European Neoliberalism and its economic and political shortcomings

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Introduction 4

Chapter 1 6

1.1 The preconditions of change: stagflation and crisis in the 1970s and early 80s 6

1.2 Europe before and after the Single European Act: neoliberalization in the making? 7

1.3 Conclusion 12

Chapter 2 13

2.1 Maastricht Europe and the neoliberal character of the Economic and Monetary Union 13

2.2 From the EMS to the Euro: between monetary, political and economic constraints 15

2.3 The EMU and its effects on economic policy-making: "Constitutionalized" Neoliberalism? 18

2.4 Conclusion 21

Chapter 3 23

3.1 The shortcomings of European Neoliberalism 23

3.2 The Euro, the crisis and the differences between European political economies 29

3.3 Conclusion 33

Conclusions 35

Introduction

At the time of writing (June 2019), the European Union officially hosts another “sick man”. The European Commission has in fact recently encouraged Italy to reconsider its economic policy in the light of a forecasted unsustainable (according to the European Commission) rise in the country’s budgetary deficit. Italy has so far been relatively used to politically challenging the European Commission when it comes to its choices in the field of macroeconomic policy. Nevertheless, the ease and the degree with which Neoliberalism (here meant as a Washington Consensus-based disciplinary ideology aiming at limiting the degree of politicization of the economic realm and the choices of states when it comes to their macroeconomic policies[1]) remains dominant at the EU level poses a question: Is the European Union inherently neoliberal or demand-led growth models are still possible?

The reasons why finding an answer to this question is in our interest is grounded in the proliferation of radical political responses in several European countries (including Italy, Greece and - to a lesser degree - France) partly coming as a consequence of their stagnating (whilst not declining) economies. On one hand the European Union’s economy in the last few years has been keeping up to its self-set standards, on the other hand some countries appear to be far from catching up with the top-performers despite having structurally adjusted their economies to the taste of the neoliberal narrative. More importantly, the implementation of neoliberal policies has mostly been done at the expense of the existing welfare states, organized labor and national economic independence. Although the aforementioned growth of populist parties has yet to translate into those states actually taking real steps towards exiting the EU, the macroeconomic powerlessness of these countries seems doomed to persist, and so does the growth of radical parties and/or ideas. In this thesis I am going to argue that the EU is not an inherently neoliberal project of economic integration but it will be argued that the European political economy under the Economic and Monetary Union (EMU) entails a clear neoliberal bias which prevents the EU and its member states from pursuing alternative paths. Furthermore, it will be argued that as it is currently structured, the EMU constitutes an hinderance to growth and employment in the continent as it systematically prevents the formation of adequate levels of aggregate demand.

To argue for my position, in the first chapter I will analyze the reform season which followed the Stagflation crisis (1973) and ended with the signing of the Single European Act (SEA) and the subsequent completion of the Single Market. There, the theoretical debate over the extent to which a neoliberal transformation of the internal market occurred in those years will be presented and discussed. It will be thereby argued that despite having been sponsored by supporters of

[1] See for instance Slobodian (2018).

Neoliberalism, the reform process undertaken did not qualify as the tout-court consolidation of Neoliberalism either at the national or the communitarian level. However, the shape which the European economic integration project took in the aftermath of the Stagflation crisis will be argued to have encompassed elements of economic Neoliberalism.

In the second chapter, the European framework for economic governance that followed the signing of the Maastricht Treaty will be presented and criticized. There, I will assess the degree to which the new arrangement can be described as neoliberal. I will do so by making reference to the work of authors from different disciplines (mainly post-Keynesian and Varieties of Capitalism (VoC) political economists) which have discussed the neoliberal character of the EMU regime. In this chapter I will suggest that such regime has been strongly influenced by neoliberal principles and has led to a more encompassing neoliberalization of the European political economy.

In the third chapter, different Critical, Keynesian (mainly post-Keynesian) and VoC theories on the economic and political non-sustainability of the current political and economic framework for economic governance in the EU will be presented. In short, post-Keynesians and VoC scholars are concerned about the macroeconomic effects of regulatory Neoliberalism and argue that the European political economy has been negatively impacted by it. More precisely, they argue that the EMU regime has hindered the continent's growth potential by systematically sponsoring economic policies favoring convergence towards the German export-led growth model. In so doing, the Union's post-Maastricht economic strategy has been argued to have prevented the consolidation of adequate levels of aggregate demand, to the detriment of those countries whose economies heavily rely on domestic consumption. This system has therefore been argued to have produced divergence and fragility in the region, here meant as divergence among states in terms of economic performances and fragility within the Union in terms of socio-political stability. Furthermore, it will be shown how the neoliberal bias surrounding the European economic institutions has led to its own resilience, as economic divergence has also translated into political disparities within the Union. This will be argued to have further decreased the political capital of South European countries, disallowing them from effectively challenge the existing model of continental macroeconomic governance.

In the conclusion I will suggest that the European framework for economic governance as it is currently structured poses a severe challenge to the durability of the European integration project. Therefore, it will be suggested that the EMU must be reformed in a manner that takes into account its current economic and political shortcomings.

Chapter 1

1.1 The preconditions of change: stagflation and crisis in the 1970s and early 80s

From its birth in the late 1950s until the beginning of the '70s, the EEC had proven to be able to guarantee a high degree of national economic development. At the end of the Second World War, the European countries which suffered most from the catastrophic effects of the war, were in need of a continental political, economic and institutional order which could have provided them with the most important "political goods" of the time: national industry development, social security and peace. The new regional arrangement that came as a result of the Treaty of Rome in 1957 appeared to be the only possible way to allow for the simultaneous development of a solid regional economy and of a politically legitimized institutional framework for intergovernmental cooperation. As it has been argued (see for instance Milward 1992), the European project made it possible for its member countries to reduce the political constraints that had affected their economic history throughout the decades that preceded the Second World War. Not only was it that for the first time after almost a century the European countries could rely on robust geopolitical stability, but also the unprecedented growth of both productivity and technological change being experienced by the world economy allowed for further industrialization and a relatively natural degree of socio-economic inclusivity all over Europe (Milward 1992). Such a scenario enabled European states to develop their democratic infrastructures and satisfy their citizens' social needs as well as of course create a new culture of the state centered around its social dimension (Milward 1992). As we can easily observe, in Europe, the forces of the market and those of politics had gone hand in hand for almost three decades before the above-mentioned "Stagflation" crisis arose. That period of economic and social prosperity came to an end during the first half of the 1970s, when the OPEC's decided to punish the western bloc for backing Israel during the Yom Kippur War by rising the prices of energy supplies.

Just like the name suggests, the Stagflation crisis was characterized by both inflation and economic stagnation, an unprecedented challenge for economists and policy-makers. In general, inflation had previously been experienced alongside economic growth and in some countries more than in others. This time however, the inflationary wave that accompanied Europe and the western world from the beginning of the '70s until the mid-'80s was followed by growing unemployment rates, fewer investments and a general decline of economic growth. Economic historians usually mark the 1973 crisis as the end of "the Golden Age of Capitalism" (see for instance Marglin 1992, Skidelsky 2009 and Warlouzet 2018), a period in which laissez-faire capitalism made way for Keynesian-style macroeconomic policies. "Embedded liberalism" (Ruggie 1982) in Europe, despite not being totally abandoned - since it can still be posited as a unique feature of the European

political economy[2] - was turned into what has been defined as “embedded Neoliberalism” (van Apeldoorn 2002). The reasons why Neoliberalism arose as an alternative model to Keynesianism are also rooted in the unprecedentedness of the Stagflation crisis, its duration and its effects on unemployment in the medium-term. Unemployment rates almost doubled in many European countries during the first years of the crisis and then never caught up again with the standards of the ‘60s. Inflation increased at least at double digit rates year on year, reducing the competitiveness of European national economies' vis à vis their competitors and threatening the sustainability of some of its welfarist policies.

It thus seemed to be clear that “embedded liberalism” needed a revision in order not to endanger the long-term prosperity of the First World economy. As a matter of fact, before a new neoliberal agenda took over in the United States and the United Kingdom and started to exert its influence over continental European, alternative responses to solve the crisis were tabled (see Warlouzet 2018 and van Apeldoorn 2002). Nevertheless, among all the different approaches which could be thought to address the issues related to the future of the continent's economy[3], neoliberal-type recipes proved to be not only the most convincing but also the easiest to implement (Warlouzet 2018). The European countries which were also members of the EEC had until then managed to combine national development strategies that encompassed both vertical industrial policies and strong social security measures, allowing for state-guaranteed protection for workers and companies. However, the solution chosen to fight economic uncertainty in Europe was doomed to change EEC's member states' macroeconomic policies for the years to come. The first step of such a shift was the signing of the Single European Act, which formalized the process that will be further discussed in the upcoming section.

1.2 Europe before and after the Single European Act: neoliberalization in the making?

The Single European Act (SEA) was the first big reform since the Merger Treaty (1965) and represented the first step to a new European political order. The SEA “was instrumental in implementing the EU's Single Market program and featured the modification of the European

[2] It can still be observed that as of 2011 most of the countries in which government primary expenditure accounts for more than 40% of the GDP are European (source: IMF).

[3] The two above-mentioned authors' analysis are slightly different on this matter. However it is important to notice that despite starting from different ideological standpoints, they both recognize the existence of the same major political alternatives to Neoliberalism before the latter made his way into the continent. These alternatives were “social Europe” and “(Neo)Mercantilist Europe”.

Community's decision-making procedures that allowed for majority voting on key internal market matters" (Cowles 2012). To a certain degree, the SEA can be seen a synthesis between national Keynesianism (represented by the reformers' willingness to make the new Single Market Europe-specific) and International Neoliberalism (Telò 2004, Warlouzet 2018)) as well as the product of both ideational factors and political (and economic) necessity (Parsons 2010).

It has been argued that the Single European Act was the first step in a process of "neoliberalizing" the European economy (Hermann 2007). As the aim of the SEA was that of strengthening the common market and harmonizing regulations, the extent to which the Act led to neoliberalization of the European economy resides in the impact it is believed to have had on Europe's national economies. As a matter of fact, the "integration through law" which the SEA fostered has been argued to be antithetical to the consolidation of a European social-market economy (Scharpf 2009). According to Sharpf, the creation of a single market through negative integration is not compatible with the history of most of the European countries' political economies. Positive "upwards" integration is hindered by the high level of consensus which is required by the EU (one EEC) legislation (Scharpf 2009). In this view, the Single European Act is regarded as the completion of a system which inherently favors negative over positive integration. The degree to which negative integration, as suggested by Sharpf, is conducive to a standardization in neoliberal terms of cross-border as well as national economic processes therefore resides in the lack of adequate compensation measures at the European level. As a matter of fact, Sharpf identifies several legal areas (like industrial relations or capital taxation) which as a consequence of the SEA suffered negative integration without being offset by a positive harmonization at the EEC level. The reason why Scharpf questions the capacity of such a system to safeguard the social characteristics which were originally[4] embedded in the European economies resides in the existence of the "mutual recognition" rule. As the rule stipulates that "the products lawfully produced in member countries" must be accepted in the national markets too, Scharpf stresses how "this undermines the bargaining power of opponents to liberalization" (Scharpf 2009). This happens because in the absence of positive integration, access to market is not only allowed but also legally imposed.

It is important to notice how Sharpf's position, alongside that of other authors like Giandomenico Majone (1999), suggests that the European order which was born after the treaty of Rome could not but lead to a neoliberalization of the economic realm without necessarily imposing it at the national level (Warlouzet 2018). More specifically, as far as the Single European Act is concerned, it must be stressed how such an arrangement has been criticised by Scharpf as being flawed by a distortion-producing tendency to generate legislation harmonization which results in

[4] In the context of the second post war reconstruction period.

races-to-the-bottom with regards to the social sphere. First of all, these authors have underlined the social dumping-producing character of the "mutual recognition" rule which was the juridical reference point as far as intra EEC trade was concerned already before the SEA entered into force. On the other hand they emphasize how the Single European Act and the underlying attempt to complete the Single Market project contained two seeds of economic Neoliberalism: unrestricted trade liberalization and market de-regulation. To this extent, market liberalization through negative integration can be seen as an inherently neoliberal project as it hinders the development and/or the consolidation of a social market economy (Hay 1999, Majone 1999, Scharpf 2009).

We have thus far seen how the integration of the European market under the "mutual recognition" rule and the signing of the Single European Act have been identified by some authors as harbinger of the neoliberalization of the European political economy. Nevertheless, the degree to which the concerns which the above-listed authors translate into the EU being an inherently neoliberal project of economic integration is debatable (Warlouzet 2018). First of all, as also Scharpf recognizes, the presumed bargaining power of the supporters of de-regulation which the "mutual recognition" rule supposedly enforces has not translated into actual de-regulation, especially in the fields of consumer and environmental protection (Scharpf 2009, Warlouzet 2018). The signing of the Single European Act has indeed led to a successful re-regulation of market-related policy areas at the European level in a manner which make doubts arise about the inherent neoliberal character of the "integration through law" system. As Warlouzet (2018) points out, "the Single Act put at its core the Single Market, but… Social Europe was still present through the social dimension of the Single Market (the harmonization of law concerning health, safety, environment and consumer protection), social dialogue, cohesion policy".

There are two reasons why Warlouzet recognizes neither a neoliberal shift after the stagflation crisis nor an inherent neoliberal character of the European integration projects. First of all, he observes how the creation of the Single Market became the dominant strategy which the EEC followed in order to overcome the crisis after having already tried other routes. Secondly, he stresses how the political forces which were dominant at that time could hardly be defined as neoliberal. The former argument emphasizes how it is hard to argue that neoliberal thought crystallized among the European political elites of that time. The market-oriented approach adopted to solve the crisis was in fact the logical consequence of the failure of other models of growth which member states pursued to face stagflation, namely the neo-mercantilist and the social approaches (Warlouzet 2018). The latter argument instead focusses on the socially-oriented character of the political parties which had been shaping both member states' and the EEC's economic policies. Warlouzet argues in fact that because the levels of social embeddedness was

relatively high within all the EEC economies as a product of national social policies, harmonization was less likely to lower the bar of social advancement in any significant way. As a matter of fact, the Treaty of Rome was already "rather ambitious" when it came to social development[5] and it contained (and it kept on doing so even after the Single Act and the completion of the Single Market) elements of economic interventionism which suited the Keynesian nature of its member states' economies (Warlouzet 2018). More specifically, consumer and worker protection aside, the EEC had always been involved firsthand in the development of rural areas, the subsidization of the agricultural sector and a certain degree of fiscal redistribution among regions (Warlouzet 2018). On one hand Warlouzet's analysis demonstrates that the European integration process is far from being neoliberal in nature and that the SEA was the product of a historically determined economic necessity. On the other hand it shows how a shift towards a marketization of the European economy had (and has) occurred. As a matter of fact, if trade policy could no longer be used as a means of industrial policy, the consolidation of a European competition policy which mostly targeted vertical agreements (i.e. scrapping state subsidies to specific sectors of the economy) determined a further disposal of national economic sovereignty (Warlouzet 2018). Such disposal has been defined by Warlouzet as a success of the supporters of Neoliberalism as it opposed the statist approach which the previously adopted neo-mercantilist strategies favoured. However, Warlouzet emphasizes how national and European neo-mercantilist developmental strategies were already being proven inefficient by the rise of external competition and the improvements of the transport industry.

Beside Warlouzet, another author who has argued against the supposed neoliberal bias which the Single European Act has been argued to entail is Clemens Kaupa. Kaupa argues that the European Treaties, when it comes to market-related issues, have been inspired by a diverse set of ideologies. Like Warlouzet, Kapua emphasizes how the the completion of the Single Market (and the evolution of the European primary and secondary law on the matter that followed it[6]) has been the product diverse ideological inputs coming from a wide array of socio-political environments. As such, the liberalization of the European political economy as a result of the sublimation of the Treaty of Rome into the Single European Act and the subsequent Maastricht Treaty has to be seen as a non-inherently neoliberal process (Kapua 2018). He in fact states that:

> "*The the original regulatory objectives pursued by the Treaty of Rome… conformed to the postwar socioeconomic consensus…(and) had, roughly speaking, a Social or Christian*

[5] Article 117 EEC explicitly refers to "the necessity to promote improvement of the living and working conditions of labor so as to permit the equalization of such conditions in an upward direction".

[6] See the next chapter of the present thesis.

> *Democratic and Keynesian orientation, but - given the open nature of its objectives and the broad scope of the competences created - must essentially be viewed as pluralist in the light of competing socio-economic paradigms. In the current Treaties, the Union's objectives became, if anything, even more open and comprehensive.*" (Kapua 2018).

As we can see, Kapua implicitly recognizes that the new continental arrangement which followed that particular season of reform (and that still persists) was intended to more comprehensively integrate different ideological stances, therefore increasing the level of ideational diversity embedded in the Treaties. Again, it can be observed how the reformed arrangement contained some seeds of economic Neoliberalism. However, given the increased scope which the "1992 Treaties" assigned to the Community/Union, it cannot be argued about a *tout-court* neoliberalization of the European market just as much as it cannot be argued about its contrary (Kapua 2018). This because its liberalization was accompanied by an equal level of supranational "embeddedness" facilitated by the new decision-making mechanisms (i.e an extensive use of qualified majority voting on a higher number of market-related subjects) and guaranteed by the Treaties (Kapua 2018, Warlouzet 2018).

Furthermore, Kapua emphasizes how the reformation of the Treaty of Rome further formalized the political will to delegate some of the member states' competences to the Community. As such, the new Treaties reflected both the willingness to liberalize the internal market and harmonize regulations and member states' fear that such liberalization could be conducted one-sidedly and threaten their ability to regulate sensible policy areas. As far as this is concerned, Kapua argues the following:

> "*While the SEA (and the Maastricht Treaty) created new competence chapters in various socioeconomic fields, this should not be viewed as simply expanding the Community's competences. Instead, the Treaty reforms codified and thereby possibly legitimated existing competences, while at the same time also attempting to establish sharper limitations. The competence landscape therefore became much more complicated in the wake of these Treaty amendments… Of course, it is not impossible that such a complex and intransparent regulatory framework creates dynamics that may effect ideologically biased outcomes in practice.*" (Kapua 2018).

Again, it can be seen how the Community/Union has been meant to have all the legal and political instruments which allow it to deliver regulatory frameworks representing multiple socio-economic

paradigms (as demonstrated by the way the liberalization process has been carried out both before and after the completion of the Single Market[7]).

1.3 Conclusion

In this chapter, we have seen how the process which culminated in the adoption of the Single European Act contained elements which reflect a partial neoliberalization of the European economy in contrast with the statist approach that had dominated economic policy-making in Europe for 20 years. Nevertheless, we have also observed how this neoliberalization was only partial and did not radically change the social nature of economic policy-making in the region. Furthermore, we have seen how the market-oriented approach which became the new model for economic growth in Europe in the aftermath of the Stagflation crisis depended on the failures of alternative models. Moreover, it has been observed how the SEA, the political landscape which gave birth to it and the decision-making process which led to the completion of the Single Market in 1992 have proven to still be influenced by the same social ideas which had nurtured the European "embedded capitalism". We can therefore argue that the European integration project as it emerged out of the Stagflation crisis was not inherently neoliberal and did not entrench economic Neoliberalism in the new Treaties (Kapua 2018) even if it encompassed and continues to encompass policies which can be associated to the neoliberal narrative (Warlouzet 2018).

[7] See the part dedicated to Warlouzet above.

Chapter 2

2.1 Maastricht Europe and the neoliberal character of the Economic and Monetary Union

The institutional reforms undertaken in Europe since the SEA haven't necessarily led to social races-to-the-bottom (Telò 2004, Cowles 2012). Nevertheless the Single European Act had for the first time institutionalized the end of EEC's member states's post-war developmental strategies. Strengthening and liberalizing the Single Market through negative integration and through a stricter regime on monetary management (which the SEA formally referred to) was the first step of a thirty year-old marathon of increasing integration and interdependence. The second, yet biggest, move towards the Europe which exists today was the immediate follow-up to the Single European Act: the Maastricht Treaty.

The "Treaty on the European Union" was signed in 1992, the year in which according to the SEA the Single Market was supposed to be completed and inaugurated. Having the Single Market completed by 1992 made it possible for the supporters of regional integration to proceed in a relatively short time to the completion of the project which was meant to lead to the creation of a more thorough political union. However, what gave the newly born European Union its own political character was rooted in the institutionalization of a new regional economic and monetary arrangement: the Economic and Monetary Union (EMU). Through the creation of an Economic and Monetary Union, European member states were committing to structural reforms in the fields of monetary and budgetary management. The new framework was based on a model which has been argue to have been strongly influenced by neoliberal principles and did not reflect the various kinds of capitalisms that existed in the region (Bibow 2006, Fitoussi and Saraceno 2013 Hall 2014, 2018, Johnston and Regan 2018, Stockhammer 2013, 2016).

The monetary union, arguably the most ambitious point of the new Maastricht arrangement, could in fact only be completed if all the EU member states underwent a revision (or re-adjustment, to put it in neoliberal terms) of their economies according to the convergence criteria outlined in the Treaty. Member states were supposed to keep inflation within a 1.5% margin of the unweighted average of the inflation rates of the three EU member states with the lowest inflation. Furthermore, they committed to keep their government debt-to-GDP ratio lower than 60% and the government budget deficit-to GDP ratio lower than 3%. Despite harmonized macroeconomic performances being one of the preconditions to a successful single currency area (Mundell 1961), the above-listed rules failed to consider the differing degrees to which government spending was connected to economic growth in the member countries (Hall 2014, 2018, Johnston and Regan 2018). As a matter of fact, the convergence criteria were based on the German anti-inflation, export-oriented model of conservative fiscal and monetary consolidation and therefore antithetical to some of the EU member countries' post-war economic history (Fitoussi and Saraceno 2013).

As in the introduction I have interpreted economic Neoliberalism as a doctrine whose clearest formalization is the so-called "Washington Consensus", we can now proceed by addressing the theories which interpret the EMU as a neoliberal policy framework. A clear example is given by the fact that three out of ten policy recommendations contained in the Washington Consensus were in directly embedded in the Maastricht Treaty as it called for fiscal discipline, reorientation of public expenditures and harmonization of exchange rates (Fitoussi and Saraceno 2013). The above-cited Fitoussi and Saraceno argue that "the EU institutional set-up reflects the neoliberal doctrine that prevailed in the early 1990s, which posited government intervention to be useless, if not harmful, to fostering growth". Another author who has identified elements of the neoliberal ideology in the post-Maastricht system of economic governance in Europe is Peter Hall. He states that the new arrangement which came to force after the ratification of the Maastricht Treaty "favored an image of the ideal economy as one built on classically competitive markets operated by highly informed actors whose management would require only the minimal institutions with which the new union was endowed" (Hall 2014). Fitoussi and Saraceno (2013) again address the neoliberal nature of the post-Maastricht framework for economic governance by stating that "the policy prescriptions (contained in the Treaties) are coherent with the objective of minimising obstacles to aggregate supply growth: increasing competition through deregulation and privatisation; (obtaining) price stability; and (imposing) budget balance". Furthermore, post-Keynesian economists Mark Braimbridge, Brian Burkitt and Philip Whyman, claim that "(a) neoliberal drift within the EU was precipitated by the Treaty on European Union (TEU), which institutionalized monetarism through the constitution of the ECB and the provisions of the Stability and Growth Pact (SGP)" (Braimbridge, Burkitt and Whyman 2007).

Post-Keynesian authors Philip Arestist and Malcolm Sawyer (2011) argue that "the EMU project could be seen to be based on two pillars. The first was an essentially neoliberal policy framework. The second was to see the single currency as the final stage of economic integration in removing what could be seen as the final barrier to free trade (different currencies and the associated costs) after the removal of non-tariff barriers under the Single European Act". We can see how these two authors have *de facto* interpreted the provisions contained in the EMU as commensurate to the neoliberal discourse inasmuch as "constitutionalized" limits to public spending and inflation respond to that particular socio-economic vision. This idea is backed by economist Peter Hall, who also recognizes two pillars which constitute the current infrastructure of economic governance in the EU and argues that "one is a commitment to balanced budgets… (and the other) is a commitment to 'structural reform' understood as measures designed to increase the intensity of competition in markets for labour and goods via privatisation or deregulation". Another post-Keynesian author, Engelbert Stockhammer argues that the "EMU is inspired by ordoliberalism, a variant of neoliberalism, which aims at constraining government intervention and has an anti-Keynesian logic". Again, he states that "the EU policy package is a form of

neoliberalism as it is characterized by a strong belief in the efficiency of the market system, a distrust of state activity and an anti-labour bias" (Stockhammer 2016). Stockhammer (2013) points out that "the EMU came with an economic policy package that has downward flexible wages (or 'internal devaluation') as the preferred adjustment mechanism". Not only he argues that such a policy package is inherently deflationary, but he also highlights how it serves as a constraint for national fiscal policies. In short, the EMU has been thought to be "embedded in a highly restrictive macroeconomic policy regime which was pre-Keynesian in its nature" (Bugaric 2013).

2.2 From the EMS to the Euro: between monetary, political and economic constraints

Before the EMU was initiated in 1992 after the completion of the Single Market and the signing of the Maastricht Treaty, the main constraint over domestic economic policy was represented by monetary arrangement that followed the end of the Bretton Woods system: the European Monetary System. The EMS "was a pegged exchange rate arrangement in which central banks promised to convert their liabilities into a foreign currency, the German mark, at a fixed price" (De Grauwe and Ji 2015) that "aimed at sheltering its members from erratic financial markets, but also enabled them to de- and revalue their currencies if necessary" (Höpner and Spielau 2017). The EMS had in the course of its history proven to be economically more advantageous than the single currency (to be intended as the culmination of the monetary policy embedded in the EMU) as de-evaluation favored those countries that needed it more than the relative revaluation damaged the stronger economies (Höpner and Spielau 2017).

Nevertheless, as might be predicted, an arrangement of that kind required an extraordinarily high level of political coordination as well as a period of testing, given the degree of structural diversity of the economies that participated in it. As De Grauwe and Ji (2015) put it down in fact: "The problem of promising to convert national central bank's liabilities into the German mark was that central banks did not have these marks. As a result, when investors had doubts that the central bank may be unable to make this conversion because of a lack of marks, there would be a run on the central bank that in a self-fulfilling way would generate the crisis (i.e. an inability to make the conversion)." The Bundesbank was thus the institution which was meant to solve such a problem by acting as a lender of last resort for the other central banks. Of course, the durability and the credibility of such an arrangement therefore depended of the Bundesbank's willingness to put at risk the value of its currency to support other states' currencies under speculation or other central banks' liquidity crisis (De Grauwe and Ji 2015). The imbalances present within the EEC and the EU's economy could therefore have potentially jeopardized the strength of such an arrangement. An actual manifestation of these doubts did not take much to materialize and in

1992 the Italian central bank was forced to leave the agreement when the Lira fell under a historical speculation attack and the Bundesbank gave up its commitment to lend German Marks to the Banca d'Italia.

It has been demonstrated that the inherently diverse nature of the several economies which make up the EU would make it more beneficial for member states to join a monetary framework that entails a certain degree of flexibility (see Flassbeck and Lapavitsas 2015). Nevertheless, the political costs that such an arrangement would require were considered to outweigh the benefit of a stable degree of economic and political cooperation in the region (Höpner and Spielau 2017). Thus considering that "a volatile exchange rate regime threatened the political process on which the EC depended" (James 2012), the EMS was doomed to be replaced by a stricter yet politically more affordable monetary arrangement, whose economic credibility was designed to rely on further macroeconomic convergence within the Union. The Economic and Monetary Union that came to completion in 2002, when the Euro was implemented, was designed to ideally provide the EU with both a strict monetary arrangement (being the Euro a de facto fixed exchange rate system) and the overall macroeconomic premises necessary to make it work. To do so, the the designers of the new monetary arranged took inspiration from the German *Bundesbank* and constitutionalized its governance principles in the European Central Bank (Ban 2016, Blyth 2013, Bulmer and Joseph 2016, De Grauwe and Ji 2015).

For these reasons, the new economic and monetary arrangement that was born after the debut of the single currency can be interpreted in two ways: (i) as a manifestation of the neoliberal assumptions according to which the political use of money to provide stimulus to the economy is in the long run detrimental for the economy itself (Hermann 2007) and (ii) as an attempt to decrease the chances that intra-Union tensions could arise (Höpner and Spielau 2017). The former point can be better explained by referring to the works of Christoph Hermann (2007) and Harold James (2012) who respectively refer to the EMU as "the most obvious manifestation of neoliberal restructuring at the European level" and as "a logical extension of the Single European Act of 1986 and the establishment of a unified market area in which capital could freely flow". As far as Hermann's position is concerned, he justifies it by stressing that "while the SEA guarantees "free" trade and capital mobility within Europe, the EMU fortifies the principles of monetary restraint and budgetary austerity by forcing EMU member states into a fiscal straightjacket" and that "the budgetary constraints imposed by the convergence criteria also compel member states to introduce far-reaching reforms in labour and social policies as their ability to confront unemployment and social exclusion is severely constrained by budgetary limitations" (Hermann 2007). Again, the neoliberal character of this project is further emphasized by James (2012), according to whom "the European Central Bank was designed as a non-state actor whose primary purpose was to issue money—the kind of institution that had basically only been imagined before the 1990s by anti-statist liberal economist and philosopher Friedrich Hayek and some of his wilder

disciples". Finally, the neoliberal character of the new monetary arrangement has been further highlighted by economist Thomas Palley, who states the following:

> "*The euro was introduced in 1999 which marked the high water mark of neoliberal economics. The neoliberal political project aimed to diminish the role of the state and enhance the power of the market. This goal is reflected in neoliberal monetary theory that guided the design of the euro. The theory argues the role of the central bank is to control inflation and the exchange rate, but there should be complete separation between the central bank and government finances. By adopting this theory, the euro's architects intentionally changed the monetary-fiscal balance. Previous national monetary systems ensured 'fiscal dominance' whereby central banks served governments. The new euro system instituted 'central bank dominance' whereby governments were stripped of access to their own central bank that could help them finance budget deficits and manage interest rates on government debt*" (Palley 2013).

However, the real need to reduce the cost of political negotiations was clear (Höpner and Spielau 2017). Furthermore, to quote James (2012) again, "the idea of stability was profoundly appealing because of European experiences of past disorder as monetary instability decisively helped to threaten or even to blow apart fragile political systems". Such a vision can help us better understand the degree to which supporters of both Neoliberalism and European political integration joined forces to pave the way for a supranational economic policy that mostly features negative integration. The way in which monetary integration has mostly been "negative" was also partially a product of the intergovernmental character of the EU. As a matter of fact, more "positive" features which were meant to be embedded in the Economic and Monetary Union were eventually abandoned because of national sovereignty-related concerns on the part of member states' ruling elites (James 2012, Jones, Kelemen and Meunier 2016).

The above-cited authors, alongside those coming from different research environments, have nonetheless argued the Single Currency has indeed been shaped around the neoliberal/ordoliberal ideas praising for price stability and nominal wage flexibility. As such, and as we will better see in the next chapter, a single currency under the guidance of a "Europeanized" Bundesbank[8] with no possibility to conduct bail-outs has been argued to lack the degree of flexibility (and politicization) which Europe needs as a consequence of the diverse political economies that compose it (De Grauwe and Ji 2015, Eichengreen 2012, Hall 2014, 2018,

[8] Scholars Bulmer and Joseph (2016) state that the ECB "institutionalized the Bundesbank model of price stability and central banking".

Johnston and Regan 2016). Again, as it will be more precisely argued in the following chapter, this systemic lack of flexibility has come to the expense of the South European political economies, whose economic institutions were meant to suffer from austerity and lose ground in relation to their Northern partners. However, while, the reasons why the above-discussed neoliberalization of the European economy has been politically and economically problematic will be better and further discussed in the following chapter (where Keynesian and VoC theories on the matter will be presented), I will now present arguments for the self-reinforcing character of neoliberal and ordoliberal practices under the EMU regime.

2.3 The EMU and its effects on economic policy-making: "Constitutionalized" Neoliberalism?

If on one hand the above-cited authors[9] have highlighted how the European and Economic Union was designed around neoliberal principles, on the other hand it has also been argued that discretionary (i.e. not necessarily neoliberal) policy-making can still be carried out in the EU (Bulmer and Joseph 2016, Strange 2012). As a matter of fact, the same diversity have been said to characterize the EU legislation that aims to harmonize the Single Market (and the actual policy-making on the matter at the EU level), has been argued to be verifiable when it comes to macroeconomic governance as well. Political economist Gerard Strange for instance notes that the instrument which is advocated by critical[10] scholars to impose neoliberal fiscal and budgetary practices on the EU member states, the SGP, is itself a demonstration of the fact that constant negotiation is indeed a consolidated practice within the EU. He in fact argues that while the SGP has been criticized by stating that it locks economic Neoliberalism in a constitutional form (Cafruny and Ryner 2003, Gill 1998), it has to be noticed that such arrangement has been subjected to re-negotiation since its early conception (1997). Furthermore he highlights the fact that such re-negotiations have always been carried out by making reference to the concerns of states (and their political elites) about the one-fits-all nature of the Pact. More specifically it has been observed how the Pact (at least as it stood until the Signing of the European Fiscal Compact) was the product of a compromise between the German rule-based model for economic governance and the French one, which "emphasizes the efficacy of politicized governmental control over monetary and fiscal policy" (Strange 2012).

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[9] Alongside more critical ones coming from constructivist and neo-Gramscian environments (see Cafruny and Ryner 2003, Gill 1998, van Apeldoorn 2002).

[10] Here not to be considered as belonging to Critical Political Economy.

Other authors which have raised doubts about the neoliberal nature of the post-Maastricht European economic integration process (and more specifically about the EMU) are for instance European integration scholars Simon Bulmer and Jonathan Joseph. Indeed, they stress how considering post-Maastricht Europe as a product of the German-led ordoliberal bias would be an overly simplistic position (Bulmer and Joseph 2016) and note the following:

> "*First, it needs to be recalled that the ECB can take considerable credit for facilitating the rescue of the system: through President Mario Draghi's 2012 'whatever it takes' intervention that stilled the markets and the ECB's 2015 policy of quantitative easing. Both these measures incurred the wrath of the president of the German Bundesbank, Jens Weidmann, who regarded them as a betrayal of the (German) rules institutionalized in the ECB Statute (Die Welt, 2015). Second, Germany was a 'reluctant hegemon' (Paterson, 2011). The Berlin government had to be attentive to public opinion, which was whipped up by the tabloid press's characterization of feckless Southern Europeans receiving support from German taxpayers. It had to take account of party politics since in six of nine roll-call votes in the Bundestag between September 2010 and November 2011, the centre-right coalition was unable to secure a majority for approving key Eurozone decisions without support from opposition Social Democrats and Greens… domestic politics mattered!*" (Bulmer and Joseph 2016)

As we can see, this analysis stresses how the (arguably) most neoliberal institution of the EU - the ECB - has been firsthand involved in the execution of counter-cyclical "Keynesian" monetary policies. Moreover, according to the two authors, the austerity-based policy prescriptions and solutions proposed at the EU level had to respond to pressures which have produced policy outcomes that do not reflect the diverse nature of the EU socio-economic legislation[11].

Nevertheless it can be easily observed how such outcomes not only have been real, but they were also in line with the original neoliberal bias which has been argue to have inspired the birth of the EMU and the SGP (Kapua 2018). Again, Clemens Kapua argues that also because of this, the "ambiguously" neoliberal nature of the EMU might be more obvious when it comes to the practical application of the EMU (and SGP) dispositions. We can again recall directly to his work, when he argues that:

> "*The independence of the ECB, the definition of price stability as its primary*

[11] See Bulmer and Joseph 2016 and Kapua 2018.

> *objective, and the prohibition of central bank financing of public expenditure severely limited the Member States' ability to alleviate the effects of the budget rules by means of monetary policy. The freedom of capital mobility, also implemented by the Treaty of Maastricht, facilitated capital flight and regulatory arbitrage. This exerted pressure on the Member States to reduce corporate and capital taxation, which in turn required the enactment of austerity measures. Monetary union and the SGP were enacted during a period characterized by the rising dominance of neoliberal thinking in Europe, and the effects just described certainly conform to key neoliberal policy objectives. This raises the question whether the SGP, independently or in conjunction with the other Treaty provisions, must be assumed to prescribe a neoliberal, austerity-oriented paradigm in the form of an unambiguous obligation, or whether alternative socioeconomic strategies remain legally possible.*" (Kapua 2018).

In this extract it can be seen how Kapua, differently from Strange and Bulmer and Joseph, adds two new variables to the equation and participate to raise doubts about the effectiveness of the above-argued diversity. The first one is the EU elites' socio-economic assumptions, while the second one is that related to the structural obligations which member states face, especially in the absence of country-specific monetary institutions (in fact, like political economist Martin and Ross (1999) state: "as exchange rates can no longer be adjusted, cuts in wages and working conditions are the only way for countries with lower productivity levels to remain competitive"). These two concerns are shared by Keynesian economist Francesco Saraceno, who argues the following:

> "*The New Consensus*[12] *had a significant impact on European institutions, and on the policies followed especially in the single currency areas. The Consensus is enshrined in European institutions since the Maastricht Treaty. Discretionary policies are limited at a bare minimum, while rules and government by the technocrats are preferred to remove the obstacles towards the Pareto optimal equilibrium of the economy. EU institutions and practices yielded inertial macroeconomic policies in Europe, even before the crisis hit in 2007.*" (Saraceno, 2016).

Here, Saraceno puts his emphasis on how the European rules on the matter, despite their application being subjected to the discretion of the Commission and the Council (Kapua 2018),

[12] Saraceno, together with Jean-Paul Fitoussi (2013), have labeled the above-mentioned neoliberal bias that led to the birth of the EU post-Maastricht institutional set-up as "the Berlin-Washington Consensus".

allow for little variance from the model which they are based on (i.e. the neoliberal/ordoliberal one). Furthermore, we can observe how rules aside, the afore-mentioned lack of flexibility is thought to be further enhanced by the Union's "institutions and practices", which as we will better see in the next chapter, are argued to produce the conditions for their own usefulness (Blyth 2013, Matthijs 2016a, 2016b, Thatcher and Schmidt 2013).

As a matter of fact, not only the post-Maastricht institutional set-up of the EU under the EMU regime has been argued to foster political inequalities within the Union (Feldstein 1997), but it has also been posited to structurally reinforce such pattern by creating further economic divergence (in terms of performances and especially in case of crisis) (Matthijs 2016a, 2016b, Johnston and Regan 2018). As fas as this particular issue is concerned, the above-cited VoC economists Johnston and Regan state that:

> "*The integration of unequals in the EU not only has the potential to undermine electoral support for the EU in countries whose growth models are reliant on domestic demand, but it also has the potential to intensify political conflict within the EU's institutions. The EU's policy response to the European debt crisis, which has pitted northern Europe's export-led economies (creditors) against the domestic demand-led economies in the south (debtors), provides a clear example of increased politicised (and moralising) conflict within the Council (Matthijs 2016)… This asymmetric power dynamic will likely further reinforce the EU's export-led growth model bias, as Germany has taken a leading role in shaping the EU's post- crisis governance regime in a manner that prioritises trade surpluses.*" (Johnston and Regan 2018).

As in can be noticed, the two authors, just like Saraceno, are more concerned about the effects of "disciplinary Neoliberalism" (Gill 1998) on inter-state power-relations and the way it produces a strengthening of the ideas underlying the EMU and the SGP rather than focus on the alleged flexibility legally allowed by the Treaties. Such self-reinforcing character of the neoliberal/ordoliberal bias at the base of the EMU has therefore been argued to be actually conducive to a more comprehensive neoliberalization of the European political economy, as flexibility and discretion are severely limited.

2.4 Conclusion

In this chapter we have observed how and to what extent the Economic and Monetary Union presents elements of economic Neoliberalism. At the same time we have also seen how this "neoliberalization" of the European political economy has also been possible because of the

political and economic necessity to eliminate currency-related political barriers to economic and political coordination in the region (Höpner and Spielau 2017). We have also seen how Neoliberalism in the EU (under the form of the EMU) has been meant to mainly come at the expense of those countries with more demand-led growth models and has participated in exacerbating the macroeconomic and political differentials between the Mediterranean area and central and northern Europe (Hall 2014, 2018, Johnston and Regan 2018). Furthermore, it has been observed how this process has been argued to have directly and indirectly deprived European policy-makers from pursuing paths alternative to the above-discussed ordoliberal application of neoliberal principles.

In the following chapter I will further discuss these arguments by exploring the Keynesian (mainly post-Keynesian) and the VoC theories about the political and economic shortcomings of the current neoliberal framework for economic governance in the region. Moreover, we will see how (in practical terms) such framework has been argued to systemically induce convergence towards the German export-led ordoliberal model of macroeconomic governance and produce neoliberal practices.

Chapter 3

3.1 The shortcomings of European Neoliberalism

As we have already seen, one school of economists which has been outspoken about the supposed neoliberal slant of EU economic policy can loosely be termed “Keynesian”. According to the authors whose assessment of the current EU economic policy framework I described in the first chapter, economic governance in Europe can partially be defined as “neoliberal”. As we have seen, the current EMU institutions have been argued to embed elements of economic Neoliberalism. Member states’ economic policy under the EMU is in fact limited by fiscal and budgetary consolidation rules (about budgetary consolidation in Europe, see for instance Streeck 2016) as well as by the membership of its most important members to the Euro (Palley 2013). Both the former and the latter are commensurate to a neoliberal vision of the economy which favors price stability and internal devaluation as a means to achieve growth and recover from crisis (Stockhammer 2016, Palley 2013).

As already anticipated earlier in this thesis, the main reason why the above-summarized neoliberal setting has so far led to economic and political upheavals throughout the Union has been meant to lie behind the dual nature of the Union’s economy (Hall 2014, Streeck 2016). If in fact on one hand some countries’ growth strategies before the EMU had always been export-driven, others had followed more demand-led growth models (Hall 2014, 2018). Hall argues in fact that “the roots of the crisis (in Europe) are linked to institutional asymmetries between political economies. Northern European economies equipped to operate export-led growth models suitable for success within a monetary union are joined to southern economies whose demand-led growth models were difficult to operate successfully without the capacity to devalue” (Hall 2014). In this sense, neoliberal EMU, instead of leading to an economically and politically sustainable convergence, has thus far favored the rise of inequalities among member states by widening the economic and financial gap among European regions (Stockhammer 2016).

Furthermore, the EMU is thought by post-Keynesian authors to have a demand-shrinking effect that generates “asymmetries in the formation of aggregate demand across the European political economy” (Bieler, Jordan and Morton 2019). Again, according to Stockhammer (2016) “Neoliberalism has led to a polarisation of income distribution expressed in rising profits and top incomes, but remarkably, this has nowhere translated into a business investment boom”. Moreover, being the Euro area a wage-led demand regime (Stockhammer 2016), Stockhammer notes the following:

> “*Individual European countries, in particular ones with small open economies may be profit-led, because of the net export component of aggregate demand, but as European countries mostly trade among each other, these effects to a large extent cancel out at the European*

> *level. Growth has not been the result of a profit-led growth regime… southern European countries developed a debt-driven growth model, which was driven by increasing household debt, strong consumption demand*" (Stockhammer 2016).

According to this view, the EMU framework for economic governance is therefore economically incompatible with the demand-led nature of the European economy as a whole. Fitoussi and Saraceno (2013) argue that under the current EMU framework, "domestic demand is not believed to be able to provide Europe with sustainable economic growth, as the Treaties "only focuses on the sustainability of public finances". When dealing with the different growth rate performances between the EU and the US in the last 25 years, they in fact argue that the reason thereof can be found in the "government by the rules" nature of the EMU. Such a framework is said by them to "lead to the substantial neglect of growth as a policy objective" (Fitoussi and Saraceno 2013).

Furthermore, Fitoussi and Saraceno' critique focusses on some "paradoxes" that "characterise the Consensus" (here meant as the economic ideology embedded in the EMU framework[13]). About this, they in fact argue that:

> *"(The EMU) policy prescriptions are, in one sense, more interventionist than the traditional Keynesian stabilisation policies, because they require a deep modification of the economic and social structures through structural reforms, i.e. a modification of the social contract itself. So, on the one hand, Consensus economists ask the government to conduce hands-off policies and, on the other, they pretend that it can reach into relationships and customs that are rooted in society (the result of long-term complex evolutions) and substitute them with the free-market paradigm."* (Fitoussi and Saraceno 2013).

Again, the two above-mentioned authors concentrate their efforts in analyzing the flawed nature of the Stability and Growth Pact from both an economic and a political perspective. As their analysis came in the aftermath of the Great Recession, they focussed their attentions on EU countries' ability to face and survive crisis under such an arrangement and argued that:

> *"The SGP was designed assuming that governments would accumulate surpluses in good times, thus allowing the operation of automatic stabilisers in bad times.This ideal scenario, however, ignored the fact that such balance would be attained only after a long transition, which for many countries was not completed at the outset of the crisis… As of today, most eurozone countries do not even have room for automatic stabilisers to work. The situation*

[13] See sub-chapter 2.3 of the present thesis.

> *is socially unsustainable and results in creative accounting, increasing pressure to soften or simply ignore the rules and pressure on the ECB for a more expansionary monetary stance. All this looks far more threatening for the credibility of the European institutional system than giving member countries the possibility to conduct discretionary policies."* (Fitoussi and Saraceno 2013).

About the European economy's exposure to crisis, Stockhammer (2013) argues that "in Europe the crisis has been amplified by an economic policy architecture (the Stability and Growth Pact) that aimed at restricting the role of fiscal policy and insulating monetary policy and central banks from national governments" Therefore, he notice that "the crisis has led to a sharp economic divergence between core and peripheral countries. The result is a policy regime that has fatally weakened nation states as regards their fiscal and monetary capacities without creating a European state".

As far as this last point is concerned, Fitoussi and Saraceno (2013) emphasize how the lack of a sort if "federalization" of the European Union has been detrimental to its economic and political stability and state that "the attempt to impose coordination through rules, believing that discretion would lead to an even greater instability, did more harm than good". In fact, they argue that austerity policies undertaken to "abide by the rules" are pro-cyclical to private sector's tendency to act seemingly in order to face the balance-sheet recession. Such a pattern therefore reinforces the deflation-generating effect of crisis and leads to a politically and economically unsustainable situation (Fitoussi and Saraceno 2013). To summarize, we can recall to the words of political economists Eckhard Hein and Achin Truger (2002), according to whom "EMU macroeconomic policy institutions have restrictive effects (as) overly restrictive monetary policies by the ECB, pro-cyclical fiscal policies and falling wage shares implied by present wage bargaining and labour market institutions can be considered as serious impediments to growth and convergence in the euro area".

Again here we can see how the main problem behind the EMU framework for economic governance has been interpreted to lie behind its inability to be resilient to crisis and generate a sustainable and well distributed economic growth. However, another element which is recurrent in the above-quoted Keynesian analysis on the matter is the divergence-generating effect of the EMU. Another author that has highlighted this characteristic of the Economic and Monetary Union is Jörg Bibow who argues that "the Maastricht regime fosters divergence as well as fragility". He indeed states that "fragility arises because no one is keeping the domestic demand store - unless the ECB chooses to do so" and divergence "is bound to even worsen with and reinforce aggregate fragility, especially in case of ill-guided reliance on the competitiveness channel as a substitute for appropriately designed policies addressing, as the case may be, common shocks and/or asymmetric shocks and divergences". In Bibow's view, the EMU regime embeds destabilizing

features which “undermine the operation of the currency union by making it less ‘optimal’, that is, less subject to a ‘one-size-fits-all’ monetary policy” (Bibow 2006).

The non-optimality of the single currency under such an inflexible framework for economic governance has thus been thought to be a driver for political instability as well as to be economically disadvantageous for South European countries. More specifically, Europe’s growth strategy entailing fiscal discipline and structural adjustments under the single currency regime has been argued to be unlikely to generate prosperity (Hall 2014). In fact, Hall (2014) argues that “Southern European rates of unemployment are likely to improve in the near term only if austerity is relaxed in favor of some reflation… (as) some countries’ deficits are barely declining as a share of GDP, despite budget cuts, because those cuts are depressing GDP so much. Similarly, while structural reform might improve the efficiency of economies in the long run, it is unlikely to promote economic growth in southern Europe in the short to medium term”. And again: “The appearance of sharp differences in the price and availability of funds across the member states has turned the clock back on European financial integration… as northern Europe begins to recover while southern Europe stagnates under the weight of heavy austerity programmes” (Hall 2014). About this inequality and asymmetry-generating effect of the EMU institutions (especially the Stability and Growth Pact), we can cite the work of Stockhammer (2016), who argues the following:

> *“The EU policy system creates a deflationary bias. In the case of imbalances within the EU, with some countries running trade deficits and others running trade surpluses, the burden of adjustment effectively falls on the country with trade deficits. This creates a deflationary bias. The adjustment of the surplus countries is inflationary and growth-oriented, whereas the adjustment of the deficit countries is deflationary. They have to dampen demand (to decrease imports) and lower their prices and wages (to restore competitiveness). The exclusive reliance on wages as the adjusting variable creates a downward pressure on wages and result in prolonged unemployment without solving the EU’s problems.”*

According to this model, the current European framework for economic governance is interpreted as a likely generator of further economic disequilibrium and as an obstacle to falling unemployment. As a matter of fact, the labour market flexibility which the above-mentioned process gives rise to “is likely to make things worse, as wage cuts leads to shrinking consumption demand and to deflation” (Stockhammer 2016). As we can see, this analysis suggests that the cause of rising internal inequalities within the EU market and the lack of a sustainable economic growth throughout the entire Union is to be found in the EU market’s failure in generating enough aggregate demand.

Anyway, not only the above-mentioned Keynesian and VoC authors have delivered a critique of the consequences of the EMU on the European political economy. Fitoussi and

Saraceno have in fact also criticized the theoretical foundations behind the Stability and Growth Pact, arguing that:

> *"The main theoretical foundation of the SGP is an externality argument: a government running a budget deficit must borrow; in a monetary union this raises the common interest rate, which may affect other countries negatively. But the argument could actually be reversed. On the one hand, if the fiscal expansion were unjustified, the resulting inflationary pressure would reduce competitiveness. On the other hand, if the deficit responded to a slump, it would sustain demand and hence imports. In both cases, demand for the other countries' goods would increase and their deficits would be reduced thanks to increased fiscal revenues. The externality argument is also unstable if the financial market is capable of evaluating the sustainability of the fiscal stance of different countries. In that case it will increase the risk premium paid by countries that are following 'bad policies' and reduce it for the other countries, which will, in this way, benefit from the behavior of 'bad' countries."* (Fitoussi and Saraceno 2013).

Fitoussi and Saraceno are hereby highly critical about the SGP. Not only they prove it "unstable" from an economic standpoint but they also highlight the political sustainability of an alternative model that allows for more deficit spending. As far as the political aspect of the European economic governance is concerned, it is important to highlight these two authors' consideration on the matter. They in fact emphasize the need for having discretionary macroeconomic policies allowed in the region, especially in the light of the fact that the European society tends to attribute more importance to "the insurance role of the government through the welfare state" (Fitoussi and Saraceno 2013). According to this narrative, this systemic lack of flexibility has caused further economic powerlessness which in turn has led to social and political upheavals, as it prevents compliance with the social contract in certain countries (Streeck 2016).

So why regulatory Neoliberalism has not been challenged as a consequence of the crisis (despite the alleged policy flexibility which has been argued to be possible within this legal framework[14])? VoC authors interpret such resilience as the product of neoliberal Europe's own fallacies: the more certain countries (namely the most indebted ones) struggle to improve their economic performances, the more their political capital decreases and the fewer instruments they will be allowed (and be able) to use to do so (see for instance Matthijs 2016b). As a matter of fact, the point where the VoC analysis give an important contribution to the discussion about Neoliberalism resides in what it attributes the consolidation of a neoliberal Europe to. Certain

[14] See the first chapter of the present thesis.

authors have in fact seen it as the product of the EU intergovernmental nature and the economic power relation among its members as a consequence of the EMU (see Matthijs 2016 and Johnston and Regan 2018[15]). The above-discussed exacerbation of the economic imbalances of the EU caused by the EMU framework for economic governance is argued to have led to the strengthening of some countries and the weakening of others, therefore affecting the latter's negotiation power when it comes to designing and reforming the Union's institutional setting (Feldstein 1997, Matthijs 2016a, 2016b, Johnston and Regan 2018). As VoC scholars Johnston and Regan note in fact:

> "*Thus far, the policy response to the eurozone crisis has exacerbated the (unequal) asymmetry of integration, as it is almost exclusively focused on adjustment in those peripheral member states that came under pressure from sovereign bond markets. The eurogroup and the Troika, which is heavily influenced by the crisis-management preferences of EMU's northern member states, is indirectly managing income divergences via the uniform reduction of wages and public services in peripheral member states. This push toward 'convergence' is taking place under the banner of 'structural reform' but ignores the type of reforms, capacity building, investment and domestic institutions that have enabled northern European countries to develop their export-led growth and undercut their southern trading partners with beggar-thy-neighbour wage policies. The one-sided adjustment has produced significant deflationary effects for southern European countries and their domestic demand-led growth models, creating long-term social and employment consequences with unforeseen political repercussions.*" (Johnston and Regan 2018).

As we can see, according to Johnston and Regan, the European political economy under the EMU regime (as it has been reinforced as a consequence of the crisis) inherently favors those countries with export-led developmental strategies and institutions (as for example a coordinated wage-bargaining system). Furthermore, not only does the current regime create a deflationary spiral for those countries facing structural adjustments, but it also systematically benefits "a particular constellation of domestic capitalist institutions that advantages member-states who possess them over those that do not" (Johnston and Regan 2018).

Again on this, we can recall to the work of the above-cited scholar Matthias Matthijs, who

[15] According to Stockhammer, the EMU itself was a product of Germany's ability to impose its Neo-mercantilist agenda at the EU level. While on one hand this argument is hereby considered to be incorrect, on the other hand the economic inequalities generated by the EMU are hereby considered to have increased political disparities within the Union (about this point see Feldstein 1997, Johnston and Regan 2018).

points out that the ordoliberal bias at the base of the current EU economic institutions can be interpreted as self-reinforcing, as it produced the condition under which it becomes imperative. As far as this process is concerned, Matthijs argues that:

> "*The self-fulfilling aspect of ordoliberalism was manifested by Germany's insistence on austerity and reform as solutions to the crisis. This made the crisis worse in the short-term, by increasing the ratio of debt-to-gross domestic product in the periphery, which made it seem like it actually was high sovereign debt that caused the crisis all along… Austerity increase(s) states' debt-to-GDP ratios, which then in turn justify further austerity measures to tackle what has now in reality become a crisis of 'sovereign debt' (see also Blyth 2013). The self-denying aspect comes from the fact that the crisis would only start to go away once a narrow conception of ordoliberal ideas was gradually abandoned in favor of more flexibility.*" (Matthijs 2016a).

As it can be observed, European neoliberalism (again, under the form of ordoliberal macroeconomic governance) has generated a scenario in which alternatives to budgetary consolidation and deflationary structural adjustments have become almost impossible to apply. The austerity-inspired structural adjustment campaigns carried out by the most indebted countries have not succeeded in decreasing these countries's systemic financial exposure and have forced them into a path a continuos fiscal consolidation (Streeck 2016). Such consolidation, has then been paired with welfare and labor reforms aiming at re-establishing competitiveness by downsizing social national expenditures and making the labor market more flexible (Perez and Matsaganis 2018, Streeck 2016).

As we have seen so far, neoliberal monetary and fiscal governance established a systemic refusal of Keynesianism through its pro-cyclical institutions (although Keynesian counter-cyclical spending having been widely applied in the immediate aftermath of the crisis, Ban 2011) (Hein and Truger 2002). In addition to that, the EMU regime has also led to a retrenchment of the welfare state and the social institutions attached to it by forcing the weaker countries into a deflationary spiral (Stockhammer 2016, Streeck 2016). In the following sub-chapter, I am going to focus my attentions on the economic institutions which have been argued (mainly by VoC scholars) to be the drivers of the incompatibility between the political economies of Southern Europe and those of the North.

3.2 The Euro, the crisis and the differences between European political economies

What we have mainly observed so far in this thesis is how scholars from different backgrounds or representing different schools of economic thought have so far interpreted the Economic and Monetary Union to be ill-conceived because of its "one-size-fits-all" nature (Bibow 2006). As a matter of fact, it has been argued that the such a framework has (i) separated the fiscal and the monetary domains, therefore preventing member states to pursue counter-cyclical stabilization policies (Palley 2013) and (ii) constitutionalized austerity at the EU level (Ban 2016, De Grauwe and Ji 2015). Therefore, it can be seen how the Single Currency and its related institution, the ECB, has been criticized as one of the main drivers of economic neoliberalism in the continent. Nevertheless, not only has the one-sidedness of its governance (at least until Mario Draghi's *Quantitative Easing* initiative) has been argued to be a political problem, scholars have in fact also emphasized how it hinders economic convergence between the political economies of the South and those of the North. Because of that, the Euro has been argued to have fostered divergence instead of leading to the macroeconomic convergence which its designers aspired to. As we will see in this sub-chapter, the EMU regime has in fact favored the flow of cheap credit from the North to the South of Europe in the pre-crisis years (Hall 2014, 2018, Johnston and Regan 2016, 2018, Streeck 2016), and forced fiscal consolidation on the indebted countries once the system had a breakdown. This is argued to have been the product of the neoliberal growth models which accompanied and favored the process (Fuller 2018, Stockhammer 2016, Streeck 2016), the lack of coordination between the ECB and the national governments (i.e. the systemic separation of the fiscal and monetary domains) (De Grauwe and Ji 2015, Palley 2013) and the incompatibility between the existing political economies of the continent under such an arrangement (Hall, 2014, 2018, Johnston and Regan 2016, 2018). Furthermore, the joint effect of the above-mentioned phenomena - as already argued above - have constrained some states to de-evaluate their economies through a flexibilization of the labour markets and through budget cuts which have both reduced infrastructural investments and re-sized welfare states (Streeck 2016).

The first aspect which has been interpreted as an instability-producing feature of the economic and monetary integration process under the EMU regime is the lack of a supranational fiscal fiscal agent which would (i) take care of increasing the level of overall aggregate demand in case of shocks (Stockhammer 2016) and (ii) work as a substitute for nominal exchange rates adjustments (De Grauwe and Ji 2015). Stockhammer (2016) has for instance argued that the crisis which hit Europe and the Euro after 2008 has been the product of both financialization and neo-mercantilist wage-suppression in the Center-North (which made aggregate demand shrink). Nevertheless, he argues that these features alone do not justify the economic depression that followed the crisis. As a matter of fact he claims that "only in the context of the separation of monetary and fiscal spaces of EMU did the recession lead to a sovereign debt crisis and only with austerity policies imposed on countries in crisis did recession turn into depression" (Stockhammer 2016). The same is argued by economist Gregory Fuller (2018) who state that "at the root of the

crisis is a buildup of debt, fuelled by debt-driven and export-driven variants of neoliberal grown models (which) were enabled by the neoliberal design of Euro area economic policy framework, which encouraged financial deregulation and cross-country capital flows while eliminating the possibility of nominal exchange rate adjustments (Fuller 2018). De Grauwe (2011), De Grauwe and Ji (2015) and Krugman (1993) instead argue that a single currency in a non-optimal currency area (like the EU) necessitate a supranational fiscal entity which prevents asymmetrical shocks from creating a deflationary wave and produces stabilization. In the case of the Euro, the European Central Bank and the EU, these "working requirements" are not met, therefore enabling financial and economic instability in the region, as it happened during the years of the Sovereign Debt Crisis. About this, we can again recall directly to Hein and Truger (2002), who assert that "the lack of relevant fiscal federalism does not allow to tackle regional and structural asymmetries" and that "faced with a general recession, the decentralised system of fiscal authorities who are committed to avoid deficits will encourage free-riding on stabilisation provided by other countries in the EMU". This "prisoner's dilemma" he says, "makes public expenditures tend to be pro-cyclical", thus disallowing for a rapid recover and generating discrepancies in terms of economic performances.

Of course - and as we have already seen- under a monetary union which does not present such features, divergence does not only become systemic, but it is also self-reinforcing. Again on this though, it is useful to see how aforementioned scholars Johnston and Regan have explained how the European economy in particular has been negatively impacted by the Single Currency. As a after of fact, they argue that:

> "*The creation of the EMU eliminated both adjustment mechanisms in the soft-peg and hard-peg arrangements. Under a common currency, the nominal exchange rate disappeared, eliminating its role as an adjustment mechanism for taming diverging inflation performances in the real exchange rate. Monetary union's new real exchange rate identity, which became solely a function of relative inflation, provided export-led countries in northern Europe with a persistent competitive advantage in the real exchange rate given their persistent low inflation performances. Furthermore, while countries in hard and unaccommodating currency regimes lacked the nominal exchange rate as an adjustment mechanism, the institutional feature that facilitated the convergence of inflation and real exchange rates between different European varieties of capitalism - national central banks - also disappeared.*" (Johnston and Regan 2016).

As it can be observed - under these specific institutional set-up - the Monetary Union is interpreted as the "elephant in the room" of the European economic integration process. The above-quoted citation in fact, gives us an example of how such a framework has been argued to be inconsistent

with the idea of producing convergence in terms of experienced economic growth.

As stated in the introduction to this paragraph, the Single Currency has also been argued to have favored the accumulation of debt which in Europe turned the economic and financial crisis into a sovereign debt crisis. Peter Hall (2014) for instance notes how those countries equipped to follow an export-led growth model have first taken advantage of their continental partner's inability to devaluate to increase competitiveness and then profited from lending their increased surplus-generated money to the South (Hall 2014). In this way, South European countries have first seen their products lose market shares to those of their northern partners and then received a massive financial compensation under the form of cheap credit (Hall 2014). As far as the consequences of such a process are concerned Hall state the following:

> "*The effects were predictable, if largely unpredicted. With expansion came inflation, which took prices and relative unit labour costs in the south to new heights. Unable to devalue in order to offset the effect of such developments, those countries saw their current-account balances deteriorate as their products became less competitive on world markets, just as competition from the emerging economies of Asia and Eastern Europe intensified.*" (Hall 2014).

Once the above-explained vicious-cycle ended up in South European countries not being able to collect enough resources to repay their debts, deflationary structural adjustments and budgetary consolidation - in the systemic absence of alternatives - became the only option.

The above-discussed features which have characterized the post-Maastricht economic policy-making in the continent have transformed the relationship between democratic pressures and political responses (Streeck 2016). Economic sociologist Wolfgang Streeck (2016) argues that the EMU has formalized the birth of the "European Consolidation State" which is described as "the contemporary response to the 'fiscal crisis of the state' involving "a deep rebuilding of the political institutions of post-war democratic capitalism". As such, the European Consolidation State and the EMU are interpreted as responsible for imposing "a market-conforming fiscal policy, a policy of austerity and the primacy of debt service over public services" on the electorates (Streeck 2016). Moreover, Streeck focusses his analysis on the systemic feature which make the Consolidation State particularly strong in the context of the European Union and emphasizes the role of the monetary union and the ECB by arguing the following:

> "*More than in any nation state, the EMU's central bank, the ECB, can act as an external force in relation to democratic governments. Administering the monetary policy of eighteen nation states, it is sufficiently far away from the domestic politics of each of them to make*

> *monetary policy support for national governments conditional on their cooperation with respect to fiscal policy and institutional reform.*" (Streeck 2016).

Furthermore, he adds that:

> *"The international relations embedded in the EMU consolidation state are highly asymmetrical. Economically weak countries, while in the majority, face a small number of economically strong countries in a position effectively to dictate to them, by threatening to withhold financial support. Germany, on account of its regained economic power after 2008 and as the main beneficiary of EMU due to its export strength and to currently low European interest rates, de facto governs the EMU as a German economic empire. In the form of the euro, it imposes a hard currency of the kind Germany has become used to since the war on the rest of Europe, including on countries like France and Italy that have long relied on a soft currency as a means of managing domestic distributional conflict while intermittently relying on devaluation to restore temporarily their international competitiveness. There is no provision in the treaties for turning the EMU into an arrangement for international redistribution, also known as a 'transfer union'.*" (Streeck 2016).

Again, the adoption of the ordoliberal German model at the European level has been meant as both economically inefficient and politically problematic. Like other scholars which have been so far cited and mentioned, Streeck highlights how the above-presented framework "result(s) in a deep restructuring of national political economies, especially in the Mediterranean countries" and how "such reforms would in particular undo the historical class compromise in countries like Italy and France which accepted high rates of inflation and high public spending, including frequent public deficits, as a price for social peace" (Streeck 2016).

3.3 Conclusion

In this chapter we have seen how European Neoliberalism has been argued to provide both political and economic instability to the European Union as well as to make the adoption of a single currency less favorable. As a matter of fact, we have observed how the current EMU framework which in the first chapter has been argued to entail elements of economic Neoliberalism has failed to generate adequate levels of economic growth (compered to competitors) and to homogeneously distribute through regions that that it acquired. It has therefore been argued that instead of leading to convergence, the Economic and Monetary Union has produced a politically unsustainable level

of divergence which threatens the durability of the European integration process as a whole. Moreover, all the quoted authors agree on the fact that negative economic integration through adherence to the single currency and the Stability and Growth Pact without a positive counter-balance at the EU level is detrimental to the European economy as no actor takes responsibility for increasing aggregate demand and generate widespread growth. Furthermore, because of the structural differences of the political economies which the Union is composed of, the EMU has been argued to systematically damage those countries relying on demand-led developmental strategies. Moreover, the European economic governance system fostering negative integration at the supranational level through the Single Currency and leaving fiscal sovereignty to the Union's member states under the SGP has been argued to be politically unsustainable as it reinforces the need for austerity. In addition to that, the neoliberal growth models which have accompanied the birth of the EMU have led to further disequilibrium, as the systemic advantage that such framework provides to export-led political economies has transformed into further surplus and then into cheap credit to the South. This has fueled an ill-conceived interdependence which has exacerbated political and economic disparities within the Union, to the detriment of the political economies of the South.

Conclusions

In the present thesis we have seen how the European political economy has been argued to encompass elements of economic Neoliberalism. Although most of the scholars which have so far addressed the neoliberal character of the EU economic institutions come from critical, constructivist and neo-Gramscian political economy environments (see for instance Cafruny and Ryner 2003, Drahokoupil et al. 2009, Gill 1998, van Apeldoorn 2002), the present thesis has mostly been built upon the existing post-Keynesian and Varieties of Capitalism literature. As the post-Keynesian and VoC assessments about the neoliberal[16] character of the current continental economic infrastructure have been presented, it has been argued that despite not being an inherently neoliberal project, the EU has indeed consolidated neoliberal practices in the region.

In the first chapter the reform process which followed the stagflation crisis has been analyzed. There, we have seen how scholars (See Hay 1999, Majone 1999 and Scharpf 2009) have raised concerns about the inherently neoliberal character of the rule-based market integration process which the "mutual recognition rule" and its formalization under the SEA allowed for. These authors argued that consumers', workers' and environmental protection policies under such a framework were doomed to be deregulated or re-regulated downwards, therefore conducing to a high degree of neoliberalization of the European market. However, we have seen how comparative law scholar Clemens Kapua and economic historian Laurent Warlouzet have argued against such a thesis. The latter has highlighted how the completion of the Single Market (1986-1992), being carried out by states and political elites sharing the same socially-oriented ideological base, has indeed been realized without leading to a deregulation of the above-mentioned realms (Warlouzet 2018). The former has instead focussed his analysis on the "pluralist socio-economic character of the European Treaties" and argued that from a legal standpoint, the European Treaties which followed the Treaty of Rome have maintained its original social character, alongside his (neo-)functionalist one (Kapua 2018). Therefore, the European market integration process has been argued not to be inherently neoliberal and not to have led to a neoliberalization of the continent's market, thus making it still capable of representing multiple socio-economic stances.

In the second chapter instead, I have focussed my attentions on the Economic and Monetary Union regime by addressing the post-Keynesian and VoC critiques on the matter. There, I have argued that the EMU has been built upon neoliberal principles (Arestis and Sawyer 2011, Fitoussi and Saraceno 2013, Palley 2013, Stockhammer 2016, Braimbridge, Burkitt and Whyman 2007) as well as it is intended to stimulate convergence towards the German export-led ordoliberal growth model, thus favoring those countries already equipped with export-oriented economic

[16] Again, in its ordoliberal German-style variant.

institutions (Hall 2014, 2018, Johnston and Regan 2018). Nevertheless, in the second chapter it has also been stressed how the institution of the single currency (arguably the main ingredient of the EMU) has come as a solution for the political problems generated by the previous arrangement of permanent exchange rates renegotiation (the EMS) (Höpner and Spielau 2017). However, it has also been argued that the arrangement lacked the due "positive" elements of monetary and economic integration necessary to make the Euro efficiently work for all countries (De Grauwe 2011, De Grauwe and Ji 2015, Palley 2013). This has been claimed to have come as a consequence of national government's reluctancy to add further obligations (James 2012) and the neoliberal bias which surrounded its original development (Palley 2013). As we can see, the neoliberal/ordoliberal character of the EMU (and especially the European Central Bank and the Euro) emphasized by the above-mentioned authors has been seen as a likely obstacle for a successful story of economic integration. To conclude, it has been argued that the neoliberal/ordoliberal character of the EMU is self-reinforcing (Matthijs 2016a, 2016b, Johnston and Regan 2018) and generates divergence (in terms of economic performances) and political instability (Bibow 2006). This has come to the detriment of those countries with demand-led growth strategies, as policy discretion is highly limited (Johnston and Regan 2018, Saraceno 2016). As a matter of fact, it has been argued that under the Euro and the SGP, such countries are forced to conduct neoliberal structural adjustments and de-valuate their economies to keep up with their internal competitors, thus being unable to implement alternative policies at the national level (Johnston and Regan 2018).

In the third chapter, the above mentioned authors' practical concerns about the economic and political effectiveness of the EMU have been described. There, we have seen how the current regime of regional economic governance has indeed proven to benefit certain countries to the expense of others (Bibow 2006, Johnston and Regan 2018, Stockhammer 2013, 2016). As a matter of fact, it has been argued that as a consequence of the crisis, Southern European countries have suffered under the impossibility to reflate their economies in light of their EMU membership (Johnston and Regan 2018). Moreover, it has been argued by post-Keynesian authors (mainly Arestis, McCauley and Sayer 2001 and Stockhammer 2013, 2016) that the current regime systematically hinders the formation of adequate levels of aggregate demand thus resulting in a lack of well sustained (and distributed) growth rates in the continent. Moreover, the system has been argued to have increased financial disparities among countries (Hall 2014). Furthermore, it has been claimed that the EMU regime, especially under the present institutional set-up, has favored the loss of political capital on the part of Southern European countries, which has further made the rise of alternative policies (i.e.more demand-oriented or "Keynesian") less likely (Matthijs 2016a, 2016b, Johnston and Regan 2018). To conclude the chapter, the impact of the Single Currency governed by an independent authority like the ECB has been assessed. It has then been concluded that under these conditions, the Single Currency has exacerbated economic, financial

and political disparities in the EU, making the political economies of the South systematically unable to catch-up with their northern counterparts (Hall 2014, Streeck 2016). This has been finally meant to damage social peace in the continent both within countries and within the Union (Streeck 2016).

Out of the above-summarized analysis two considerations can be made. The first one is that scholars representing different schools of economic thought agree on the fact that economic governance in the EU under the EMU regime (i) is representative of a certain socio-political bias and (ii) fosters divergence and political inequalities. As such, the system can be seen seen as both the product of the neoliberal bias which gave rise to it (Arestis and Sawyer 2011, Fitoussi and Saraceno 2013, Palley 2013, Braimbridge, Burkitt and Whymann 2007) and the political unwillingness to create a more cooperative economic and political environment (Jones, Kelemen and Meunier 2016, Majone 1999). It can therefore be concluded that the European integration process provides a regulatory framework which has produced an intensification in the degree to which the political economy of the continent can be label as neoliberal. Nevertheless, as Clemens Kapua (2018) and Gerard Strange (2012) notice, from a legal standpoint, the European Union has not constitutionalized economic Neoliberalism as full application of the SGP (and its evolutions) can be subjected to the discretion of both the Union's member states and the European Commission. However, despite that and although a certain resistance of the European welfare state can be observed (Boloukbasi 2009), the EMU does not entail enough elements of positive integration to make alternative paths realistically viable, as the practice has demonstrated that certain political economies have been subjected to neoliberal structural adjustments (Perez and Matsaganis 2018, Streeck 2016). The necessity of these structural adjustments has been generated by the crisis and got exacerbated by the neoliberal growth models and the asymmetries which the EMU has favored (Fuller 2018, Stockhammer 2016). It can thus be argued that the EMU has led to an almost systemic neoliberalization of the European political economy. As recent history has shown, this process has caused political turmoil within the Union and its member states and has dragged sevveral countries into vicious cycle of economic powerlessness. As economist Fitoussi and Saraceno (2013) argue, the European economic integration process, being threatened by the aforementioned systemic shortcomings, should be re-conceived in order to be more responsive towards a society which attributes more importance to the role of the state as a means of economic protection. Therefore, reforming the European institutional setting in a less ordoliberal way would make both economic and political sense.

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