with the need to prevent Germany from recovering its own power on the continent, which had previously led to war.

Taking the ECSC as an example, it can be observed that mutual gains were made in the energy and steel sectors, both strategic areas for the development of Europe's industrial base (JUDT, 2007). Furthermore, the close relationship between the heavy industries in member states meant that the risk of one country deciding to manufacture and deploy weapons without the knowledge of the others was minimized. This factor reduced the insecurity in relation to one another and the possibility of a new war breaking out (EUROPA.EU, 2015). Cooperation, which culminated in the creation of the ECSC, can be perceived as a mechanism, therefore, that as well as achieving economic

growth also enabled monitoring of the production and movement of weapons and other heavy industrial goods with the aim of promoting trust between the countries in Europe, recognising that Germany was also integral to the group¹⁶.

Consequently, it can be noted that one of the main motivations for cooperation and integration in Europe was precisely the repositioning of the continent as a prominent actor in the IS. The neorealist current would argue that cooperation increased because of the structure that allowed a degree of convergence in the interests of the European countries. However, neorealism does not satisfactorily explain why countries submit to an institution (the EU) and to a regime (the euro), both of substantial relevance in international politics. For this analysis, institutional neoliberalism offers more appropriate mechanisms.

Keohane (1993) describes how the establishment of the EU and the consequent increase in interdependence granted its members substantial political and economic gains; so, institutionalization continues to exert crucial functions. The author also argues that this process was made possible by the democratic nature of the European governments and of their national institutions. Hence, the commitment to EU institutions allowed, for example, Germany to pursue its political and economic interests within an institutional framework that converges expectations and reduces uncertainties. Likewise, it can be stated that the least powerful states in the EU, from the political and economic viewpoint, benefit from participating in the group once they have influence on the decisions of this institution.

It can be perceived, then, that due to the asymmetries inherent to complex interdependence, the more cooperativist dynamic of the states in Europe generates costs for the actors involved. Being involved or not with a determined institution entails a series of responsibilities for the countries. Complex interdependence thus produces two important effects: sensibility and vulnerability. Sensitivity relates to the impact that an event in one country has on another, which is measured in terms of cost. Vulnerability involves the measurement of the cost of the alternatives available to respond to the outside impact (KEOHANE and NYE, 2012).

By creating the euro, the Maastricht Treaty thus sought to establish a financial regime that would facilitate the coordination of monetary policies, previously executed

¹⁶ 'Tying' Germany to the other states (to achieve a balance of power, according to Waltz) was a project prior to the Second World War. See Leuchars (2001).

at individual level, under the administration of a supranational entity (institution), namely the ECB. With a coordinated monetary policy and a strong financial market, Europe could confront US hegemony in the international financial system and pursue its own interests in the international arena. However, the established regime depends to a large extent on German hegemony within the group and, as discussed by Dodig and Herr (2015), Dullien (2013) and Truger (2013), imposes a paralysing burden on countries more sensitive to the crisis, as in the case of Greece. Keohane (1984) also argues that the collapse of the Cold War determined a need for greater cohesion within the EU. On one hand, Europe had to strengthen its power vis-à-vis the United States. On the other, faced with the threat of a significant growth of nationalism in the former USSR, the group needed to search for greater unity. Indeed, it can be noted that the European integration has expanded following the end of the Cold War. From twelve members in 1986 to fifteen in 1995 and twenty-eight in 2015 (EUROPA.EU, 2015), boosted by the inclusion of countries from Eastern Europe and the establishment of the euro, Europe has become one of the largest and most complex regional integrations in the IS. Keohane (1984) does not overlook the fact that discord has also grown between EU member states since its expansion and the higher levels of institutionalization. However, he had already pointed out in the 1980s that disagreement and cooperation go hand-in-hand; so, maintaining the block would be the priority for the countries in order to attain their political and economic goals (KEOHANE, 1984).

The relationship between Germany and Greece, discussed in the second part of this article, demonstrates how two states inserted in a regime, converge preferences and act, or at least should try to act, in accordance with established principles and norms. Despite the fact that the two countries occupy different positions in the world economy, in terms of competitiveness and in terms of economic policy, both are subject to rules established by an international governmental organisation (the EU) that possesses institutions with deliberative, executive, legislative and judicial powers. The two countries also participate in a financial regime (the euro) where a series of criteria need to be met, so as to ensure the proper functioning of the regime and increased cooperation between members. It can be argued that failing to comply with the demands of the institution or the regime implies high costs for a country. The opposite can also be said, though, since not participating in an institution can isolate a particular country,

reducing its power within the IS. Finally, participating in a particular institution can oblige the state to implement economically and socially harmful policies.

It is worth observing here that the neorealist current would focus on the structural change within the EU following the rise of Germany as the most influential member in order to explain why Greece accepted the conditions imposed by the former country. This theory, however, does not consider the relevance of the EU and the financial regime established by it. While it may be plausible to argue that the system conditioned cooperation in Europe during an earlier phase, following the emergence of the first institutions, formalized or not, the dynamic of the integration process can no longer be attributed solely to the structure (or system). It makes more sense to set out from the premise that intragovernmental, extragovernmental or simply governmental institutions like the EU play a fundamental role in international politics, sometimes even overriding the domestic issues of certain states, as in the case of Greece.

During the first phase of integration, in the context of the Cold War, the primary motive was thus to keep Germany tied to a common project and in so doing prevent the resurgence of its nationalism and power, as well as equilibrate the balance of power in the IS. Hence the perception that Europe's interests and thus its power in the IS was obfuscated by bipolarity prompted cooperation between the continent's traditional rivals: in other words, the structure was determinant. But, from the moment when the spectre of a new conflict receded, a more market-based and institutional perspective became established. Germany itself saw the advantages of joining the emergent group, since its influence, economically strong and legitimized, would give it the 'weight' needed to compete for a higher status within the IS.

However, the asymmetries existing in the integration of Europe have concerned the continent and the rest of the world. In analogous fashion to Greece's situation in relation to Germany, it can be inferred that the spread of the crisis, basically originating from the domestic US market, had deep impacts worldwide, especially in the EU. In this case, a financial regime (the financial market) is able to destabilize and, in some cases, benefit sovereign states, institutions and government entities, as well as the regimes themselves, such as the euro. In parallel, it is interesting to observe that criticisms of the EMU, particularly those expressed by France in the 1970s, more or less became a reality in the situation experienced by Greece. The economist Richard Roberts (2000) discusses the loss of sovereignty and thus the possibility of using adjustment mechanisms

previously employed when the currency was still the drachma. Following the adoption of the euro, an international regime, Greece no longer has control over exchange rates, which, through devaluation, can benefit the national economy. Similarly, it no longer retains decision-making power over monetary policy, now set by the ECB, meaning that the country is unable to use monetary policy in its favour. This demonstrates that submission to an international regime or institution may well have neorealist-type motivations (such as adapting to the structure), but nonetheless both benefits and limits the sovereignty of the nation state.

In sum, this discussion proposes the following synthesis: in the contemporary world, not submitting to international institutions and regimes is becoming less and less possible. The motivation for joining them may be neorealist or simply neoliberal, which in this phase is very similar to structural motivation, given that particular states perceive advantages in constituting certain institutional frameworks. However, it has to be accepted that both international institutions and international regimes are major players with a significant relevance in the IS and, therefore, in the directions taken by international policy. This does not mean that structure ceases to be an important variable in the conditioning of the IS and in the distribution of capacities between states, nor that institutions and regimes intrinsically assure cooperation and subsequently a convergence of preferences and obligations. The cases of Germany and Greece within the institutional framework of the EU and the euro single currency regime demonstrate that hegemonic states can and frequently do manage to benefit in particular ways from regimes, institutions and (in a neorealist vision) structure, while peripheral states are more exposed and vulnerable to their impositions.

Therefore, the effects of the financial market (international regime) can be harmful to global economies, generating more intense impacts for countries with less robust economies. The German and Greek cases demonstrate that one state's actions have consequences for the other state embedded in an integration process and, due to the complex interdependence involved, can affect countries outside the process too.

Conclusion

In this study, the choice of two countries occupying the polar opposite positions in the EU allowed an analysis of the most influential state of the block and the state most indebted and most vulnerable to the current crisis. It was possible to observe that the

degree of European integration is undoubtedly the most advanced witnessed in the IS and that the influence of the EU as a determinant actor in both international and domestic politics is unquestionable. However, it has become clear that complex interdependence generates positive and negative reciprocal effects between countries, given that one country's difficulties in meeting the requirements of a regime (the euro) can affect the entire group, as occurred with Greece. Institutions and regimes, for the neoliberals, are essential to cooperation.

The neorealist contribution to the debate demonstrated that the clash of the superpowers in the Cold War diverted the focus of tensions in Europe, previously responsible for two World Wars, and enabled peaceful coexistence for more than half a century. In other words, the establishment of a bipolar system (structure) was a determinant factor in the cooperation between European countries, which eventually culminated in the institution of the EU. It is worth remembering, however, that the neorealists do not consider institutions and regimes determinant factors in the actions of sovereign states.

The study showed that countries with pronounced macroeconomic asymmetries, participating in the same institution and the same financial regime, vary in terms of their susceptibility to the global pandemics caused by crises. Germany's hegemonic power and the imposition of austerity policies in Greece have determined the success of the former and the failure of the latter.

Even so, it is clear that states have cooperated over recent decades in order to benefit from the convergence in expectations and have adapted to the system, as well as being inexorably immersed in an increasingly integrated world. Consequently, in a world shaped by complex interdependence, sovereign states have been constantly ceding some of their sovereignty and opting for regional integration. Nonetheless, it is worth emphasizing that the countries that enjoy the advantages of integration also suffer from its flawed mechanisms. The asymmetry present in the EU exemplifies how the reduction in sovereignty can have huge consequences for a nation. It should be remembered, though, as discussed in the first section, that the project of European integration has deep structural motivations.

Hence, it is difficult to predict the future of the world's most advanced union. Certainly, in light of declarations in the media, social protests and the implementation of austerity policies despite the NO vote in the 2015 referendum, the challenge of

remaining faithful to the regime becomes even more complex. Perhaps, if Germany had paid more attention to the fact that its imposed demands, combined with the institutional framework of the EU, have caused more harm than good, perpetuating the crisis, and had Greece studied the reforms of the Agenda 2010, selecting and adapting certain criteria to its reality, then maybe the crisis could have been dampened and there might be a legacy to be discussed by scholars of political science and international relations, namely: to what extent are institutions and regimes truly advantageous and where does the individual sovereign action of each state reside? The most pressing dilemma for Greece is not whether or not it accepts the impositions of the austerity policy but whether it decides to remain or not in the eurozone and, conjointly, the EU.

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