University of Twente
University of Münster

Master thesis European Studies
2012-2013

Economic Nationalism

in the Banking Industry of Germany

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March 2013

Abstract

The crises have had their grip on the financial market since 2008 and the lack of proper supranational (EU) measures may have stimulated an increase in domestic measures favouring the domestic financial market. This thesis will give an interim review on the significance and nature of economic nationalism in Germany's banking industry. In order to sketch the current situation and provide possible predictions for the future, domestic and supranational responses of the German government to the financial market since the crisis will be evaluated and tested to economic nationalism. A mix of severe and mild forms of economic nationalism are apparent in Germany today through; benign economic nationalism in individual responses to the crisis, and malign economic nationalism on the ideas regarding the banking union.

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Chapter 1. Introduction

Banking has become essential to everyday life. Both companies as well as individuals depend on the banking system to perform their everyday payments in order to do business with each other. The threat of a collapse of the system increases the significance of the banking system to be run well, and as said by Busch (2009): “the security of bank deposits has become a matter of great political and economic importance, with governments doing their best to ensure their security.” (p. 23)

The beginning of the global financial crisis in 2008 was met with joint plans to tackle it as a unity. However in the past four years, multiple crises have emerged (the financial, sovereign debt, and banking crises) elongating and worsening the crisis. The slow and meagre response of the European Union to tackle the crisis and the foreign threats to the domestic markets has caused member states to implement their own measures, which differ from state to state (Allen et al. 2011) With the changes in these domestic banking frameworks, risks increased that these measures might be anti-competitive and clash with the single market, (Allen et al. 2011) by favouring domestic banks or resisting foreign competition in the domestic market (Clift and Woll 2012).

The definition of economic nationalism according to Fölster (2009) applies to this thesis, where economic nationalism “protectionism for their own country’s benefit and intervention in their domestic economy to pursue own interests.” (p. 14) However this notion seems somewhat outdated and doesn’t encompass the different forms of economic nationalism after the creation of the European Union and the single market. The cross border characteristics and the changing scene of the banking industry since the crisis have led to undercurrents in economic nationalism; malign economic nationalism, benign economic nationalism and liberal economic nationalism.

A case study can provide some insight to these new forms of economic nationalism. Germany is chosen because of the specific opinions of Germany on crisis related issues on the banking union and the sovereign debt crisis (among others) which increases the curiosity towards researching nationalism in this seemingly powerful member state. In Germany the domestic banking industry is a significant part of the whole banking system. As Europe’s biggest economy, Germany’s banking sector is quite extensive and appears to be well regulated at the surface. The main threat to the German financial market comes from failure of foreign banks and states, and bad investments in foreign assets. The cross border characteristic of the financial market has made it extremely vulnerable and calls for changes in banking regulation that may even apply to new forms of economic nationalism. This raises the question:

‘Is economic nationalism a significant factor, and what is the nature of it in government measures and ideas in Germany since the beginning of the crisis in mid-2008?’

Theory

The importance of economic nationalism appears to have increased in the last couple of years. Literature has indeed confirmed some forms of economic nationalism in the European Union, however a thorough research on specific actions and ideas in a member state since the financial crisis has not really been conducted yet.

In order for this to be researched, this thesis will regard the development of economic nationalism in the financial sector in relation to economic liberalism, patriotism, state interventionism and protectionism. Clift and Woll (2012) describe these relationships fairly well and will provide the basis for the theoretical framework. These authors recognise two main forms of economic nationalism: classic protectionism and liberal economic nationalism. The difference between the two is highlighted by the liberal- and protectionist policy content of economic nationalism. State interventionism does not appear to be a determining factor in economic nationalism, as interventionism can occur in liberal market as well.
However for this thesis, one vital concept seems to be missing in the framework of Clift and Woll (2012). Because these authors mainly discuss the relation of economic patriotism versus the rest, the significant relationship between economic nationalism and the supranational order is completely left out. Cohen's (1991) theory of malign- and benign economic nationalism does provide an opportunity to implement this concept. Where "benign nationalism acknowledges a connection between self-interest and systemic interest; malign nationalism ignores or denies it." (Levi Faur 1997, p. 367) Malign economic nationalism will in this thesis be joined with classic protectionism, thus indicating a form of protectionism. Liberal economic nationalism and benign economic nationalism appear to be rather difficult to join, because benign economic nationalism would strengthen regulation, not liberalise it. Furthermore liberal economic nationalism and benign economic nationalism differ both from malign economic nationalism because it does regard systemic interest.

Methodology

The research will make use of qualitative methods and data provided mainly through newspapers, working papers, journal articles and other documents from scientific information databases and more specific institutes and organisations. The literature review and theoretical framework will form the background for the case study on Germany.

Once the theoretical framework is made clear, the case study will provide some clarity on the situation of economic nationalism in Germany in the banking system. Germany appears to historically have had a proper banking system in place, however as the crisis emerged multiple actions and ideas have formed to protect the domestic market. Furthermore the size of the country and the standpoints on bailing out Greece, the austerity packages in Greece and Germany's standpoint on the banking union makes Germany an interesting case to research.

Even though several scholars have pointed out that economic nationalism cannot be defined by its specific policy content (i.e. Clift and Woll 2012), it is important to determine nationalist patterns in specific policies in order to determine economic nationalism of the financial industry as a whole. Especially since the time-frame of this thesis is quite short (from 2008 onwards the German government has started to implement measures as a response to the crisis), specific responses to the crisis form the basis to which economic nationalism can be determined.

For the case study an introductory beginning will describe the German banking industry, followed by Germany's vision on responses to the crisis. In order to have a full overview of Germany's actions and ideas to the crisis, national responses will be elaborated to the crisis (including the financial stabilisation acts) as well as Germany's reaction to the creation of the banking union on supranational level. A timeline will be used in order to identify these events in the banking market in Germany since the beginning of the crisis. More data will be collected through statements and speeches from banks, supervisors, political parties and governments. This will include government reactions from Germany to initiatives threatening the domestic financial market (i.e. banking union initiatives), and policy initiatives in Germany by which they are trying to protect the domestic financial market. All of these actions by the German government will be tested to economic nationalism by using three steps. The first two steps will occur separately for each response of Germany to the crisis, while the third step will form a conclusion on the degree of economic nationalism in Germany:

1. Determining the situation through ideas, interests and institutions (three I's);
2. Testing and applying these three I's to the form of economic nationalism;
3. Determining the severity of economic nationalism by contrasting and comparing the nationalist actions and ideas to each other.

This research design was chosen because it incorporates the general to the more specific questions; through assessing the situation, form, severity and the impact. This will eliminate the chances to miss any important aspects of economic nationalist actions and ideas.

Outlook on findings

There is definitely a form of economic nationalism present in Germany. While the individual measures mostly indicate benign economic nationalism which supports multilevel cooperation, strengthens regulation and favours domestic banks, putting these measures together shows that a solid financial regulatory framework has been formed.
Ideas towards cooperation on the supranational level are largely supported by Germany, however only through the implementation of Germany's preferences to the supranational level. The rejection of the banking union suggests a form of malign economic nationalism, where supranational cooperation is undermined in order to protect the German financial market.

Limitations of the study

After a number of years, the economic crisis is still in full effect and no obvious or significant improvement to the financial crisis can be noticed. This thus means that the stability measures that have been introduced in the national and supranational level cannot be evaluated very well. While the short term events can be researched and may be able to predict long term consequences to a certain extent, the long term effects are not as clear and can possibly affect the form of economic nationalism and thus the conclusion of this thesis.

What would further complement this thesis would be an analysis of economic nationalist measures in other member states (non-Eurozone members as well) to compare and contrast this to the situation in Germany. Measuring the degree of economic nationalism in multiple member states would in that case receive a more solid meaning and reliability to draw better substantiated conclusions. Measuring economic nationalism through import and export figures in Germany would once again fall outside of the scope of this thesis, together with contrasting and comparing investments in national companies based in foreign states.

Besides capital (the subject of this thesis), economic nationalism occurs in goods, services and labour, and the restrictions that are set on these. However the discussion in these areas are worth being mentioned shortly in the literature review in order to sketch the situation and scope of economic nationalism, but will not be the main focus of this thesis.

Historical background

In the post-World War II period, many financial market systems were run and oriented nationally in Europe. (Busch 2009) Even with the existence of supranational and international organisations, states were and felt responsible for their own actions and reactions to crisis-situations. The general reaction to recessions before the 1970s included national regulations focused on protecting the domestic market. However after 1973 a new response to recessions occurred with the liberalisation of capital markets, “to remove barriers to international trade.” (Busch 2009, p. 28) According to Busch (2009) the recessions from the oil crises after 1973 caused a “decrease in economic growth combined with a sharp rise in levels of unemployment and inflation, the disappearance of fixed exchange rates, and the sudden rise in oil prices.” (p. 28) In order for states to tackle these challenges, capital markets were liberalised “and many states started to dismantle controls over capital movements.” (Busch 2009, p. 28)
Another variable that has caused the liberalisation of capital markets includes technical innovation causing the banking systems to be able to flourish and increase international banking. This also caused an increase in competition which, according to Strange (1988) “accelerated the process of financial innovation.” (p. 109) These events have opened a period of economic liberalism in order to protect national economies; it was necessary to increase foreign competition and opportunities to survive future crises. (Busch 2009)

According to Busch (2009) cross border bank credits and loans have increased significantly since the 80s and 90s. With technological innovation such as computers and later the internet, banks were able to trade more efficiently. However with these new opportunities, new threats increased as well. With a much higher degree of liberalisation in the banking sector, the lack of oversight by bank regulators is much more likely in the past decade than it was before; banking regulation and the liberalisation of the financial system “have thus become inextricably linked.” (Busch 2009, p. 30)

After this period of economic liberalism, the financial crisis seems to have changed the European atmosphere. With the evolvement of the European Union, power has been redirected more and more to the European Union, with the last major event being the creation of the monetary union. In this period after the creation of the monetary union until the financial crisis, the Eurozone was thriving. There was indeed some resistance from citizens of member states, however the general opinion remained in favour of the monetary union. This view has taken a huge set-back after the beginning of the financial crisis in the US in 2007, which took effect a year later in Germany in 2008. The costs and significance of financial crises have been higher than ever. Instead of a few countries' welfare being at stake through a crisis, the European Union and the monetary union have given rise to crises at the supranational level. With all member states reaping the benefits and advantages of the Eurozone in good times, economically bad times have surfaced in which some of the weaker member states require aid. This however does lead to some reluctance from member states that have historically had their banking system in order. Germany has had a long history of external shocks, and has through fruitful cooperation of the government with other national banking authorities and institutions learned from these events and appears to have built a solid and stable banking system. Having such a stable banking system already in place might increase the need for Germany to protect its domestic system against foreign forces. The role of the state is likely to have changed once again in order to protect domestic financial markets through economic nationalism, perhaps not in an aggressive way as it was done before the creation of the European Union, but in other forms.

Chapter 2. Theoretical framework

Views on economic nationalism differ widely in their content and some might not even be applicable for this thesis. Several authors give more emphasis to national identity while others emphasise the economic ideas. This literature review will attempt to identify and explain the most common variables and shall elaborate on the concepts as applicable to this thesis, in order to develop a basis to which economic nationalism can be measured in the next chapter. Many different aspects are important in economic nationalism and will be described in the next sections. The end of each subject will shortly describe the application and expectations derived from these theories to this thesis, however a separate section will shortly summarise the main expectations as well, at the end of this chapter.

Economic nationalism in goods and labour

Before jumping into the deeper literature about economic nationalism, first the concepts will be described in the areas that will not be used in this thesis, but are worth being mentioned; economic nationalism in goods and labour.

Most of the literature that mentions economic nationalism directly refers to and gives examples of protectionist measures in the trade area of economic nationalism, including goods and services. According to Fölster (2009), economic nationalism in trade is often used by EU governments to prevent "companies from changing economic environments." (p. 16) This

threat mainly includes the increase of foreign competition in companies, from which the state wants to protect the domestic market. Trade protectionism has been a debatable issue in the EU for some time, even before the financial crisis. While in the UK the markets have been relatively open to foreign investors in telecoms, construction and energy companies, economic nationalist measures appear in continental Europe more often, according to Cooper (2007). Foreign takeovers are prevented in France through the creation of corporate 'national champions' in the energy sector, and Germany has protected their national champions from being taken over by foreign ownership. (Cooper 2007)
While Fölster (2009) has recognised that member states have initiated their own responses to the financial crisis through economic stimulus packages in order to maintain economic stability in the domestic market, the research of Bussière (2010) has indicated that no member of the World Trade Organisation has resorted to extensive protectionist measures or trade restrictions.

Less mentioned as being economic nationalism, but much discussed is the area of labour in Europe. Low-skilled and low-paid workers from Eastern European states have migrated to Western European states, undercutting wage rates in these areas. Much resistance has arisen from both citizens as well as trade unions in these western states. Cooper (2007) refers to this phenomenon as present in the German labour market but in other member states as well.

Rhenish capitalism and coordinated market economies

According to Busch (2009), a distinction can be made between Rhenish and Anglo American capitalism. The first applies to Germany (the author also mentions Switzerland) and is characterised by the coordination and regulation of the market, while the latter refers to the open and liberalised banking markets of the United Kingdom and the United States. Hall and Soskice (2001) mention two types of political economies that show some parallels with Rhenish and Anglo American capitalism; liberal market economies and coordinated market economies. The liberal market economy is characterised by "the coordination of market activities primarily via hierarchies and competitive market arrangements," while coordinated market economies "depend more heavily on non-market relationships to coordinate their endeavours with other actors and to construct their core competencies." (Hall and Soskice 2001, p. 8)

Germany and its Rhenish capitalism is a classic example of a coordinated market economy. According to Jackson and Miyajima (2007), the German banking industry embodied "long-term relational lending and stable equity ties with industrial companies, […] strong inter-firm groups bound by horizontal cross-shareholding arrangements or pyramidal blockholding." (p. 3) Cross border banking is an extremely important segment in Germany's banking industry. However through the coordination of the financial market, hostile takeovers were largely prevented, especially foreign hostile takeovers. There were thus signs before the financial crisis that a form of economic nationalism was rooted in the institutional set-up of the financial market, through promoting cross border transactions, but protecting the financial market from foreign takeovers.

Even though a form of deregulation and some convergence with the liberal market economy has appeared before, (Hoffmann 2008) the financial crisis has triggered the return of stronger regulation, not only in Germany but in other member states as well. (Clift and Woll 2012)

Some room for manoeuvre in the financial market regulation in Germany before the financial crisis could be recognised. According to Bröker (2006) the financial market seemed rather regulated at first sight, however these regulations and rules are rather abstract, broadly defined and are missing specific definitions. A 'gap' has thus appeared in this regulation, indicating the room and freedom for filling in these regulations. Broich (2009) has noted that this has created a situation in which only minor changes needed to be made in order to protect the financial market in Germany. This situation strokes on certain aspects with the general historical background on financial regulation as described in the beginning of this thesis on the deregulation of the financial market until the crisis period started mid-2008. Not specifically branded as deregulation in Germany, but less financial regulation allowed room for financial institutions to manoeuvre. Once the financial crisis started, these regulations were rather easy to tweak and adapt to crisis situations. It is these changes to financial market regulation that is interesting to elaborate for this thesis. However to do so, the purposes of economic nationalism need to be defined, in addition to two concepts: protectionism and state interventionism.

The purposes of economic nationalism

There are a number of different reasons for member states to resort to economic nationalism, these are based on tackling national problems with national responses "that work in favour of implementing economic protectionist theories." (Fölster 2009, p. 5) Even though there is some scepticism in the involvement of the state in banking, states have ignored this and continue, especially in times of crisis, to be involved in banking through state regulations. (Busch 2009) The political responsibility includes a few common variables that have appeared in the literature through the concepts of the economics, the nation, power, and social identity (Gonzalez 2010). In the concept of the nation, the social aspect seems to be carrying most weight. The author Abdelal (2005) emphasises that economic nationalism is not equivalent to statism; this author adds another dimension to the concept by including a social aspect in nationalism. Economic nationalism is said to not merely focus on nationalism of the state through economic means, it goes even further by focusing on nationalism of the *nation-state*, thereby including national identity, through economic means, according to Nakano (2004). This same author mentions that policies that consider "the political economy in terms of the nation rather than class" (p.223) is economic nationalism as well. In this notion, policies that "undermine the unity of the nation" (p. 222) are avoided and thus emphasises the importance of the nation state as a whole, as opposed to the merely the state without the social aspect.

While these indicators (common identity, general welfare, prosperity and power of the nation-state, by Gonzalez 2010) encompass an important part of economic nationalism, they are rather difficult to measure and different kinds of research will be needed to draw adequate conclusions on their relationship with economic nationalism. In addition to this, the German government would definitely not deliberately try to decrease these four indicators, making them rather unusable for this thesis. Furthermore these indicators apply to the general wellbeing of the entire state, not merely the financial sector.

Favouring the domestic, limiting the foreign

The most apparent goal of economic nationalism in the financial area is the protection of the banking industry by either giving domestic banks a competitive advantage compared to foreign banks, and by restricting foreign banks' activities in the domestic financial market. (Clift and Woll 2012) Threats from abroad are thus feared to affect the domestic banking system.

Schoenmaker (1996) describes two phenomena that can occur across borders: the domino effect and contagion. The domino effect is defined as "a failure of any single bank that entails a chain reaction, such that eventually all the other banks in the system will also fail." (Schoenmaker p. 93) Contagion risk is described by the same author as "the risk that financial difficulties at one or more bank(s) spill over to a large number of other banks or the financial system as a whole." (Schoenmaker p. 86) Contagion does not necessarily indicate the domino effect, as banks can be bailed out by the government or other forms of financial aid is given to the bank to prevent it from going bankrupt. Economic nationalism will help to prevent domestic failure as a result from foreign failure. The cross border banking industry is quite significant in the European Union, and economic nationalism can help prevent both the domino effect as well as contagion in member states by protecting the domestic market from foreign failure.

The German government is likely to implement economic nationalist measures because of the threat of foreign involvement that can affect the financial market in Germany negatively. The fact that the domestic financial market is so significant, without much foreign competition, indicates a reason for Germany to protect its domestic financial market to its very best.

Deliberate and unintended self-sufficiency

Self-interest is another motivator for economic nationalism; all interested parties are likely to choose the best option available in certain situations in order to protect the domestic market in ways they see fit. There are two varieties in which states can be self-sufficient; deliberate self-sufficiency and self-sufficiency as a by-product.

The first consists of deliberate self-sufficient policy ideas which concern the use of economic nationalism as a strategic course in order to protect a member states' financial market. This political doctrine is described as rather aggressive and focuses on self-development through actively 'attacking' other states or put them at a disadvantage. Heilperin (1960) names this 'self-sufficiency' (autarky) as an objective of policy. This realist variant in economic nationalism includes the definition by Gilpin 1987: "its central idea is that economic activities are and should be subordinate to the goal of state-building and the interests of the state." (Helleiner 2002, p. 309) In this definition economic nationalist actions must benefit the entire state; Gilpin (2001) calls this 'state-centric realism' and it "recognizes the anarchic nature of international affairs, the primacy of the state and its interests in international affairs, and the importance of power in interstate relations." (Helleiner 2002, p. 309) This form of economic nationalism seems quite severe, and because of its deliberate content it could apply to malign economic nationalism. The supranational framework prevents member states to be too aggressive towards each other, through i.e. competition policy, and because membership is based upon cooperation, attacking each other actively would not be acceptable. Therefore even if this form of nationalism would exist in Germany, it would not be easily recognisable.

Heilperin (1960) identifies a second variant of political action in which self-sufficiency is "a by-product of a policy which has primarily other objectives in mind." (p. 19) Fölster (2009) talks about economic nationalism as an economic concept, which in this case includes pure responses to the financial crisis. According to Pickel (2005) this indicator of economic nationalism is not determined by culture, institutions, historical or social factors. This makes it more of a defensive course of economic nationalism as a reaction to the crisis.

While deliberate forms of self-sufficiency can be indicated as malign economic nationalism if they undermine the supranational framework (because in doing so, the state would have no regard for 'others'), it would be more difficult to assign self-sufficiency to benign- and liberal economic nationalism, because they can both be unintended or deliberate. Therefore this concept will not be adopted as an indicator of economic nationalism.

The role of power

The role of power is according to Strange (1988) essential because it determines "the relationship between authority and market." (p.23) Goals of economic nationalism are likely to regard this notion, in which being visible for the supranational and international order means economic and political power. "It is also the indirect effect of authority on the context or surrounding conditions within which the market functions." (Strange 1988, p. 23) Furthermore Strange argues that coexistence between states is not the risk per se, but "the risks that come with coexistence." (p. 50) Continued by Strange: "risks resulting from the uncertainty over how far the stronger state can extend its authority, and over the point at which the weaker state feels it has to resist and turn to fight." (p. 50)

This specific citation can perhaps for the scope of this thesis be lifted to the supranational level. The European Union in this case, represents the strong state; attempting to take sovereignty away from Germany, 'the weaker state.' Political power from the EU forces a member state to comply with helping other states out through bail-outs and the banking union (both will be explained in the case study), in which the member state will protect itself through measures thereby protecting political and economic power. This can apply to a malign economic nationalism in such a way that the member state, Germany, would try to undermine the position of the EU through these measures and the creation of a regulatory and institutional framework that would be difficult to deviate from. According to Busch (2009) "institutions [...] are the result of long administrative historical processes and show great stability over time. Most of these institutions are linked to each other in one way or another which further stabilizes them." (p. 10) A proper regulatory system can thus not be built in a couple of years, however, as a coordinated market economy, the institutional set-up of the financial market has appeared to be rooted in the system in Germany. Strengthening this regulatory framework since the financial crisis can perhaps in the eyes of Germany only make this system stronger and more resistant to foreign involvement.

State interventionism and protectionism

Two concepts that are important in economic nationalism, which can be used by Germany to strengthen the regulatory framework, are state interventionism and protectionism.
Protectionism is an ideology which is clearly present in the literature on economic nationalism, however some confusion is surrounding this concept.

It can be said that protectionism limits foreign presence in the domestic market directly (American Heritage dictionary 2009, Zetter 2008 and The Economist 2012), while state interventionism merely provides aid and does not limit foreign competition per se. (Farlex Financial Dictionary 2012)

Another view is presented by Clift and Woll (2012) where protectionism includes stricter regulation on financial measures and policies implemented by the government in order to favour domestic banks, or resist foreign banks. (Clift and Woll 2012) State interventionism on the other hand has as a purpose not only to protect the domestic market (which is also a goal of protectionism) but to provide aid to domestic banks as well. (Clift and Woll 2012) The same authors recognise these new forms of state interventionism after the crisis: "national rescue packages, bank recapitalisations and selective industry bailouts" (p. 307) can be implemented, however these measures can have a similar effect as protectionism by being able to favour insiders or resist outsiders. Domestic banks can have a competitive advantage over foreign failing banks through these aids.
While protectionism is dependent upon making regulation stronger in a member state, intervention of the state in the market can occur both in liberalising regulation or strengthening regulation, it is not limited to either one.

State interventionism can be a means to economic nationalism, but can occur in economic liberalism as well. It is noted by Clift and Woll (2012) that there are many forms of economic liberalism, and according to Polanyi, "liberal markets need constant state intervention." (Clift and Woll p. 312) Continued by Clift and Woll (2012): "Liberal market capitalism rests upon sustained, extensive and politically contested legal and legislative interventionism in economic activity by the 'liberal state'." (p. 312) State interventionism can thus be a characteristic of economic liberalism as well, therefore it will not suffice as an indicator in economic nationalism. Protectionism, on the other hand, which includes discriminatory measures through making regulation stricter, is a good indicator of economic nationalism.

While national forms of protectionism are not desired at all in the European single market, state interventionism can be considered as a supporting tool in liberal economic nationalism and economic liberalism. Being threatened by contagion and the subsequent domino effect, governments might feel the need to provide financial aid to these banks, especially when the supranational level fails to provide a common framework.

Economic nationalism in modern political theory

Economic nationalism versus economic patriotism

Clift and Woll (2012) put an emphasis on economic patriotism, and put it into perspective with economic nationalism. Clift and Woll characterise economic patriotism "as economic choices which seek to discriminate in favour of particular social groups, firms or sectors understood by the decision-makers as insiders because of their territorial status." This concept differs from economic nationalism in such a way that the "precise nature of the unit claimed as *patrie*" (p. 308) is indifferent in economic patriotism. While economic nationalism exclusively regards the nation-state, economic patriotism "can also refer to supranational or sub-national economic citizenship," (Clift and Woll p. 308) thereby being able to be applied to the development of the European Union. The territorial boundaries of the nation are fixed and demarcated in economic nationalism, while the territorial boundaries in economic patriotism can move past the nation to the supranational level (fortress Europe) or within the nation to the regional level. Because in this thesis the subject of analysis is a member state and thus the focus lies on national boundaries (giving a precise meaning to *patrie*), economic nationalism is the concept that is used in this thesis. However many aspects surrounding economic patriotism apply to economic nationalism as well, therefore the theory of Clift and Woll (2012) will be mentioned throughout this thesis.

Economic nationalism versus economic liberalism

According to Nakano (2004), modern political theory consists of economic liberalism, economic nationalism and Marxism. Even though these three are different and might even be the opposite of each other, they can coexist. Economic liberalism relates to economic nationalism in such a way that markets that practice measures of economic nationalism can do so in a liberalised market: measures and policies for certain sectors may fall under economic nationalism, while the whole domestic market can still be considered as liberalised. Marxism in its turn relates to economic nationalism in such a way as that it represents the protectionist side of the market. In this case of protectionism however, there is relatively little coexistence with a liberalised market. In protectionism, foreign presence and competition will be limited by the government and does therefore not apply to the concept of liberalisation.

Furthermore in the literature, two ways of looking at the relation of economic liberalism and economic nationalism can be identified. The first sees economic nationalism as merely a political doctrine in which economic nationalism is the opposite of economic liberalism. While liberalism is characterised by notions such as the free market, laissez-faire and economic openness, economic nationalism is characterised by restrictions that are imposed in order to dominate and protect the domestic market from alien infiltration. In this view economic nationalism is used as an "economic doctrine in a universal context of ideas." (Pickel 2003, p. 11) This relates to the idea that nationalist measures cannot occur in a liberalised market.

There has been some critique towards this view of economic nationalism and economic liberalism. Clift and Woll (2012) mention that because of the differences between states, multiple forms of political economy systems exist. Even when similar processes and events occur, such as the deregulation-reregulation process, there is thus no ideal political economic system. This is the case for both economic nationalism and economic liberalism.

The alternative view regards economic nationalism as not necessarily the opposite of liberalism, but as a phenomenon that can exist in a liberalised market. A number of authors (Gonzalez 2010) have discussed the possibility of economic nationalism through the liberalisation of regulation. Helleiner (2002) calls this 'liberal economic nationalism'. Helleiner (2002) mentions that before the end of the 19th century, liberalism in economic nationalism didn't really exist. Economic nationalism "was usually used by liberal economists to describe policies they did not like." (p. 308) However this view has changed, and it is recognised by Clift and Woll (2012), that economic liberalism does not merely include the elimination of state intervention. The presence of state intervention in economic liberalism indicates that the state is always present (Clift and Woll 2012), thus even in an open economy with flexible, relaxed control, a form of liberal economic nationalism can exist.

For this thesis the second view will be applied because economic liberalism is inevitable and always present in the single market of the European Union and will thus permanently form the background against nationalist measures. Economic nationalism as a single political doctrine (which is the purest form of economic nationalism) can therefore not occur in the German financial market, or in any other market in member states. However the extent to which forms of economic nationalism develop can be tested to the nationalist content of these actions and ideas. This phenomenon will be tested in the case study in which specific political actions, measures and ideas that relate to the financial market will be examined and tested to see whether the measures would apply more to liberal economic nationalism or a more severe form of economic nationalism.

Forms of economic nationalism

The theories of Nakano (2004) and Clift and Woll (2012) on economic liberalism in relation to economic nationalism provide the basics to theories on the forms of economic nationalism, however they lack a number of concepts and indicators. Other scholars such as D'Costa (2012) and Cohen (1991), provide a more solid framework to economic nationalism.

D'Costa (2012) recognises the distinction between defensive and aggressive economic nationalism. This author is referring to China in which defensive economic nationalism includes the protection of the domestic market by refusing international businesses. The aggressive form of economic nationalism according to D'Costa (2012) is "venturing global markets," (p. 21) thus investing and encouraging national businesses abroad. Levi-Faur (1995) adds to this notion, as he says: defensive economic nationalism is the "outcome of the tensions between national economic policies and their international consequences." (p. 16) National policies may thus be positive to the state (through an increase in export) however it may harm the international/supranational level (import is increased in other states).
In D'Costa's aggressive economic nationalism: "belligerent governments may use the system of trade to their own benefits in ways which may bluntly abuse other national economies." (Levi-Faur 1995,l p. 17) Trade in this aspect does not merely refer to goods; it refers to capital

as well. Besides China's example of economic nationalism, it is stated that "export without importing and investing in international markets without opening the national market to foreign investors, are two more instances of economic nationalism." (Levi-Faur 1995, p. 17) These kinds of economic nationalism are, according to Levi-Faur (1995), "quite common in world economy," (p. 17) however do not completely fall into the scope of this thesis where merely the national responses to the crisis that affects the domestic market will be elaborated.

In this thesis, the theory of coexistence of economic nationalism in a liberalised market is assumed to be applicable to the European Union. The 27 member states of the European Union are still and want to remain responsible economically for the domestic market, and politically for the nation state within the framework of the EU.

One interesting aspect mentioned by D'Costa is the competitive advantage given to domestic firms. Such a situation could occur in Germany in a similar fashion as well, however would probably not be as apparent as it is in China's practices. A more toned-down version that would remain within the limitations of the single market could occur.
Clift and Woll (2012) mention this possibility of 'favouring insiders' and 'resistance to outsiders' in the European Union, in both liberal and protectionist forms. Even though these authors talk about economic patriotism, it is expected that their theory would apply to economic nationalism as well. Clift and Woll (2012) mention two concepts that are important for their analysis of economic patriotism. These three concepts can be applied to being forms of economic nationalism as well. The first is a classic form of protectionism which includes "policies seeking to preserve the status quo, either by maintaining traditional product or process regulation beneficial to insider companies (favouring of insiders) or using classic trade barriers (resistance to outsiders)." (Clift and Woll 2012, p. 317) The second form is liberal economic nationalism which includes "policies aiming to liberalize a given sector, but doing so either by concentrating on an industry where the government sees a strategic advantage and hopes to dominate in the integrated market (favouring of insiders) or by liberalizing in a way that entails regulation which targets the practices of foreign competitors (resistance to outsiders)." (Clift and Woll 2012, p. 316)

It is expected that both the protectionist and liberal forms of economic nationalism that resist outsiders is not apparent in Germany, because of the boundaries and agreements within the single market. With all the critique towards the banking industry, it is unlikely that Germany would liberalise banking regulation. Favouring insiders through the strengthening of regulation is much more likely to be present in Germany as a response to the financial crisis.

Even though the concepts of Clift and Woll (2012) are applicable to this thesis, one vital concept is missing that needs to be related to economic nationalism: the relation with the supranational order. Such a description of economic nationalism comes from Cohen's (1991) malign- and benign economic nationalism:
"Malign nationalism seeks national goals relentlessly, even at the expense of others; benign nationalism is prepared to compromise national policy priorities where necessary to accommodate the interests of others. Another difference between these two types of nationals

lies in the willingness of a country to identify its own national interest with an interest in the stability of the overall international system. Benign nationalism acknowledges a connection between self-interest and systemic interest; malign nationalism ignores or denies it." (Levi Faur 1997, p. 367)

Because Cohen (1991) leaves the definition of 'others' open in benign and malign economic nationalism, the concept can refer to the national level, member states, and the supranational order as a whole, while the 'outsiders' concept of Clift and Woll (2012) clearly refers to the national level, thus foreign states.

In order to create one theoretical framework for this thesis, the concept of classic protectionism is the same as malign economic nationalism. Characteristics of this form are the high levels of protectionism and state interventionism, and the disregard of other member states and the supranational level. Liberal economic nationalism and benign economic nationalism on the other hand differ in one aspect; while liberal economic nationalism liberalises regulation (Clift and Woll 2012), benign economic nationalism strengthens regulation (Levi-Faur 1997). Liberal economic nationalism and benign economic nationalism are similar in their regard for systemic interest.

The benign form of economic nationalism is expected to dominate in Germany, through strengthening the financial regulations, and thereby favouring domestic banks. Severe protectionist forms in malign economic nationalism or the liberalisation of regulation are not expected to be present as responses the financial crisis.

Expectations

From the literature review a few expectations have been formed, of which the main ones are in this section summarised. The general expectation for this thesis will include the likelihood of economic nationalism being present in Germany in order to protect the coordinated market economy. It is expected that some form of economic nationalism exists in Germany and that is has increased since the beginning of the financial crisis, and was implemented through measures and ideas. Even though member states have a responsibility towards the union as a whole, the states are first and foremost responsible for their own financial market, although it is expected that these measures will remain within the boundaries of the supranational framework.

Overall stricter banking legislation will be implemented both at the national (Germany) and supranational (EU) level. Germany, which has had historically had its banking system in order, might be reluctant to agree to supranational supervision such as the banking union. With plans on a banking union just around the corner, it is expected that Germany's form of economic nationalism will regard around a political (re)action to the financial crisis regarding the individual measures, however a stronger form can also exist because regulating the financial domestic market is rooted within Germany's system of bureaucracy. On the other hand, Germany will most likely do everything in its power to save the Eurozone, even the weaker Eurozone members, in order to secure the euro and with that Germany's export.

Chapter 3. Defining and measuring economic nationalism

This chapter will describe the theoretical frameworks that will be used in this thesis. The first section will explain the three I's, continued with the forms of economic nationalism that will be used in the case study on Germany, and will end with indicators of economic nationalism.

Ideas, interests and institutions

In order to adequately assess economic nationalism in Germany through measures and ideas, the motivations behind economic nationalism, the actors and institutions need to be determined. These three groupings can be identified as ideas, interests and institutions (Bhagwati 1988). The first, ideas, includes the response of the German government to the crisis. The second, interests, will then go on to explain the various interest groups that are involved in and have ideas on economic nationalism. Lastly, the institutions ("a set of rules, formal or informal, that actors generally follow, whether for normative, cognitive, or material reasons" (Hall and Soskice 2001, p. 9)) regard the setting in which these debates and discussions take place.

According to Trebilcock the three groupings are interrelated; the author has applied this theory to competition policy (Trebilcock, Iacobucci, Winter, & Collins 2003) and immigration policy (Trebilcock & Kelley 1998) in Canada. From these studies this author has concluded that several different interest groups might share the same ideas however they use them for different reasons; interest groups can 'disguise' the real interests behind a certain idea "under the rubric of a broader normative idea." (Telfer 2009, p. 2) This course of action is meant to gain support from other interest groups with the same idea.

Institutions are then used to 'mediate' between ideas and interests and "exert an independent influence on what interests and ideas in particular policy domains are given effect to or marginalised in subsequent policy decisions." (Telfer 2009, p. 3)

The theory of Trebilcock is likely to apply to the banking industry as well. Public policy is in the studies of this author the result of these institutions mediating between ideas and interests. In studying economic nationalism in the banking industry, the banking regulations would be mediated by the institutions between the ideas and interests.

Ideas and self-interest are connected in economic nationalism through the idea of protecting the domestic banking system, however the underlying reasons (the interests) can differ per interest group. On the national level, multiple interest groups (or actors) can have different views on a certain idea, and similarly the supranational level might have different ideas and interests as well. The financial crisis is likely to have increased the need for regulation in the banking sector, both on national and supranational level. The idea is this the same. The interests and the way in which this idea will be implemented however, can be completely different. The supranational level might want to increase and strengthen the banking system through obligatory regulation from the supranational level, while the national level might want to protect the banking system from foreign competition with protectionism and national responses.

Even within the national level, different interest groups appear. The domestic actors that will be analysed in this thesis will be the banks through the association of German Banks; Bundesverband Deutscher Banken (BdB), the Federal Financial Supervisory Authority; Bundesanstalt für Finanzdienstleistungsaufsicht (Bafin) and the political parties in Germany. The coalition parties consist of the CDU/CSU (Christian Democratic Union of Germany and Christian Social Union of Bavaria) and SPD (Social Democratic Party of Germany), and the key opposition parties that are represented in the Bundestag or the European parliament are the FDP (Free Democratic Party), the Left and Alliance '90/The Greens. On the supranational level, opinions of the European Commission and the European Central Bank will be analysed as well.

Definition and indicators of economic nationalism

The definition of economic nationalism by Fölster (2009) appears to encompass the basics of this thesis: economic nationalism "uses protectionism for their own country's benefit and intervene in their domestic economy to pursue own interests." (p. 14) This definition includes the concepts of protectionism, state interventionism and the own interests that states wish to pursue.

The key to defining economic nationalism is determining the multiple indicators of the concept. From the literature review (mostly Clift and Woll 2012) it can be seen that the most important indicators are the content of financial market regulation and the discriminatory effects of measures and ideas.

1) Financial market regulation (liberalisation or protectionism)
    a. Institutional set-up
2) Favouring national banks and/or limiting foreign banks
    a. Protection of business methods and industrial processes
    b. Acknowledgement of or disregard for other member states and/or the supranational framework

Under financial market regulation, the institutional set-up of the financial regulation is an important aspect in this thesis. Individual measures and ideas can have a liberal or protectionist content based on either the liberalisation of measures or the strengthening of measures; and thus applies to a mild form of economic nationalism. However, taken as a whole, it might become apparent that the entire regulatory system has been strengthened through stricter regulations, making the bureaucratic procedures more solid and thus more difficult to deviate from, indicating a more severe form of economic nationalism.

The favouring of national banks and/or limiting foreign banks can occur in two areas as well. Business methods and industrial processes can be protected through liberalisation or protectionism, which can favour the domestic banks by giving them a competitive advantage, or through limiting foreign banks.

Supporting or undermining multilevel cooperation in the single market of the EU is a relevant aspect as well. Support might indicate a milder form of economic nationalism, while undermining multilevel cooperation can indicate a severe form of economic nationalism.

Malign, benign and liberal economic nationalism

From the literature review and this previous section, three forms of economic nationalism can be identified and will be used in this thesis; malign economic nationalism, benign economic nationalism and liberal economic nationalism. In this section, the indicators from the previous section are added to these concepts.

The most severe form of economic nationalism is malign economic nationalism. As described by Cohen (1991), this form prioritises self-interest of the nation-state, it seeks national goals relentlessly, at the expense of others. The nationalist content of this form is indicated by favouring national banks and/or limits foreign banks through stricter banking regulation and business models and industrial processes. Furthermore malign economic nationalism can be noticed in the strengthening of the financial regulatory framework, thus in the institutional set-up of the financial market.

A milder form of economic nationalism does consider the interests of others in benign economic nationalism. In this form the state is prepared to compromise national policy priorities and acknowledges a connection between self-interest and systemic interest. (Cohen 1991) Indicators in this form can be similar to malign economic nationalism, but only if the member state considers the supranational boundaries and acts within these limits.

Benign economic nationalism seems closely related to another form that can be identified in the literature: liberal economic nationalism. The latter will include the responses that indicate liberalisation of the banking industry, as long as certain benefits for the member state in question appear. Because of this one vital difference, liberalisation of regulation, the two are separated in this thesis.

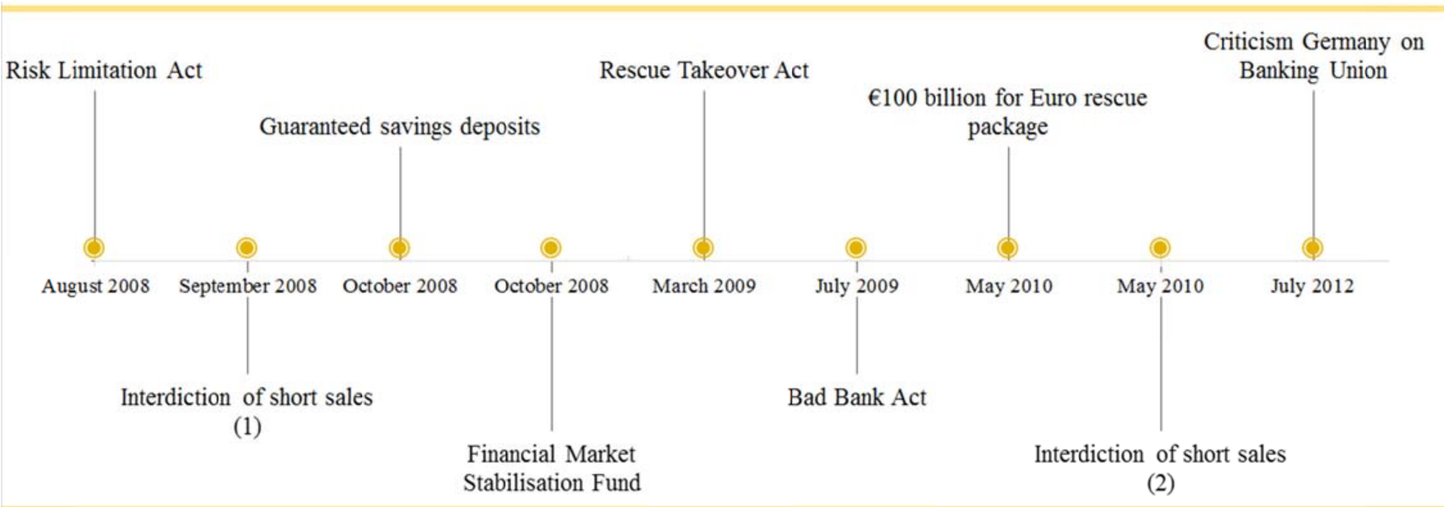
A limitation to this method of measuring economic nationalism includes the lack of proper literary agreement. Many theories explain the two extremes of economic nationalism and economic liberalism, but these concepts mostly differ in their content. Furthermore existing literature fails to indicate the moderate measures that are in between the two extremes. Even the concept of Clift and Woll (2012) falls short in saying that economic patriotism and economic nationalism is only defined through favouring insiders and resisting outsiders, while economic liberalism is not properly defined at all. This is the reason for economic liberalism not being present as a form to be recognised in this thesis. Furthermore determining the form of economic liberalism is not the goal of this thesis either. In case a governmental response to the crisis cannot be applied to a form of economic nationalism through these indicators above, it would be a form of economic liberalism.

Chapter 4. The case study on the German banking industry

This chapter will include the actual case study of the nature of economic nationalism in Germany. The theory that was described in the first part of this thesis will provide a framework to which nationalism can be tested. The three I's as described by Bhagwati (1988) will be the first step that determines the ideas, actors and institutions. The second step will include testing and applying these three I's to the form of economic nationalism. The last step in the framework will conclude the actions and ideas separately through determining the severity of economic nationalism by contrasting and comparing the nationalist actions and ideas to each other at the end of the section on measures, and at the end of the section on the ideas of Germany on the banking union and European-level bail-outs.

The timeline will provide some clarity on the timeframe of the implementation of measures and ideas in the crisis, based mainly on Broich (2009) and Tagesschau (n.d.). Further background information on this timeline was retrieved from Guillén (2011), Edmonds, Jarrett and Woodhouse (2010), and the Federal Reserve Bank of New York (n.d.).

FIGURE 1. TIMELINE ON GERMAN CRISIS RESPONSES



The next section will elaborate on these main events in Germany, and test them to economic nationalism. The subsequent will focus on the standpoint of Germany on the matter of Greece from 2010 and the Banking Union from 2012.

Germany's responses on the national level

Risk Limitation Act

Ideas, interests and institutions

Implemented in 2008, the crisis had barely started in Europe, but already the German bank IKB was one of the first banks to be in trouble (Allen et al. 2011), triggering early draft bills in Germany. The first financial response of Germany to the financial crisis was the implementation of the "Act on the limitation of risks connected with financial investments" (p. 4) (Gesetz zur Begrensung der mit Finanzinvestionen verbunden Risiken) or shortly; the Risk Limitation Act (Risikobegrenzungsgesetz). (Broich 2009)

The focus of the act lies on the internal process of loan sales, including revisions to the 'acting in concert' provisions, the aggregation of voting rights, financial instruments and their notification requirements, increased transparency on the motives of significant holdings in public companies, tougher sanctions, and a better insight to registered shares (Georg et al. 2008). The act allows shareholders to have a better insight into the process of loan sales, and with that an increase in transparency. In addition to the shareholders, employees are covered as well; according to Georg et al. (2008), information rights are strengthened for employees' and consumers, and consumer protection has increased. According to DiBenedetto and Rasteatter (2008) "the German legislature has sought to protect the integrity and functioning of the financial markets." (para. 1)

With this act, the German coalition wants to limit risk in investments by tightening the regulations regarding the "rules for loan and security agreements and restricting the assignability of credit claims" (p. 4) according to Broich (2009). Furthermore this act was established to increase legal certainty and transparency by making changes to a number of existing acts, and other provisions that "ensure the protection of borrowers in the case of the sale of loans." (Georg et al. 2008, p.1) According to the former German finance minister Peer Steinbrück (in office from 22 November 2005 – 27 October 2009) the act will increase transparency and legal security. (Drost 2008, Kißler 2008)

Some criticism had arisen around the Risk Limitation Act at the very beginning of its introduction in 2007. In Germany, the Bundesverband der Kapitalgessellschaften (BVK) says that a false impression was created through the correlation between private equity holdings and certain risks on the capital market. (Absolut Report 2007) This view is shared by Prof. Kaserer of the University of München, who states that with this act risks in investments will not be limited but will affect the efficiency of capital allocation in the capital market. (Kaserer n.d.) The expansion of stricter rules of the act were likely to become too strict, which has called for opposition from critics as it would breach the very foundation of the monetary union; the freedom of capital movement. Furthermore Kaserer (n.d.) and Kißler (2008) state that with the extension of stricter rules within the act the administrative and bureaucratic burden will increase, and according to Bedkowski and Kocher (2008) the act will "add duties and stricter sanctions intensifying the existing overregulation in the area of capital markets law." (p. 9)

At the international level, additional worries have been expressed as well. A number of financial institutions (F&C Management Limited 2007, International Corporate Governance Network 2007) have written an open letter, expressing their concern regarding the lack of a "distinction between shareholders discussing normal corporate governance issues in advance of voting at a company general meeting and shareholders working together with the intention to change control of a company." (Litvack 2007, p. 1, Edkins 2007 para. 2)

The coalition parties (CDU/CSU and SPD) voted for the implementation of the act, the FDP rejected the act and the left and Alliance '90/The Greens abstained. (Süddeutsche Zeitung 2008) The SPD recognises the positive effects of the measure through making the process more transparent for the employees, shareholders and financial supervisors. (SPD 2008 and SPD 2011) Furthermore the change in regulation also shows the capability of the government to act (SPD 2008), despite the many criticisms from the media and newspapers. On the other hand, two years after the implementation of the Risk Limitation Act the SPD has expressed that in principle they stand behind the act, however they would like to see an expansion of the regulation. (SPD 2010)

The opposition has, according to the Frankfurter Allgemeine Zeitung (2008), harshly criticised the new regulation. Already in 2007 the FDP had criticised the act, a year before its implementation, because it would limit investment law by increasing the bureaucratic burdens. According to financial expert Frank Schäffler of the FDP: extensive new reporting requirements will make it more difficult for investors to invest in the European market, creating a disadvantage for Germany to be competitive in the European financial market. The implementation of the Risk Limitation Act has 'destroyed' the possibility for pan-European regulation in this area, sending a disastrous signal to international investors. It isn't the risk that is limited, investments are limited instead. (FDP 2007) The FDP is disappointed in the protection of borrowers, in the final legislation on the Risk Limitation Act in 2008. (FDP 2008) Furthermore Schäffler said that the act would damage the market even further by letting the government decide what investments are desired. This type of government intervention can put off investors and thus damage the economy. (Frankfurter Allgemeine Zeitung 2008)

The Alliance '90/The Greens have criticised the Risk Limitation Act as well, and even said that most of its rules and sanctions have not been very effective. The fines for breaking the information requirements are set at a maximum of €200.000, which according to this party is worth the risk for financial institutions. In addition to this, the act has done little against silent takeovers. The party is stressing that the coalition will need to do better at keeping their promise for greater transparency, immediately. Suggestions by the party include: higher penalties and stricter information requirements. (Bündnis 90/die Grünen 2008)

The criticisms have led to a change in the content of the act which in its turn has limited the "impact of the changes." (Gibson Dunn 2008, p. 1) The theory of distributional coalitions with common interests by Engelen (2011) has in this case been rather effective. Even though no actual 'blocking tactics' were used, the criticism of the coalition, scholars and the media has had an effect and has weakened the regulations on risk limitation in investments. The coalition is however still not completely satisfied with the content of the act.

Form of economic nationalism

The Risk Limitation Act did not liberalise the regulations in the financial market in any way. Liberal economic nationalism is therefore excluded. No foreign investments are directly limited, the tightening of regulation affects both foreign and domestic investments. Furthermore with the relaxation of the initial intended version of the Risk Limitation Act some freedom can be noticed from its liberal origins (Hall 2004). This rejects the severe form of malign economic nationalism, leaving benign economic nationalism.

The power of the nation state has increased through new legislation; sanctions can be applied to those that do not follow the new regulations. Furthermore oversight is increased as well, by making the process more transparent and secure. However, this kind of strengthening of the regulatory framework means that financial regulation in the EU is likely to further differentiate from other member states.

The stricter rules in reducing risk interfere with the financial business processes of banks. However no competitive advantage is created for domestic banks, and no limits to foreign banks can be noticed either.

Not all of the indicators that can apply to benign economic nationalism can be noticed in the Risk Limitation Act. Multilevel cooperation has not been an issue for the act, and is therefore not applicable to be measured as a form of economic nationalism.

Interdiction of short sales

Ideas Actors and interests Institutions

Another early crisis response of Germany was the interdiction of short sales for two temporary periods; from mid-September 2008 to end of 2009 (Broich 2009 and Tagesschau n.d.), and from 19 May to 31 March 2011 (BBC News 2010a). Planned by the Finance Minister Wolfgang Schäuble (in office since 28 October 2009) (Kirschbaum 2010), Germany was one of the first member states to implement this measure. (Euractiv 2010)

There are two kinds of short selling; regular ‘short selling’ and ‘naked short selling.’ In short selling, the shares that are sold are borrowed, to be purchased again on a later date in time. Once the price of this share has decreased, a profit can be made, however once the price of the share has increased, money will be lost. Short selling is said to add “crucial liquidity to the system,” (Ahrens 2010, para. 2) thereby making the process of short selling inevitable because it appears to have a positive influence on the economy. The second variant however, naked short selling, comes with more risk where “you never actually take possession of the shares you say you intend to buy back at a lower price,” (Ahrens 2010, para. 3) This increases the risks significantly, because a financial instrument has been sold that hasn’t even been borrowed, so it never was in the possession of the seller.

The FDP and the coalition parties have approved of both rounds of the interdiction of naked short sales. (Deutscher Bundestag 2010) The CDU/CSU emphasise in a weekly report of May 2010 that regulation should be tightened at the European- and the global level for effective financial control through a European rating agency. This party prefers to see this done through the promotion of the German measures and legislation, and translate these to a pan-European regulation. This includes regulation on short sales as well. (CDU/CSU 2010) German finance minister Wolfgang Schäuble has stated that naked short sales were used in the crisis to uncontrollable proportions, and without strict regulation they would have ultimately lead to the self-destruction of the financial market. (Tagesschau 2010a) Furthermore the finance minister has added that "we cannot let the financial market slip back to its previous function," (Deutscher Bundestag 2010, para. 9, own translation) thereby referring to the previous liberalised state of the financial market before the crisis. Furthermore Schäuble said that transparency should be increased in all financial instruments, and Bafin should be informed about the transactions in short selling. (Deutscher Bundestag 2010) According to analysts the bans on short selling were approved by Chancellor Angela Merkel because of the pressure that she faced regarding her decisions on the response to the Greek debt crisis. (BBC News 2010b) However Merkel herself emphasises the need for stricter regulation in the financial market "to ensure the survival of the Eurozone." (BBC News 2010b, para. 10)

The SPD has supported the banning of naked short sales and stricter regulation of short sales in general as well. According to Joachim Poß, the vice-chairman of the SPD, the ban on short selling was actually overdue. (Deutscher Bundestag 2010)

In addition to the coalition parties, Alliance '90/The Greens have approved of the bans on short sales as well. Dr. Gerhard Schick, the financial expert (finanzpolitische Sprecher) of the Greens, has said that the ban was actually overdue as well and too much time had passed since the first ban in 2008, and the second ban in 2010. This would not be in the best interest of both the citizens and the government, because it would not demonstrate consistent financial market regulation. (Deutscher Bundestag 2010)

The Left Party on the other hand does not quite agree with the effects of the ban, spokeswoman Sahra Wagenknecht has said: "the ban on so-called naked short selling is not enough." (Deutscher Bundestag 2010, para. 16) Axel Troost of the Left party would much rather have a financial 'Technical Inspection Association' (Finanz-Tüv) be implemented, that can supervise all financial instruments individually. (Brühl 2012)

The German financial market regulator Bafin has defended the interdiction of naked short sales after criticism emerged on the impact of the measure. Both periods of the interdiction of short sales in Germany were said to have had a limited impact. Research of Crosthwait in 2011 indicated that: "short sale bans depress liquidity and do not provide demonstrably positive effects," (p. 1) the ban on short sales in 2010 even caused uncertainty in the market causing shares to drop immediately after the news had emerged. (BBC News 2010b) However Bafin said that, according to BBC News (2010b); the "extraordinary volatility of the bonds of Eurozone states had justified the short-selling ban." (para. 21) Even in Germany it thus seems as if the financial market has been liberalised to a certain extent, which allowed these excessively risky business processes to damage the financial markets, not only in Germany, but in all member states.

Following Germany's decision on banning naked short sales, a number of other Eurozone countries followed suit. This however gave rise to more critique, in which too many differences in regulation have appeared throughout the EU on the same topics, leading to confusion. Because of these differences in regulation, the German banking association (BdB) has indicated that the bans on short selling in a number of European countries should be temporary. The BdB even calls for pan-European rules "that avoid banning short sales altogether." (Taylor 2011, para. 1) According to Michael Kemmer (general manager for the BdB): "rather than banning short sales, these rules should take heed of the fact that short sales play an important role in price formation in the marketplace." (Taylor 2011, para. 5) However according to Joachim Poß (SPD), any financial market regulation is bound to be criticised, and emphasises the importance of regulations on short selling for the functioning of the financial market to improve liquidity and price efficiency. (Deutscher Bundestag 2010)

According to German newspaper Die Welt (2011), the banning of short sales can only truly take effect once more member states participate. Therefore the German government supports the measures that were announced in 2010 and 2011 by France, Italy, Spain and Belgium. In addition, ESMA (the European Securities Market Authority) agrees with the implementation of stricter regulation on short selling as well. (Die Welt 2011) According to the European Commission: "negotiations for single Europe-wide short selling restrictions are very advanced." (El-Sharif 2011, para. 2, own translation)

The debate on naked short selling is placed in both the national and supranational level. Pan-European regulation is preferred by the supranational- (ESMA) and the national level (government and national supervisor Bafin). Even though some resistance still exists from the BdB, Germany is willing to cooperate with other member states on the supranational level in order to tackle the issues with naked short selling.

Form of economic nationalism

The protection of the financial market through these bans indicates benign economic nationalism. Regulation is not liberalised by implementing a ban on certain business activities, thereby excluding liberal economic nationalism and economic liberalism. Furthermore the bans on naked short sales do not limit foreign presence or investments per se; they are together with domestic investments affected in a bid to protect the financial market. Malign economic nationalism is therefore excluded as well.

The same as with the Risk Limitation Act, the interdiction of short sales does not aim to support or undermine EU law directly. This is because of the simple fact that during the implementation of the two periods of bans there were no common rules between member states on regulating or banning naked short sales. The banning of naked short sales in Germany has increased the power of the nation through a new legislation and thus increases the financial regulatory framework once again.

With the elimination of a risky business method, the German government is protecting business methods and industrial processes. And although the impact of these measures was meagre (apart from stock markets going down the day following the announcement of the ban), the first few steps to eliminating risky forms of banking have been implemented.

Germany still stands behind their standpoint and even calls for pan-European regulation on short sales. The fact that the German government is calling for pan-European regulations on this, once again confirms benign economic nationalism. Through not merely adapting to supranational regulation, but calling for this kind of regulation, shows a clear willingness to cooperate on the supranational level, however preferably based on German measures and legislation

Guaranteed savings deposits

Ideas Actors and interests Institutions

To protect the consumers, savings deposits were guaranteed by the German government in October 2008, (Broich 2009) however no new law will be passed.

The parties involved in this situation are obviously the government, citizens (and consumer protection organisations) and banks. A feeling of safety is attempted to be generated by the citizens, from this confirmation of the government. This sense of security is assumed to reduce the cash withdrawals from banks, thereby slightly reducing the banks' illiquidity.

Because no law was passed that would guarantee savings deposits, the institutional set-up of this claim does not have any legislative grounds. However it can be noticed throughout the literature that the statement of guaranteeing savings deposits is considered to be extremely important. According to the Lauder Institute, the statement on guaranteed savings deposits was made by Merkel as a 'political pledge' rather than an actual legislation. (Peston 2008, Guillén 2011, Parkin 2008)

Form of economic nationalism

From all indicators in economic nationalism and economic liberalism, this response applies directly to one indicator: the protection of citizens.
There are no issues with multilevel cooperation, the control of the economy, intellectual property, EU law or foreign presence.

General welfare and the prosperity of the nation are not improved from this statement, as the government will most likely be liable for the bank accounts of citizens. The protection of citizens does have favourable consequences for the reinforcement of national identity and trust through the perceived sense of security that was created with guaranteeing the savings deposits. The power of the nation-state is not necessarily increased, however it does show that even without an actual law a 'political pledge' can be created that carries a major impact on society and that expects the promise to be fulfilled if necessary.

German Financial Market Stabilisation Acts - Bail-outs under SoFFin

Ideas Actors and interests Institutions

In addition to general economic stimulus packages in Germany, more specific financial market packages were introduced. For the financial market, October 2008 was the month in which most action was undertaken by the government to bail failing banks out. After an increasing number of banks in Germany indicated their struggle to survive (IKB, WestLB, SachsenLB Hypo Real Estate), SoFFin, the German Financial Market Stabilisation Fund (Sonderfonds Finanzmarkt-stabilisierung) was established under the Financial Market Stabilisation Act with a total volume of €480 billion; €400 billion intended for loan guarantees and €80 billion intended to recapitalise banks in distress. (Tagesschau n.d.)

The CDU/CSU, SPD and FDP have voted in favour of the rescue package, while Alliance '90/The Greens and Left party rejected it.
The coalition parties recognised the necessity to respond to the financial market and assist illiquid banks quickly, however the Alliance '90/The Greens and the Left have heavily criticised the manner in which it occurred. According to party leader Gregor Gysi (Left) one of the reasons the rescue packages were rejected was due to a lack of control. Besides the managers of the banks, also political actions were guilty of worsening the crisis. (Bild 2008) The Greens on the other hand were worried about the taxpayers' money, and Renate Künast of the Greens even spoke of a "500-billion Euro blank check." (Bild 2008, para. 6, own translation)

While the interest to participate in this bank rescue package was rather limited at first, in the following months an increasing number of banks indicated their need for state aid (up to 20 banks half way through November 2008). (Tagesschau n.d.)

"SoFFin's purpose is to stabilise and restore confidence in the financial market system." (Broich 2009, p. 4) The importance of restoring trust in the financial market was extremely important at the beginning of the crisis in order to prevent a further downturn. After the collapse of Lehman Brothers the consequences of a banking failure became clear and it was apparent for the German government to turn to anything other than insolvency proceedings. According to Hopt, Kumpan and Steffek (2009) "the signal, which the opening of insolvency proceedings sends to the financial markets, would have been too grave in the nervous environment of the first half of 2009 and could not have been outweighed by an ad hoc reform of insolvency proceedings." (p. 5)

Even though in a crisis situation, the government might have realised that, even for Germany, the financial market and its regulations were too liberalised. However, it is noted by a number of authors, as mentioned by Ilgmann and van Suntum (2009), that these bailout systems of Germany that have been set in motion in the past few years can act counterproductive and may even "set the stage for the next crisis." (Ilgmann & van Suntum 2009, p. 8) Bail outs as economic nationalism will thus have to be short term responses to the financial market, meant to be terminated as soon as the banks are healthy and solvent.

After a number of years some criticism has arisen regarding the financial market stabilisation measures. In 2012, the opposition has accused the supranational level of waiting too long to take action towards the crisis. The lack of a clear legal framework has resulted in higher costs for tax payers, according to Carsten Schneider, budgetary spokesman of the SPD, and the possibilities of restructuring the banking sector once again at national level have run out. (Deutscher Bundestag 2012) Furthermore the Alliance '90/The Greens have accused the

Federal Government in the European Council to have blocked proposals by the European Commission for two years, according to Dr Gerhard Schick. Furthermore he has said that by slowing down these measures from the supranational level a solution to the crisis has become increasingly more expensive. (Deutscher Bundestag 2012)

What form of economic nationalism? Or economic liberalism?

This kind of state interventionism is rather difficult to assign to a form of economic nationalism. Financial market regulation is not really liberalised or strengthened in this case, banks are free to participate in this form of state aid however once they do participate, the banks would have to follow the rules applied to the bail-out system. The institutional set-up of the financial market is thus not affected positively or negatively. Providing aid to domestic banks places foreign banks in Germany at a disadvantage, but it does not go further than that. No actual limits are imposed on foreign banks concerning investments, products and services. Furthermore multilevel cooperation, intellectual property and EU law are variables that are not applicable to these bail-outs.

Because the indicators of economic nationalism are not present in this measure, the changes in the Financial Market Stabilisation Acts as a response to the financial crisis might be seen as just that, “to cope with unforeseen problems.” (Hopt et al. 2009, p. 1) However this author also recognises the need “to demonstrate the state's persistent capacity to act.” (p. 1) The nation is an important concept in economic nationalism. For Germany this seems to be the case as well, through these immediate measures they are able to represent the German state as a powerful nation that is still able to set the pace as a member of the European Union. Holding on to that sovereignty seems to be important for citizens, as well as being able to reflect such an image to other states. Therefore, this form of state aid remains unresolved.

German Financial Market Stabilisation Acts - Nationalisation under the Financial Market Stabilisation Acts

Ideas Actors and interests Institutions

Insolvency proceedings were out of the question for Germany, and bailouts for banks such as the Commerzbank and Hypo Real Estate did not do enough to save the banks. A more drastic measure was to be implemented; the nationalisation of banks. Already in January 2009 the Commerzbank was partially nationalised under the Financial Market Stabilisation Fund Act. (Boewe et al. 2012) Instead of an ordinary capital increase, this act allowed the German government to increase capital authorised by law, ‘without approval by the general meeting.’ (Hopt et al. 2009) And, no longer did the state need a justifiable reason for excluding the pre-emption rights of shareholders; “the exclusion of pre-emption rights in case of a recapitalisation […] has to be considered as ‘in any case permissible and appropriate.’” (Hopt et al. 2009, p. 15) This first act was met with criticism as it would breach EC (European Commission) law. The German government on the other hand did not change the act, as it would only be a temporary measure.

The issues with nationalising banks and the position of shareholders have led to the creation of the Rescue Takeover Act. Rules were relaxed in this act, making it easier to take a bank over. Once the Rescue Takeover Act passed, HRE was finally nationalised in May 2009.

In March 2009 another act was passed regarding the nationalisation of banks, strengthening the first Financial Market Stabilisation Act which included the Rettungsübernahmegesetz (Rescue Takeover Act). With these acts the German government was now able to take over banks entirely, thereby gaining complete control and responsibility over the bank. Furthermore it included "a reduction of majority thresholds, measures against abusive strike suits, facilitation of the squeeze-out procedure and relaxation of time limitations." (Hopt et al. 2009, p. 16) This time no EC law was breached, however a breach in the German constitutional law is apparent, according to Hopt et al. (2009); right of ownership. However even this breach can be moderated when looking at the entire picture; "only an overall assessment of the new instruments will meet the constitutional requirements." (Hopt et al. 2009, p. 19)

For the government of Germany the opportunity to take over insolvent banks appeared to be vital to protect the general welfare and the prosperity of the nation. According to Finance Minister Peer Steinbrück, new tools were necessary to deal with the shock waves of the financial crisis, which 'forced' the state to ensure the safety of financial markets. Restructuring HRE was necessary, however was not possible without the new Rescue Takeover Act, according to the Finance Minister (Tagesschau 2009). Before this legislation was passed, the shareholders enjoyed a unique position in which they were able to demand excessive payments in return for their shares. (Hopt et al. 2009) The major shareholder of HRE was on these grounds thus able to refuse several takeover bids by the government. (Hopt et al. 2009) Threats of such delays by shareholders can limit the chances of a successful bailout.

The FDP has sharply criticised the nationalisation of banks, and has called it an attack on the protection of private property, the social market economy and financial market freedom. (Deutsche Welle 2009)

While FDP financial expert Hermann Otto Solms fears the creation of a socialist planned economy, Left party leader Oskar Lafontaine has rejected this statement and said that the socialisation of losses is the most brutal form of capitalism, not socialism. (Tagesschau 2009) Furthermore the Left party has said that the bank can only be privatised once the state guarantees have been fully paid back, with interest. (Deutsche Welle 2009)

The Alliance '90/The Greens in its turn have said that action has been taken much too late. Financial institutions should have been forced to have received funds from bail-outs in December 2008, instead of merely providing the option. This would have prevented the Rescue Takeover Act to have been implemented. (Tagesschau 2009)

The SPD mentioned that no one in the feral government believes that the state is the better banker, however only complete control of the bank can stabilise it. (Deutsche Welle 2009) Another view was shared by the minister of Economics Karl-Theodor zu Guttenberg, saying that other options should have been explored first, before resorting to the Rescue Takeover Act. (Tagesschau 2009, Drost und Stratmann 2009)

Form of economic nationalism

The German government is willing to risk breaking not only EC law, but the German constitutional law as well, especially at the beginning of the financial crisis and after the collapse of Lehman brothers. It seems as if anything at that time that would prevent insolvency proceedings would have been allowed in the German banking industry, at least, for the systemically important banks. It seems as if Germany has created power by undermining EU law, and is therefore sending the message that in certain cases sovereignty should still remain with the member state. Therefore this measure will apply to malign economic nationalism; even though no foreign presence or investments are directly limited, this measure seems too severe to be added to benign economic nationalism. Intellectual property in the form of business methods and industrial models are definitely affected, but only as a means to rescue the bank.

Bad Bank Act

Ideas actors interests and institutions

Further responses to the financial crisis included the German Bad Bank Act (Bad Bank-Gesetz) which was added to the Financial-Market Stabilisation Improvement Act (Gesetz zur Fortentwicklung der Finanzmarktstabilisierung). (Ilgmann & van Suntum 2009) The act contains of two models; one in which the banks are provided with a 'special purpose vehicle' (SPV, or in German: Zweckgesellschaftsmodell) and a consolidation model (Konsolidierungsmodell). The first is to "remove toxic assets from their balance sheets in order to gain additional core capital resources without being obliged to raise fresh equity," (Broich 2009, p. 23) thereby reducing the needs for new bail-outs or even insolvency proceedings. The SPV model is mainly to be used by private banks, while the consolidation model aims for regional banks (Landesbanken and Sparkassen, Allen and Overy 2009). Furthermore the consequences of risks taken by the banks can no longer be transferred to citizens, making the banks themselves liable and responsible for their actions. (Broich 2009)

The Alliance '90/The Greens have criticised the way in which the Bad Bank Act has been implemented. The tax payers cannot end up being liable for speculative losses of the bad banks. Furthermore the party has disapproved of the voluntary basis of the Bad Bank Act. Tax payers, the economy, and the financial market itself must be protected from the bad decisions made in the financial market and without an obligation for banks to participate in the act, the act is most likely going to fail. Proposed by the party are mandatory stress tests for banks, which can determine which banks should participate in the Bad Bank model. (Bündnis 90/die Grünen 2009)

A part of the SPD has called for mandatory participation as well; however this proposal was rejected by the coalition parties and by the SPD leader itself as well. Kampeter (CSU/CDU)

has said that mandatory measures in this area have backfired in the USA, by putting an increased burden on taxpayers. (Weiland 2009)
The opposition, consisting of the FDP, Alliance '90/The Greens and Left party, have all rejected the act. The FDP regrets that not all institutions were included, and the Left party has even mentioned that the act was not just a 'bad bank law'; it was a 'bad law' altogether, according to Roland Claus. (Spiegel-online 2009) He also said that the burden will once again be put off to the taxpayers and the examination of toxic assets is still unclear and is likely to be done by the same auditors that until recently have considered these bad securities as good securities. Because of this, the party calls for a national rating agency.

In theory these rules may appear rather simple, however in practice EC law and German constitutional law needed to be taken into consideration. With the previous breaches in EU law and German constitutional law, the German government could not pull off such a situation again making the content of the act rather complex. Taking account of EC law and the German constitutional law shows that the government is willing to adapt their changes in legislation; the initial breaches in 2008 were thus rather the exception than a rule as a response to the financial crisis. As the largest economy in Europe and a supporter of the Euro and the Eurozone, Germany could not afford to send another negative message to the financial market and these institutions by potentially breaching laws.

Form of economic nationalism

For this act the emphasis is not placed on the restrictions on the financial market, multilevel cooperation, EU law, sovereignty, business methods or foreign banks. The emphasis lies on the room that was created for banks to work off their bad assets; by temporarily relieving them from the balance sheet. Even though the act is not a sign of liberalisation of the financial market, the government has recognised that banks need time and space to become healthy again, even though the opposition would have liked to have seen a more restricting form of regulation. Managing a Special Purpose Vehicle under the regulation of the government can decrease risk taking by the banks that would otherwise create their own unregulated and perhaps risky methods to become healthy. From this conclusion this measure can be added to liberal economic nationalism.

Euro rescue package

Ideas actors interests and institutions

The Euro rescue package was created in order to relieve troubled Eurozone states. Over €750 billion is available in the package, of which Germany would contribute €100 billion.

The coalition parties have approved of the euro rescue package, the left party has voted against, and the SPD and the Alliance '90/The Greens have abstained from voting. However the doubts of the SPD and Greens and the strong no from the Left party have not stopped the Euro rescue package from being approved by the German Bundestag.

German Finance Minister Wolfgang Schäuble has said that a quick decision was needed to be made on the Euro rescue package. A financial transactions tax, as proposed by the opposition,

was not an option, according to the finance minister. Furthermore FDP leader Guido Westerwelle sees the euro rescue package as a vital issue for Europe; by approving such a large sum to the Euro rescue package, both the EU and Germany are protected. He has even accused the opposition of acting out of party tactical reasons, saying that “domestic policy is their motive, but not the responsibility for our country.” (Tagesschau 2010d, para. 8, own translation)
Sigmar Gabriel, of the SPD has said that they were not necessarily against the bail-out itself, but the way in which it was enacted. “The rest of the government policy is not reliable and in the wrong direction”, according to the SPD. (Tagesschau 2010d, para. 7, own translation) The left party had gone even further by accusing the coalition parties of not making decisions driven by democracy, but driven by speculators and financial markets. (Tagesschau 2010d) The Alliance ‘90/The Greens in their turn criticise the lack of concrete financial market regulation and economic policy coordination. (Bündnis 90/die Grünen 2010)

The debate has shifted from the national to the supranational level in which the decisions on the Euro rescue package have indicated a strong support for pan-European solutions towards the crisis. With this shift, the domestic debate on measures regarding the financial crisis seems to have increased severely. Where the parties merely disagreed before, once the debate regarded the support for European measures, the gap between the coalition and the opposition seems to have intensified.

Form of economic nationalism

This form of nationalism can be applied to either benign- or liberal economic nationalism, the form in itself is irrelevant because the emphasis lies on the support for supranational cooperation, not on financial market regulation. There is a high account of cooperation between Germany and the supranational level, in which no foreign investments are restricted or domestic banks are favoured. With protecting and helping other Eurozone members, the German economy will be protected as well.

Management of banks

Ideas actors interests and institutions

Where the previous actions towards the crisis mainly regarded the external business processes of banks, supranational and national measures have been implemented as well that regulate the management of banks. In July 2010 a new legislation was passed in the EU enforcing stricter regulation on granting bonuses to the top management of banks. These rules were approved by the German cabinet as well. (Tagesschau 2010b)

Arrests have been made in 2008 in the financial industry in Germany regarding fraud and insider trading (Hypo Real Estate. (Tagesschau 2010c) This affair gives rise to investigations carried out by the government which follows the statement of Bundespräsident Köhler in November 2008 calling for a fundamental overhaul of the banking industry. Furthermore dismissal proceedings have been initiated by Bafin against incompetent or unreliable supervisory boards of banks. (Tagesschau 2010c)

Form of economic nationalism

From these German actions and the support of Germany towards supranational actions in the management of banks it can be concluded that this kind of economic nationalism applies to benign economic nationalism. Cooperation with the supranational level seems to increase, and rules are not liberalised but made stricter at both the domestic and supranational level. Furthermore no kind of restrictions aimed at foreign banks are present. With these new rules, the financial market can be regulated better at the level of management, attempting to decrease the risks in that area. Safe and less risky business models will be protected through this legislation as well which favours domestic banks.

Conclusion on the domestic level measures

The severity of economic nationalism in Germany does not revolve around restricting foreign banks or their activities at all. At least no signs are present from studying the measures taken in the domestic market. Regarding the cooperation with and adapting legislation to the supranational level, Germany is not very consistent. One case of malign economic nationalism can be identified, through undermining supranational and national legislation in the nationalisation of banks. Breaching supranational legislation at that time seemed like a necessary evil in order to gain control of the financial market.

Any liberal form of economic nationalism or economic liberalism can be excluded as well, because mostly regulation was strengthened as a response to the crisis. Germany appears to have learned from the period of liberalisation in the financial market once the crisis hit the US and followed through in the Eurozone. The collapse of Lehman brothers has made such an impact that the coalition parties agreed on stricter regulation of the financial market throughout the crisis. Benign economic nationalism appears to sum up the content of the actions against the financial crisis.

The beginning of the crisis was marked with national responses to the financial crisis. Coalition and opposition parties appeared to agree with each other (apart from the details). However as the crisis progressed and the lack of action from the supranational level became apparent, the course of action regarding responses to the crisis between the parties started to differ as well. The coalition parties appeared to stay true to the supranational boundaries (except in the regulation on the nationalisation of banks), while the opposition increasingly criticised these decisions. The FDP has rejected most proposals that limit the freedom of banks. The Alliance90/The Greens and the Left party have mostly rejected the measures because they call for stronger, more solid regulation of the financial market.

With the cooperation of the coalition parties with the supranational level on the management of banks and the participation in the euro rescue packages late in the crisis, a door has been opened for further cooperation with the supranational level. Nevertheless the regulations dating from the beginning of the crisis appear to have created a rather solid regulatory framework.

The beginning of the crisis was thus marked with a form of economic nationalism that would strengthen the existing regulatory framework. It did not limit foreign banks or favour national banks directly, rather, economic nationalism can be identified in how the government has tried to help domestic banks and tighten regulation in the financial market. Thus far in the crisis there was no issue with protecting sovereignty, as there were no threats against this. With the propositions of the banking union half way through 2012 however, this situation is likely to have changed. The following part will elaborate on this issue.

Germany's responses to the supranational level

Banking Union

Halfway through 2012 a new draft was suggested by the European Commission to supervise all Eurozone banks by 2014. (European Commission 2012a) This "single banking supervision mechanism in the euro-area" (European Commission 2012b, para. 2) wants one supervisory institution to oversee the financial market and its institutions governed by the supranational level. The three authorities that were created at the beginning of the financial crisis were not sufficient enough; the European Banking Authority (EBA) had merely an advisory role in the financial market actions set by member states of the European Union. Through stress-testing this institution would give out recommendations to the relevant member state, however these recommendations remain just that: recommendations. The EBA had limited power and as the financial crisis progressed, the power and prestige of the EBA and the other institutions diminished. This does not mean that the EBA and the other two authorities were unsuccessful and could be branded a failure, because they did provide good research and their intentions were good, however the expectations were not quite met. ESMA for example faced a 'blocking minority' in which their powers were limited, even though these were meant to be more significant, according to Buckley, Howarth and Quaglia (2012). As a response to these institutional limitations the need for a proper financial regulator in order to prevent sovereign contagion and another Eurozone crisis was created; the idea of a banking union. Together with this banking union, a fiscal- economic- and political union remain, to create a proper Economic and Monetary Union. The creation of the banking union can shift economic nationalism to a higher level; towards a supranational level of economic nationalism. This concept has been discussed by the authors Clift and Woll (2012) who call this economic patriotism. As an alternative to economic nationalism on the state level, all Eurozone members will act as one, in which all banks will be supervised on the supranational level.

Germany has reacted with a general reluctance to participate in the banking union, or at least to fall under complete banking supervision by the ECB, because the banking union would involve the removal of any responsibility towards the financial market from the national level. As a threat to national sovereignty the banking union will need to encompass some changes in order for Germany to agree to this new kind of union. This includes concessions on keeping the deposit guarantee scheme a national responsibility to prevent putting "their savers' money on the line to bail out banks in other countries." (Steen, Wilson & Barker 2012, para. 3)

According to Breidthardt and Marsh (2012) German chancellor Angela Merkel said in June 2012: “more sovereignty must first be given to central authorities to impose economic discipline on member states and measure their banks' performance more effectively than the European Banking Authority (EBA) watchdog.” (para. 3) Germany was afraid that forming a banking union would only aggravate the financial crisis as “plans for an EU-wide bank deposit guarantee scheme and a rescue fund paid for by levies on financial institutions could mean it risks footing the bill if there are no proper safeguards.” (Breidthardt & Marsh 2012, slow track, para. 7) In September 2012, Germany was still reluctant to agree, even though the daily supervision of banks will still remain on state-level, “the European Central Bank will create a fresh Council – in parallel with the rate-setting Governing Council – with powers to grant banking licences and sanction violators, reducing the national regulators to a junior support role.” (Evans-Pritchard 2012, para. 2) This author notes that the new supervision will be threatening “to German regulatory control of its mosaic of smaller savings banks and Landesbanken.” (para. 6) Germany’s banking network is completely different from banking systems in other member states, therefore supervision and regulation of a unified banking union might not be applicable to all banking systems in the EU. Because of the tight knit system in Germany, demands were made that only the 25 biggest Eurozone banks would fall under the new regulation and thus leave the smaller banks to the supervision of the states. Latest news has reported that Germany wants to postpone the formation of the banking union to 2013, however Goettig (2012) notes: “In their joint statement issued earlier, the Europe ministers said they were “determined to work swiftly to establish an effective single supervisory mechanism involving the ECB (European Central Bank) within the framework agreed at the June summit.” (para. 9) Furthermore: “The statement said a meeting of EU leaders in October should identify work that needed to be done to clear the way for the banking union, including steps to promote jobs and growth. It said a roadmap to implement these steps should be agreed in December.” (Goettig 2012, para. 10)

According to the latest news on the banking union, the ECB will give in to Germany, Finland, the Netherlands and Luxembourg as the day to day operations of banking will still remain under the supervision of national regulators. However this will exclude banks that have been “bailed out by the state, the Eurozone’s rescue funds and banks which are systemically relevant.” (Davenport 2012, para. 8) The reason for this significant amount of power for the ECB is to “prevent any anti-competitive behaviour by bailed-out banks such as preferential interest offers to clients, giving an unfair advantage over banks which did not receive financial support.” (Davenport 2012, para. 13) Furthermore the ECB still have ‘the final say’ over all of these financial institutions, therefore Germany’s demands will be met only halfway.

The banking system of Germany is rooted in the institutional set up of banks, which is highly fragmented in Germany and strengthened through Germany’s responses to the crisis nationally. A change in supervision might therefore also mean a change in this set up of financial institutions, to gain conformity in the Eurozone in order for the supranational supervisor to have an oversight in all banking activities. The perceived threat to security thus increases with new supranational plans. A shift in responsibility to the supranational level might reduce the feeling of national security. This phenomenon occurs because of inequality caused by “developed monetary systems” (Strange 1988, p. 96) “This inequality will sooner or later give rise to corresponding demands for a more developed welfare structure to complement and make good the perceived deficiencies.” (p. 96) Weaker non-Eurozone member states of the EU are also allowed to participate in the banking union, which might be yet another obstacle for the Germans to agree to a banking union. From the additions to the regulatory framework in the domestic financial market, Germany has already secured this system.

Another aspect of economic nationalism includes the image of Germany. Germany has since the Second World War become a powerful state which is run well economically and the consequences of the financial and Eurozone crisis have remained limited. The consequences of forming a banking union (and the subsequent other unions) are a threat to this powerful nation, as the before mentioned sovereignty and setup of their financial institutions will imply the need to conform to the supranational level. As much as the EU would like these changes to be minimal, changes will still remain inevitable, otherwise a lighter form of supervision (such as the EBA) would have already succeeded. Because the desired effects of the EBA have failed, the reluctance for member states to cooperate with the EBA might be a reason for the EU to take more rigorous measures in supervising the banking industry at the supranational level.

Even though this kind of economic nationalism doesn’t appear in the state measures that were set to protect the banking industry directly, the defence of the German banking system by the government does hint a form of economic nationalism.

With the recent developments in the banking union and the demands from Germany to limit the banking union to the 25 largest banks of the Eurozone, Germany is showing their willingness to regulate, supervise and prevent another financial disaster in Europe, even though it will be done so reluctantly and with a minimum amount of abandonment of sovereignty. A form of benign economic nationalism can therefore be identified. Germany wants to delay the process of forming a banking union, so that more time is given to negotiate on the details, and not finish it in a hurry, which is what happened with the Financial Stabilisation Acts in Germany. Even though these acts were immediate responses to the crisis, it is noted by Hüfner (2010) that these acts were inconsistent with both EC law and German constitutional law and were not even immediately used. (Hüfner: “Participation in these bad bank schemes has been very limited.” (p. 7)) These acts were a lesson learned for Germany, and now that their sovereignty and the setup of their banking system is at stake, the country does not want to take it lightly and does want to seriously overthink the positive and negative consequences. In order to protect their banking system, Germany has threatened to halt the creation of a banking union or at least change the content. According to O’Donnell and Kuehnen (2013), “Germany and other economically-strong countries” are still not willing “to put themselves on the line for bad loans made in Spain and elsewhere,” (para. 4) thereby undermining the whole banking union scheme. This points towards limiting foreign involvement (of the supranational level), and thus malign economic nationalism.

European bail outs

From February 2010 when the financial crisis appeared in the southern European states, the market in Germany appeared to gain more confidence and positive outlooks to the future. Shortly said the worst of the crisis seemed to be over for Germany, marking a new period in the crisis in which Germany was able to provide aid to weaker member states. Once the news emerged of Greece's expected bankruptcy in February 2010, the EC implemented procedures against 'deficit sinners' by inspecting their statistics and savings plans. Furthermore the EC is suggesting austerity measures to be implemented in Greece, as the crisis seems to hit Greece increasingly. Other southern European states also get in trouble as it shows towards the end of 2010. The EC has suggested an aid package in order to relieve the Greek government from their debt, provided that they implement the austerity measures. This fund contained up to €750 billion in total. The fund was approved by the Bundestag and Bundesrat, Germany joins the contribution to these aid packages where over €100 billion aid is given to the fund. (Tagesschau 2010d) Together with France, Germany emphasises the need for stricter regulation and tighter controls in the Eurozone. (Tagesschau n.d.)

The response of Germany to European bail-outs applies to benign economic nationalism. Constant support of EC suggestions have created a fierce standpoint of Germany on Greek and other Eurozone bail-outs which has showed the willingness of the German government to provide aid to weaker member states and keep the Eurozone from falling. However these actions were not completely selfless; it is well known that Germany has benefited greatly from the euro before the financial crisis, and even during the crisis Germany was able to stabilise their economy more rapidly than other member states through their strong position in export. (Reguly 2012) Self-sufficiency has thus regained its significance in this thesis and is increased by the rumours that have appeared regarding the printing of Deutsche Marks (The Week 2012, Henningsen 2011, Crook 2012, New Delhi Television 2011 and Kling 2011) as a back-up plan in case the Eurozone falls. Further speculations have been raised after it was announced that Germany would bring the gold that is stored New York and Paris back to Germany. (Pop 2013) These last two subjects are difficult to place under economic nationalism because of a lack of evidence and details on the reasons. No official report has confirmed that Deutsche Marks are indeed printed as a back-up to the failing Eurozone, and the discussion to bring back gold reserves started after "the German court of auditors complained that many of the gold bars have never been checked by independent experts to see if they are genuine and to check how much they really weigh." (Pop 2013, para. 9) Furthermore "'In Germany, a lot of emotion is attached to the topic of gold reserves. To hold gold as a central bank creates confidence,' he (a member of the Bundesbank board, Carl-Ludwig Thiele) said." (Pop 2013, para. 11)

Conclusion on the banking union and European bail outs

Even though both forms (malign- and benign economic nationalism) are apparent in the matter of the banking union and European bail outs, the malign form carries the most significance in the banking union. For the European bail outs, the domestic regulatory framework of the financial market will not be touched by the supranational level, while at the same time Germany has the ability to choose whether and with how much help they would bail out other Eurozone states. With the creation of the banking union and thus a new supranational framework on the other hand, Germany would be captured in a situation in which they would no longer have this decision. The banking union would thus replace the possibility of stronger states helping out weaker states with an obligation.

Germany is willing to bail member states out, however with a strict set of rules that “impose austerity and then take steps to make sure that the austerity is actually implemented to the degree necessary and that the crisis is not repeated.” (Friedman, 2012, Europe’s economic crisis, para. 6) These rules that were proposed by the German government find their roots in Germany’s believe that the sovereign debt crisis originated in the “fiscal policies of the troubled countries,” (Friedman, 2012, Europe’s economic crisis, para. 6) that can only recover and prevent future crises through these strict financial measures. The reason for these measures includes the expectation of Germany, and other member states, that the loans given to these affected countries will not be paid back, thereby harming Germany’s national interest.

This same reason applies to Germany’s reluctance to a rapid implementation of the banking union; the threat of removing sovereignty in the banking industry will cause Germany to indirectly pay for the weak Eurozone members. Furthermore according to Kenneth Rogoff, an economics professor at Harvard University; “Germany well recognises that you’re going to need a powerful centre in the European Union or it just isn’t going to work.” (Ahmad 2012, para. 49) This professor also stresses that at this moment the discussion is revolving around how much Germany is going to contribute to the banking union. As a large and powerful member state of the European Union that is contributing a large sum of money, Germany will obviously not blindly agree to any rapid decision that concerns Germany.

Chapter 5. Conclusion

In order to answer the research question: *‘Is economic nationalism a significant factor, and what is the nature of it in government measures and ideas in Germany since the beginning of the crisis in mid-2008?’* the frameworks of Cohen (1991) and Clift and Woll (2012) have proved to have been extremely helpful in determining the forms of economic nationalism. For each measure in the domestic market, and idea in the supranational order, the situation was sketched through the use of Bhagwhati’s (1988) three I’s. Subsequently the form of economic nationalism was determined, based on a number of indicators, and at the end of the chapter the actions and ideas were combined and were jointly assessed.

Economic nationalism has appeared to be an extremely important factor in Germany. From the analysis of measures to the crisis on the national level, it was already apparent that Germany was attempting to strengthen their regulatory framework for the financial market. Foreign threats are Germany’s biggest worry. “The economic dynamics of Europe have placed many countries at a substantial disadvantage, and the economic crisis of 2008 triggered a sovereign debt crisis and banking crisis in Europe,” (Friedman, 2012, Europe’s economic crisis, para. 3) endangering German national interest by threatening the banking system. The

ideas of Germany on the banking union have only confirmed this, and even the ideas of Germany on the bail-outs of Greece have emphasised the way in which Germany is willing to provide weaker states a helping hand.
The changes to the institutional set-up of the financial market since the crisis have increased the perseverance of Germany to implement their preferences to the supranational level. Thus supranational cooperation is possible, however only if it fits the needs and wants of Germany.

With the changes to legislation in the financial market over the course of the crisis, Germany has secured their position in the supranational order to be able to make demands. Even though Germany is identified by several scholars as a coordinated market economy, the coalition felt the need for additional legislation to be implemented. Without the implementation of these stricter regulations in the financial market, Germany's position to make demands would have been much weaker because Germany would not have a solid foundation and framework to base their demands on. Germany's individual actions towards the crisis were thus not merely implemented to act as domestic/individual economic responses to the crisis, they were also implemented to steer the supranational debate to their needs.

Because most of the measures implemented are still in place at this moment, the ability to draw more precise predictions for the future is rather limited and uncertain and should be evaluated after the crisis is over. However it can be said that Germany will be better prepared for future crises, as well as other member states of the European Union, decreasing the necessity of German bailouts both nationally as well as on the supranational level. The responses of Germany towards the crisis in their actions and ideas indicate that Germany is pressing for stricter regulation in the banking industry. After initially implementing immediate individual actions towards the crisis, Germany started to support and call for more ideas and actions from the supranational level, as the crisis progressed and the German economy appeared to improve. Even through Germany appears to try to re-establish the Eurozone as a strong entity; Germany's own interests seem to be the main motivation. Although no conclusions can be effectively drawn from rumours on printing Deutsche Marks and the relocation of gold reserves, Germany does appear to get their own situation sorted before actively supporting supranational regulation and thereby clearly indicating a form of economic nationalism.

The answer to the research question was highly dependent upon literature providing proper indicators for economic nationalism and newspaper articles that assessed each measure and idea of Germany regarding the crisis. Limitations in the literature could be found within the concept of economic liberalism. It was unclear that whenever a measure would not apply to either three forms of economic nationalism, as it was with bail-outs under SoFFin, what form of economic liberalism (or perhaps something else) it would be. However on the other hand, economic liberalism would fall outside of the scope of this thesis and thus leaves room for future research. Furthermore the long-term effects of the measures and ideas are limited by time. With the crisis in full effect in 2013, this thesis has acted as an interim review of Germany's responses to the crisis, and once again provides the basis for future research.

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